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SHIMAO PROPERTY HOLDINGS LIMITED

世茂房地產控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 813

Annual Report 2011



Shaoxing Shimao Mall

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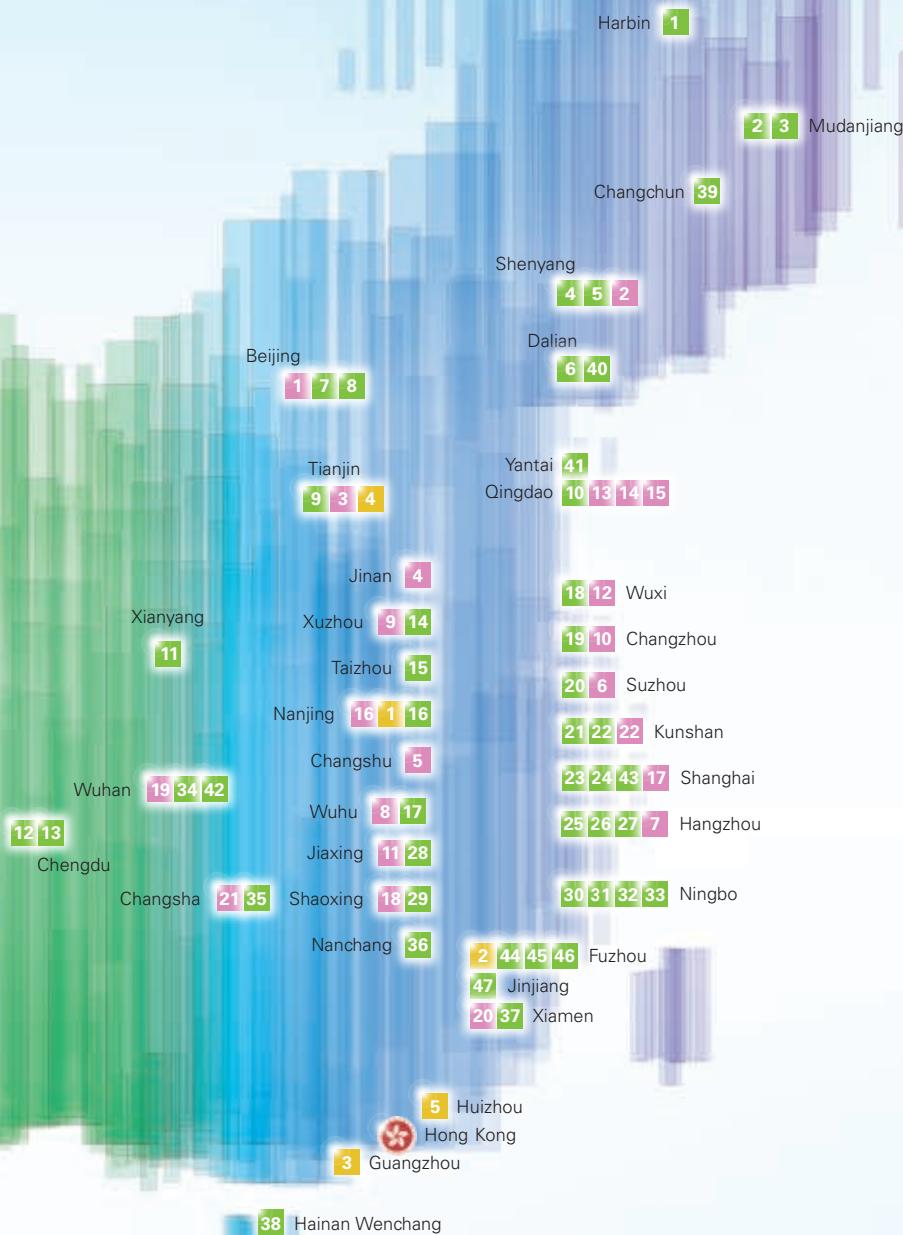
LOCATION OF OUR CURRENT PROJECTS



Attributable Land Bank of 39.5 Million Sq.m. (35 Cities)

Projects held by Shimao Property			
Northeastern District			
01	Harbin Shimao Riviera New City	■	
02	Mudanjiang Shimao Holiday Landscape	■	
03	Mudanjiang Shimao South Bund	■	
04	Shenyang Shimao Count Mountain	■	
05	Shenyang Shimao Wulihe	■	
06	Dalian Shimao Glory City	■	
Bohai Rim District			
07	Beijing Shimao Alhambra Palace	■	
08	Beijing Dachang Project	■	
09	Tianjin Shimao Wetland Century	■	
10	Qingdao Shimao Century Land	■	
Western District			
11	Xianyang Shimao The Centre	■	
12	Chengdu Shimao The Park	■	
13	Chengdu Mengzhuiwan Project	■	
Jiangsu and Shanghai			
14	Xuzhou Shimao Dongdu	■	
15	Taizhou Shimao Riverside Garden	■	
16	Nanjing Shimao Bund New City	■	
17	Wuhu Shimao Riviera Garden	■	
18	Wuxi Shimao The Capital	■	
19	Changzhou Shimao Champagne Lake	■	
20	Suzhou Shimao Canal Scene	■	
21	Kunshan Shimao Butterfly Bay	■	
22	Kunshan Shimao East No. 1	■	
23	Shanghai Shimao Riviera Garden	■	
24	Shanghai Shimao Emme County	■	
Hangzhou District			
25	Hangzhou Shimao Imperial Landscape	■	
26	Hangzhou Shimao Riviera Garden	■	
27	Hangzhou Shimao New West Lake	■	
28	Jiaxing Shimao Century Park	■	
Ningbo District			
29	Shaoxing Shimao Dear Town	■	
30	Ningbo Shimao World Gulf	■	
31	Ningbo Shimao Riviera Garden	■	
32	Ningbo Xiangshan Project	■	
33	Ningbo Yuyao Project	■	
South Central District			
34	Wuhan Shimao Splendid River	■	
35	Changsha Shimao Brilliant Bay	■	

LOCATION OF OUR CURRENT PROJECTS



- 36 Nanchang Shimao The Centre
- 37 Xiamen Shimao Lakeside Garden

Projects held by Tourism Property

- 38 Hainan Wenchang Moonriver
- 39 Changchun Project
- 40 Dalian Shimao Dragon Bay
- 41 Yantai Shimao No. 1 The Harbour
- 42 Wuhan Shimao Dragon Bay
- 43 Shanghai Shimao Sheshan Villas
- 44 Fuzhou Shimao Skyscrapers
- 45 Fuzhou Guling Project
- 46 Fuzhou Minhou Shimao Dragon Bay
- 47 Fujian Jinjiang Shimao Dragon Bay

Projects held by Shanghai Shimao

- 01 Beijing Shimao International Plaza
- 02 Shenyang Shimao Wulihe (Commercial)
- 03 Tianjin Wuqing Project
- 04 Jinan Jiefangge Project
- 05 Changshu Shimao The Centre
- 06 Suzhou Shimao Canal Scene (Commercial)
- 07 Hangzhou Shimao Riviera COSMO

- 08 Wuhu Shimao Riviera Garden (Commercial)
- 09 Xuzhou Shimao Dongdu (Commercial)
- 10 Changzhou Shimao Champagne Lake (Commercial)
- 11 Jiaxing Shimao Century Park (Commercial)
- 12 Wuxi Shimao The Capital (Commercial)
- 13 Qindao Shimao International Plaza
- 14 Qingdao Jiaonan Project
- 15 Qingdao Shi'ao Tower
- 16 Nanjing Shimao Bund New City
- 17 Shanghai Shimao Wonderland
- 18 Shaoxing Shimao Mall
- 19 Wuhan Shimao Carnival
- 20 Xiamen Shimao MO Sky Mansion
- 21 Changsha Shimao Brilliantate Bay (Commercial)
- 22 Kunshan Shimao International City

Joint Venture Projects

- 01 Nanjing Future City
- 02 Fuzhou Pingtan Future City
- 03 Guangzhou Asian Game City
- 04 Tianjin Jinnan New City
- 05 Huizhou Fumao Venetian Bay

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Hui Wing Mau (*Chairman*)
Hui Sai Tan, Jason (*Vice Chairman*)
Yao Li
Liu Sai Fei
Xu Younong

Independent Non-executive Directors

Kan Lai Kuen, Alice
Lu Hong Bing
Lam Ching Kam

AUDIT COMMITTEE

Kan Lai Kuen, Alice (*Committee Chairman*)
Lu Hong Bing
Lam Ching Kam

REMUNERATION COMMITTEE

Lu Hong Bing (*Committee Chairman*)
Hui Wing Mau
Kan Lai Kuen, Alice
Lam Ching Kam

NOMINATION COMMITTEE

Hui Wing Mau (*Committee Chairman*)
Kan Lai Kuen, Alice
Lu Hong Bing
Lam Ching Kam

CHIEF FINANCIAL OFFICER

Hui Wai Man, Lawrence

COMPANY SECRETARY

Lam Yee Mei, Katherine

AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
China Construction Bank Corporation
Agricultural Bank of China Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House
68 West Bay Road
Grand Cayman KY1-1106
Cayman Islands

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 4307-12, 43rd Floor
Office Tower
Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
Stock code: 813

INVESTOR AND MEDIA RELATIONS

Investor Relations Department
Email: ir@shimaoproperty.com
Tel: (852) 2511 9968
Fax: (852) 2511 0278

INFORMATION FOR SHAREHOLDERS

ANNUAL REPORT

This annual report is now available in printed form and on the website of the Company (www.shimaoproperty.com). If shareholders who have received or chosen to receive this annual report by electronic means and (i) wish to receive a printed copy; or (ii) for any reason have difficulty in receiving or gaining access to this report on the Company's website, they may obtain a printed copy free of charge by sending a request to the Company's branch share registrar and transfer office in Hong Kong by email at shimao-ecom@hk.tricorglobal.com or by post to 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

For shareholders who wish to change their choice of language or means of receipt of the Company's future corporate communications, free of charge, they could at any time notify the Company's Registrars by email or by post.

ANNUAL GENERAL MEETING ("AGM")

The 2012 AGM will be held on Monday, 18 June 2012. The notice of the 2012 AGM, which constitutes part of the circular to shareholders, is sent together with this annual report. The notice of the 2012 AGM and the proxy form are also available on the Company's website.

2011 DIVIDENDS

Interim dividend	HK22 cents per share
Proposed final dividend	HK18 cents per share

CLOSURE OF REGISTER OF MEMBERS ("ROM")

For determining shareholders' eligibility to attend and vote at the 2012 AGM

Latest time to lodge transfer documents for registration	4:30 pm on Thursday, 14 June 2012
Closure of ROM	Friday, 15 June 2012 and Monday, 18 June 2012
Record date	18 June 2012

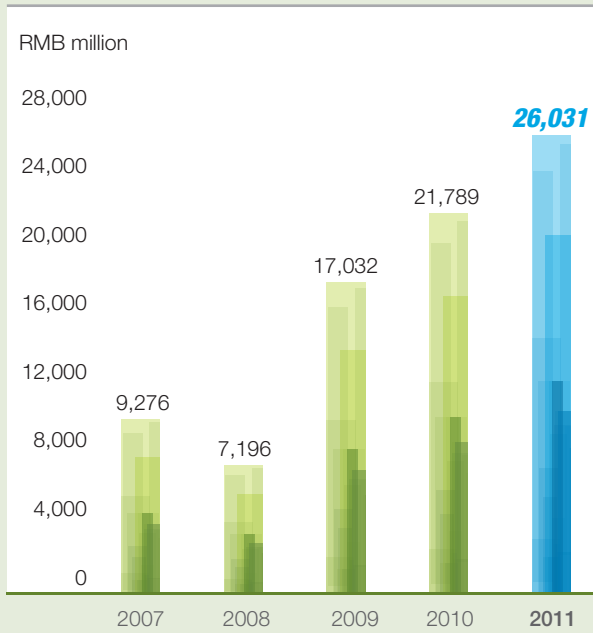
For determining shareholders' entitlement to the final dividend

Latest time to lodge transfer documents for registration	4:30 pm on Friday, 22 June 2012
Closure of ROM	Monday, 25 June 2012 and Tuesday, 26 June 2012
Record date	26 June 2012

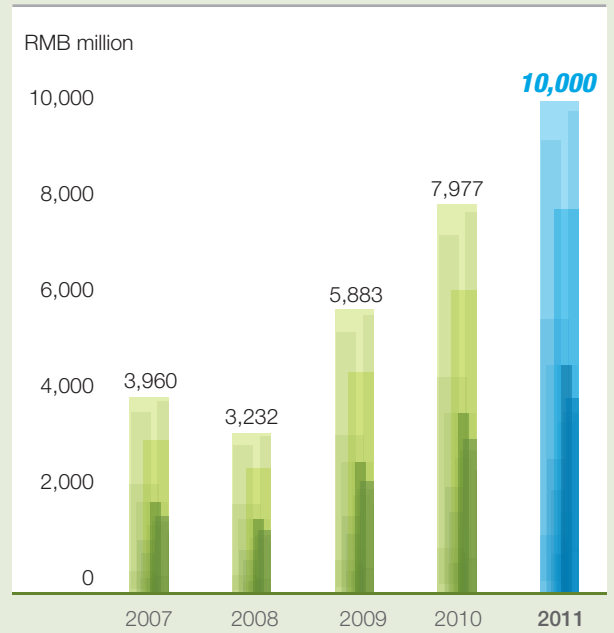
FIVE YEARS FINANCIAL SUMMARY

	2007	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Restated)		
Revenue	9,275,925	7,196,277	17,032,063	21,789,433	26,031,426
Cost of sales	(5,315,775)	(3,964,242)	(11,149,395)	(13,812,137)	(16,031,376)
Gross profit	3,960,150	3,232,035	5,882,668	7,977,296	10,000,050
Gain on deemed disposal to non-controlling interests	–	–	1,501,093	–	–
Fair value gains/(losses) on investment properties	1,155,253	(122,749)	213,834	2,339,562	2,527,013
Other income/other gains – net	1,614,054	442,118	158,609	796,826	794,320
Selling and marketing costs	(192,433)	(281,756)	(470,427)	(563,900)	(769,889)
Administrative expenses	(757,384)	(1,065,837)	(1,107,286)	(1,083,122)	(1,349,272)
Other operating expenses	(117,412)	(75,053)	(179,961)	(176,703)	(192,173)
Operating profit	5,662,228	2,128,758	5,998,530	9,289,959	11,010,049
Finance costs – net	(167,231)	(349,630)	(307,187)	(671,553)	(380,346)
Share of results of:					
– Associated companies	112,870	(3,132)	19,925	(48,110)	97,653
– Jointly controlled entities	175	9,498	(1,072)	14	24,213
	113,045	6,366	18,853	(48,096)	121,866
Profit before income tax	5,608,042	1,785,494	5,710,196	8,570,310	10,751,569
Income tax expense	(1,434,257)	(925,226)	(2,107,212)	(3,079,368)	(4,302,640)
Profit for the year	4,173,785	860,268	3,602,984	5,490,942	6,448,929
Profit for the year attributable to equity holders of the company	4,091,782	841,159	3,511,201	4,671,536	5,722,775
Non-current assets	21,728,469	24,782,435	31,640,613	40,874,204	44,034,957
Current assets	17,542,133	21,698,906	34,886,970	54,795,111	73,207,584
Total assets	39,270,602	46,481,341	66,527,583	95,669,315	117,242,541
Non-current liabilities	12,023,481	12,500,198	16,728,449	27,065,716	30,750,649
Current liabilities	8,434,913	14,943,724	24,282,049	38,649,615	51,473,815
Total liabilities	20,458,394	27,443,922	41,010,498	65,715,331	82,224,464
Net assets	18,812,208	19,037,419	25,517,085	29,953,984	35,018,077
Equity attributable to equity holders of the Company	18,448,184	18,695,819	23,347,874	26,698,834	30,591,680
Non-controlling interests	364,024	341,600	2,169,211	3,255,150	4,426,397
Total Equity	18,812,208	19,037,419	25,517,085	29,953,984	35,018,077

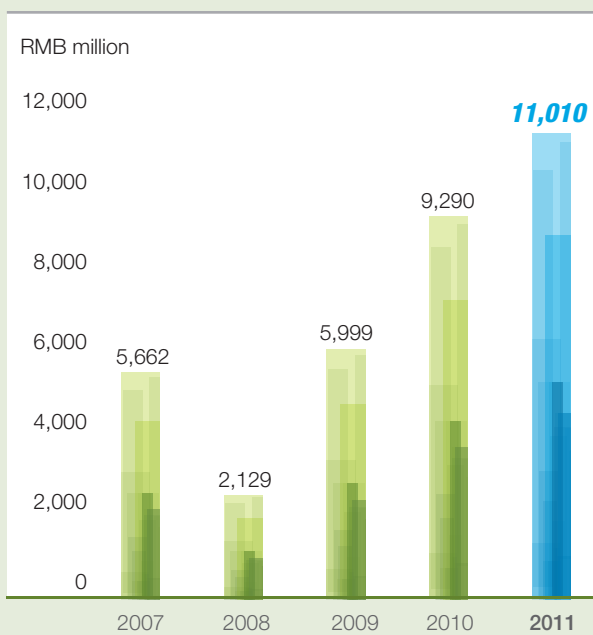
REVENUE



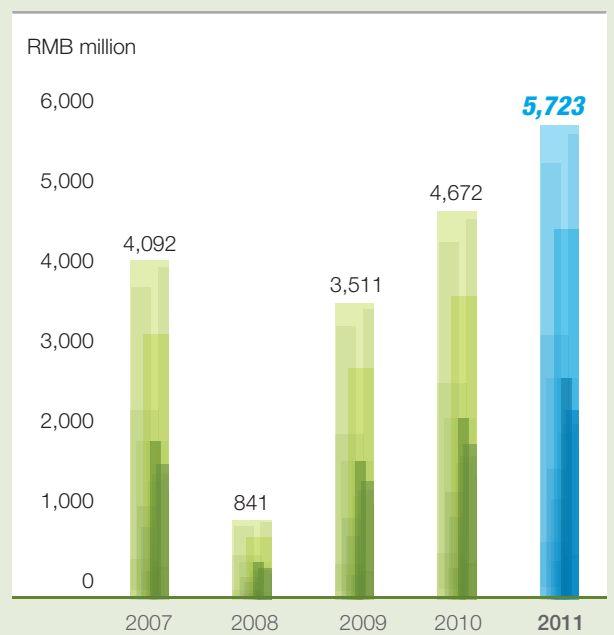
GROSS PROFIT



OPERATING PROFIT



PROFIT ATTRIBUTABLE TO SHAREHOLDERS



CHAIRMAN'S STATEMENT



Dalian Shimao Dragon Bay



Dear shareholders,

I am pleased to present the annual results report of Shimao Property Holdings Limited ("Shimao Property" or the "Company"; and together with its subsidiaries, the "Group") for the year ended 31 December 2011.

2011 ANNUAL RESULTS

In the year under review, the central government continued to strengthen controls over the real estate industry. Apart from the enactment of the New National Eight (新國八條) and the New National Five (新國五條), the central government implemented new restrictive rules as well as refining existing policies. The administrative restrictions on property purchasing and price levels, extending to more than 50 cities from the major municipalities, dampened market sentiment and further slowed sales in the real estate industry. In major cities, the increased supply of commodity residential property pushed up the stockpile of new properties. In certain cities, the saleable volume of new properties matched the highs of 2010, bringing downward pressure to bear on the selling prices of commodity residential property.

The financing environment for the real estate industry continued in a tightening cycle begun early in the year, with the central bank announcing a total of 3 rate hikes and 6 increases in the deposit reserve ratio. Faced by funding challenges, real estate developers had to shorten their project launch cycles to speed up cash flow, a move that led to intensified competition. They also had to cater for increased demands from customers in areas such as product positioning, offerings across different cities, pricing and selling policies.

To proactively address these market changes, Shimao Property realigned its development and selling strategies and implemented a series of initiatives to strengthen its internal management systems. Given the impact of purchase restriction policies on demand for high-end and investment properties, the Group strategically shifted its focus to second and third-tier cities where demand from potential owner-occupiers is strong. Adopting an aggressive turnover acceleration strategy, the Group included speed of sales and speed of cash collection in its project monitoring indicators. At the same time it looked to construct more ordinary small and medium-sized residential properties, and to diversify its product offerings to cover customer needs more comprehensively and to offer better product and service quality. As a result, the Group's results for 2011 were better than those of the previous year despite the stringent macro controls affecting the real estate market.

CHAIRMAN'S STATEMENT



Fujian Jinjiang Shimao Dragon Bay

During the year under review, revenue of RMB26.0 billion was recognized, representing an increase of 19.5% over 2010. Operating profit increased by 18.5% to approximately RMB11.0 billion. Profit attributable to shareholders amounted to RMB5.72 billion, representing a significant increase of 22.5% compared with the previous year (2010: RMB4.67 billion). Excluding the net impact of major after tax non-cash items: fair value gains of investment properties of RMB1.42 billion (2010: RMB1.18 billion), depreciation of RMB247 million (2010: RMB225 million) and goodwill impairment of RMB16 million (2010: RMB68 million) which totalled RMB1.16 billion (2010: RMB0.89 billion), net profit from core business attributable to shareholders amounted to approximately RMB4.56 billion (2010: RMB3.78 billion), representing a year-on-year increase of 20.6%. As a token of gratitude for the support of our shareholders, the board of directors (the "Board") recommended the payment of a final dividend of HK18 cents (2010: HK25 cents) per share for the year ended 31 December 2011.

MARKET REVIEW AND OUTLOOK

In contrast with the drawn-out recovery experienced by many developed economies, China's economy maintained notable growth in 2011, albeit at a slower rate than in recent years. China's tight monetary policy, together with an export scene burdened by RMB appreciation and knock-on effects from the Eurozone debt crisis, all placed downward pressure on the domestic economy. In reporting to the fifth meeting of the Eleventh National People's Congress, Wen Jiabao, Premier of the State Council, proposed to set the GDP (gross domestic product) growth rate at 7.5% for 2012. This is the first time in the last eight years that the GDP growth target has been set at less than 8%.

The unexpectedly worsening global conditions posed a new challenge to China's efforts to restructure by curbing the overheating real estate market. In tune with the "advancing with stability" keynote theme for the domestic economy in 2012 (as determined at the Central Economic Work Conference), the theme of "steadfast adherence to regulation and control over the real estate market in order to normalise property prices" was reaffirmed by the government.

Residential property prices in major cities nationwide entered into a downward trend at the end of 2011, as a result of the austere restrictive policies imposed in 2011 which suppressed rigid demand and demand for housing improvement, while also frustrating speculative investment.



Nanjing Shimao Bund New City

Looking ahead to 2012, there is a possibility that housing mortgages may benefit from a structural loosening on the back of the granting of bank credit facilities for the new year alongside the fine-tuning of monetary policy, despite the lingering macro control policies affecting the domestic industry. The relatively loose liquidity may increase the possibility of loans being granted to purchasers who have applied for personal housing mortgages since the end of 2011. Also, lower down payments and interest rates for purchasers on rigid demand or seeking for housing improvement which may be implemented should help the real estate market recover.

CHAIRMAN'S STATEMENT



Wuhan Shimao Splendid River

OPTIMISING DESIGN FOR MORE INNOVATIVE PRODUCTS

In 2011, the Group took the all-round upgrading of its product quality and the creation of innovative products as its top priorities for the year. To better cater for local customers with higher product value and rational product mix, the Group re-designed and optimised over 30 projects in the year to match the regional hallmarks of products with local customer needs. In projects with comparable or even high floor area ratios, more low density products were developed to improve profitability. An example is Nanjing Shimao Bund New City, a portfolio of super high-rises and low density units. Moreover, to meet the rigid housing demand, the original project design of large size apartments was changed to small and medium units. Also, the weight of commercial products was increased to cope with the purchase restriction policies. For instance, Wuhan Shimao Carnival introduced additional 30% SOHO, office and other small commercial units to its upcoming products in 2012.



Shanghai Shimao Riviera Garden

In addition, to create innovative products, the Group required its regional teams convening project preparation meetings as well as mobilization meetings for current development and display area before kicking off a project, which promoted integration of project resources and design innovations. Tailored products were also developed for target customer groups, such as the small apartments customized for the younger generations born in 1980s and 1990s. Furthermore, certain projects were designed with larger effective area and higher value addition to improve product competitiveness and customer satisfaction. The effective area ratio of apartment products was increased from the original 70% to 80%-100% through providing gift area. Meanwhile, penthouse apartments and other products rare in the market, as the brand new offerings away from traditional thinking, will be rolled out and marketed in 2012.

CHAIRMAN'S STATEMENT



Shaoxing Shimao City Cineplex

IMPROVING THE TALENT GROWTH SYSTEM AND REDEFINING BUSINESS TERRITORIES

In the context of restrictive policies and higher customer awareness, real estate developers are increasingly being differentiated in terms of their talents and product quality rather than their land acquisition capabilities. 'Early birds' in this transformation are expected to find themselves well-positioned for success in the new environment. Given this, during the year the Group implemented a systematic three-tier talent screening plan (including fledgling plan, veteran plan and elite plan).

To refine its management operations, the Group redefined its business territories during the year, reclassifying them as follows: the Jiangsu and Shanghai region, the Hangzhou region, the Ningbo region, the south central region, the western region, the northeast region and Bohai Rim region, and the tourism properties sector. Teams were established and resources allocated by region under the management model of "a single team for the same city and the same land parcel", a move which significantly cut down management costs and enhanced efficiency of execution.

MULTIFACETED OPERATIONS TO EXTEND BUSINESS PRESENCE

To minimize the impact of policy changes on its profitability and to avoid risk, the Group has introduced an integrated business model for its three principal businesses: diversified residential properties, commercial properties, and tourism properties. As this business model has taken effect, the potential policy and market risks associated with running a single business have greatly diminished.

The Company's core business remains the development of diversified residential properties. Since purchase restriction policies were imposed, the Group has accelerated its expansion into China's second and third-tier market where owner-occupied properties are most needed. In those regions where Shimao Property has an established presence, most of its customers are owner-occupiers. In 2011, the Group recorded property contracted sales of RMB30.7 billion. The contracted sales below the target were mainly due to the slowdown in market demand and the delays in certain projects.



Fuzhou Minhou Shimao Dragon Bay

CHAIRMAN'S STATEMENT

Regarding commercial properties, in 2011, Shanghai Shimao Co., Ltd. ("Shanghai Shimao") achieved revenue from operation of RMB5.56 billion with a net profit after income taxes of RMB2.58 billion, representing a year-on-year growth of 22.6% and 4.5% respectively.

During the reporting year, Shanghai Shimao achieved contracted sales of RMB5.07 billion and contracted sales area of 343,000 sq.m. through the projects sales in Beijing, Changshu, Hangzhou, Xuzhou, Kunshan, Nanjing and Wuhan. The results were below its targets set forth earlier in the year, mainly attributable to the "wait-and-see" sentiment and the declined turnover due to the stricter macro control over the real estate industry and the credit tightening in the second half of 2011, as well as the unsatisfactory sales of the project in Nanjing and the delayed sales progress of the project in Xiamen due to construction reasons.

Shanghai Shimao's commercial property business is operated in careful alignment with government macro policy trends, especially the priority given to advanced manufacturing and modern service industries under the 12th Five-year Plan. In light of government policies aimed at "developing a modern service industry", Shanghai Shimao is focusing on its core business of commercial property development. Its multifaceted operations include the development of plazas, department stores, cinemas and child-focused businesses, as part of a unique and fully integrated commercial operation model that is expected to develop rapidly.



Shaoxing Shimao City Cineplex



Shanghai Shimao Riviera Garden

At the same time, the Group has expedited its tourism properties business. As an important branch of the tertiary industry under the 12th Five-year Plan, the tourism industry in China enjoys enormous prospects for the future. The Group's unique strategic positioning for tourism properties involves a threefold strategy: development of large-scale comprehensive tourism projects (including international tourism and holiday resorts, sports and leisure resorts, and recreation and health communities); development of large-scale tourism and commercial complexes focusing on theme parks; and development of hotel operations as urban business complexes. In a word, the Group aims to redefine the tourism and hotel industry by structuring its three business segments to include hotel, theme park and health sectors. The Group plans to integrate its existing hotel resources with its new "Shimao Carnival" series products to forge a tourism business complex that comprises exhibition centres, theme parks, and health care and leisure facilities.

CHAIRMAN'S STATEMENT



Changshu Shimao The Centre

FINANCIAL OPTIMISATION

Given its slightly higher net gearing ratio compared with its peers, Shimao Property will adhere to prudent financial policies in 2012, seeking to scale down its gearing ratio to a more reasonable level by improving the profit contributions from property sales and investment properties.

Meanwhile, Shimao Property will step up turnover and sales and strive to increase its receivables collection ratio. Currently, the Company possesses sufficient cash on hand. As at 31 December 2011, the Group had cash of approximately RMB14.0 billion (30 June 2011: RMB12.2 billion) as well as ample land reserves and access to reliable financing channels, lending strong support for sales throughout the coming year.

As at 31 December 2011, the Group had an attributable land bank of 39.50 million sq.m.. These adequate land reserves mean that the Company is in a position to exercise prudence and avoid enormous cash expenditure for land acquisition due to insufficient land reserves. With sufficient land reserves for future development, Shimao Property is able to utilize its funds flexibly as the pressure of spending on land is reduced. Furthermore, Shimao Property's high brand recognition gives it advantages with national financial institutions including Bank of China. As at the end of December 2011, the Group had undrawn bank credit facilities of RMB9.8 billion, a solid foundation from which to diversify its financing channels. In the future, the Company expects to improve cash flows, reduce finance costs and further optimise its debt structure through domestic loans and overseas financing for healthier financial fundamentals.

APPRECIATION

On behalf of the Board, I would like to thank our shareholders, partners, and customers for their tremendous support, as well as local governments for their co-operative assistance. I would also like to take this opportunity to express my heartfelt gratitude to our directors, management and staff for their enormous contributions. Their care and support have brought the Group success and enabled us to achieve our stated goals.

Hui Wing Mau

Chairman

Hong Kong, 29 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS



Fujian Jinjiang Shimao Dragon Bay



BUSINESS REVIEW

Property Development

1) Recognized sales revenue

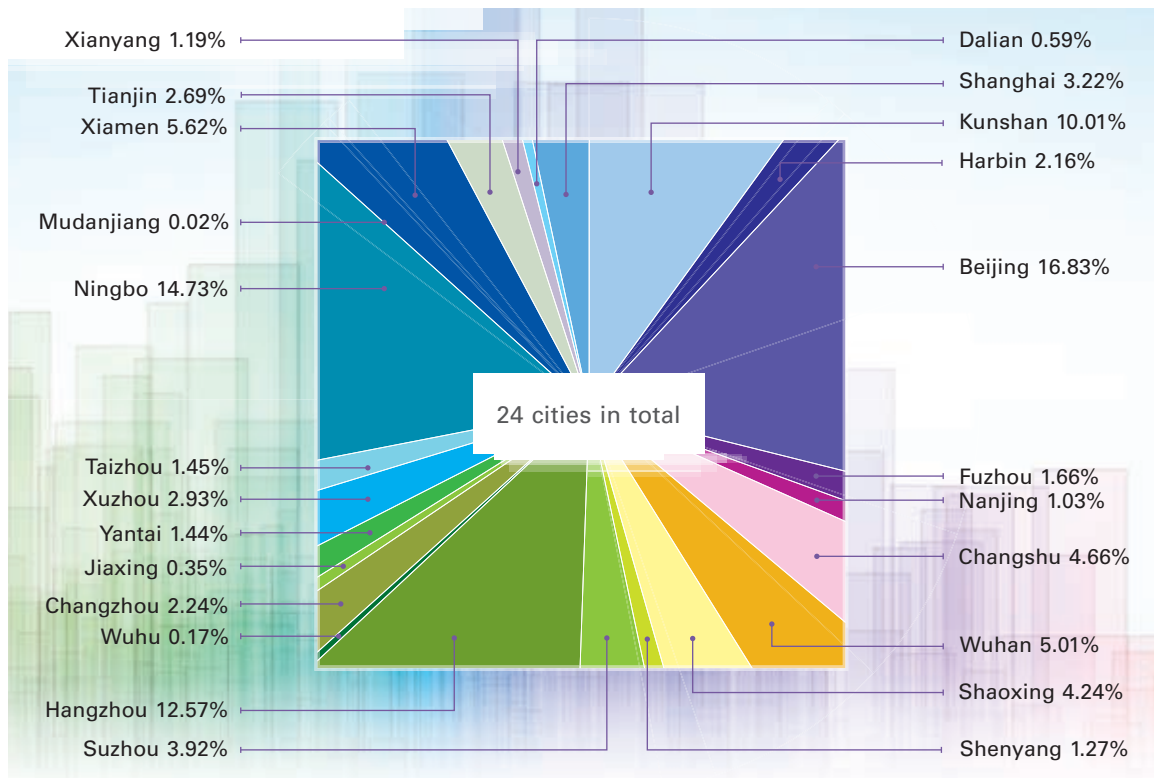
The Group generates its turnover primarily by engaging in property development, property investment and hotel operations. The Group's turnover for the year ended 31 December 2011 grew by 19.5% to RMB26.0 billion, from RMB21.8 billion of 2010. During the year, revenue from property sales climbed to RMB24.6 billion, 20.2% more than that of 2010, and accounted for 94.5% of total revenue. The average recognized selling price increased from RMB10,025 per sq.m. in 2010 to RMB11,786 per sq.m. in 2011. A higher unit price was recorded for the sales of individual projects when compared with the same period of last year, despite the fact that a much higher proportion of project sales was made in second-tier cities. The increase in selling prices since the beginning of 2010 resulted in a higher average recognized selling price. Projects recognized by the Group in 2011 totalled 28, compared with 25 recognised in 2010. The seven projects including Ningbo Shimao World Gulf, Hangzhou Shimao Riviera Garden, Beijing Shimao Alhambra Palace, Kunshan Shimao Butterfly Bay, Xiamen Shimao Lakeside Garden, Wuhan Shimao Splendid River and Kunshan Shimao East No.1 each recognized sales revenue over RMB1 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

The delivered GFA recognised for each project in 2011 and the relevant particulars are set out as follows:

Project	Revenue (RMB million)	Salable GFA Booked (sq.m.)	Average Selling Price (RMB/sq.m.)	Group's Interest
Shimao Property				
Ningbo Shimao World Gulf	2,732	243,483	11,221	100%
Hangzhou Shimao Riviera Garden	2,170	179,817	12,068	100%
Beijing Shimao Alhambra Palace	1,515	31,418	48,220	100%
Kunshan Shimao Butterfly Bay	1,444	180,724	7,990	100%
Xiamen Shimao Lakeside Garden	1,381	56,312	24,524	100%
Wuhan Shimao Splendid River	1,233	132,906	9,277	100%
Kunshan Shimao East No. 1	1,017	135,895	7,484	100%
Suzhou Shimao Canal Scene	965	86,572	11,147	100%
Ningbo Shimao Riviera Garden	889	107,936	8,236	100%
Shaoxing Shimao Dear Town	865	67,344	12,845	100%
Tianjin Shimao Wetland Century	661	60,704	10,889	100%
Changzhou Shimao Champagne Lake	551	72,472	7,603	100%
Xuzhou Shimao Dongdu	542	87,750	6,177	100%
Harbin Shimao Riviera New City	530	47,268	11,213	100%
Shanghai Shimao Riviera Garden	502	6,348	79,080	100%
Fuzhou Shimao Skyscrapers	407	19,731	20,628	100%
Taizhou Shimao Riverside Garden	356	63,188	5,634	100%
Yantai Shimao No. 1 The Harbour	353	30,441	11,596	100%
Shenyang Shimao Wulihe	312	35,091	8,891	100%
Xianyang Shimao The Centre	293	20,884	14,030	100%
Shanghai Shimao Emme County	291	33,278	8,745	100%
Dalian Shimao Glory City	146	11,219	13,014	100%
Jiaxing Shimao Century Park	86	11,242	7,650	100%
Changshu Shimao The Centre	44	5,277	8,339	100%
Wuhu Shimao Riviera Garden	43	3,002	14,324	100%
Mudanjiang Shimao Holiday Landscape	5	1,350	3,700	100%
Sub-Total	19,333	1,731,652	11,166	
Shanghai Shimao				
Beijing Shimao Gongsan Plaza	2,623	60,905	43,067	64%
Changshu Shimao The Centre (Commercial)	1,103	127,506	8,651	64%
Hangzhou Shimao Riviera COSMO	920	94,512	9,734	64%
Nanjing Shimao Bund New City	253	16,052	15,761	82%
Xuzhou Shimao Dongdu (Commercial)	179	44,365	4,035	64%
Shaoxing Shimao Dear Town (Commercial)	178	11,273	15,790	64%
Sub-total	5,256	354,613	14,821	
Total (Shimao Property + Shanghai Shimao)	24,589	2,086,265	11,786	

The breakdown of recognised sales for 2011 by cities is set out as follows:



Dalian Shimao Dragon Bay

MANAGEMENT DISCUSSION AND ANALYSIS



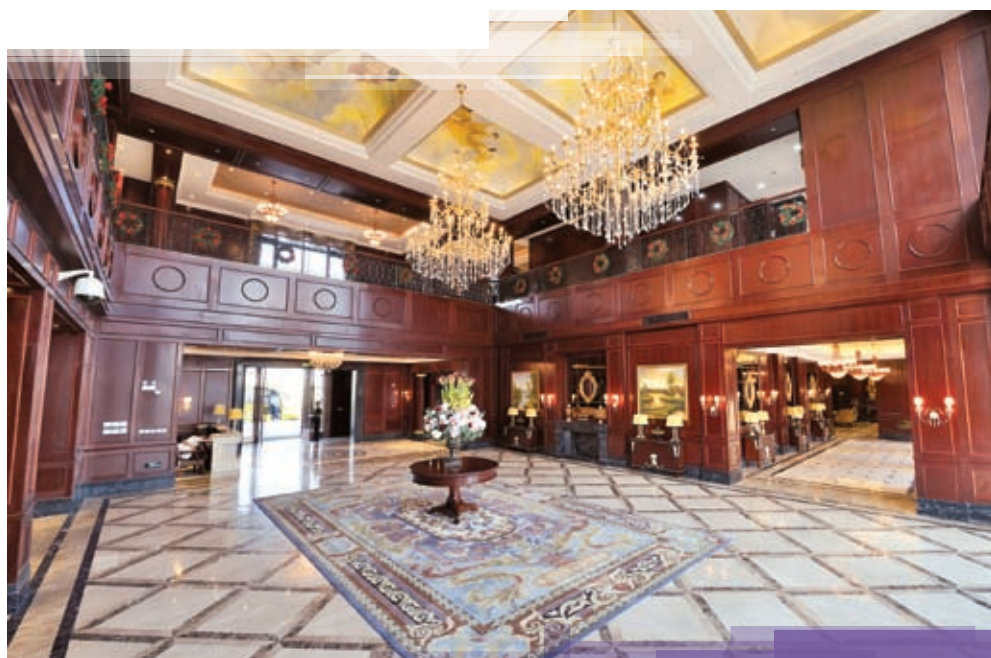
Hangzhou Shimao Imperial Landscape

2) Steady sales growth of the Group and sales reaching annual target

In 2011, the Group's contracted sales reached RMB30.7 billion, while the total contracted sales area reached 2,390,000 sq.m. (2010: 2,530,000 sq.m.). Meanwhile, the average contract selling price rose to RMB12,845 per sq.m. this year, against RMB12,054 per sq.m. last year. The Group has on schedule 5.5 million sq.m. as saleable area in 2012, including approximately 1.76 million sq.m. of saleable area as at the end of 2011.

Projects available for sale in 2012 are set out as follows:

District/Classification	Project	GFA (sq.m.)
Shimao Property		
South Central District	Wuhan Shimao Splendid River	160,146
	Xiamen Shimao Lakeside Garden	85,884
	Nanchang Shimao The Centre	81,431
Western District	Chengdu Shimao The Park	143,799
	Chengdu Mengzhuiwan Project	83,745
	Jiangsu and Shanghai District	Wuxi Shimao The Capital
Jiangsu and Shanghai District	Nanjing Shimao Bund New City	137,903
	Suzhou Shimao Canal Scene	101,458
	Kunshan Shimao Butterfly Bay	161,133
	Kunshan Shimao East No. 1	144,460
Ningbo District	Shaoxing Shimao Dear Town	120,350



Qingdao Shimao Century Land

MANAGEMENT DISCUSSION AND ANALYSIS

District/Classification	Project	GFA (sq.m.)
Tourism Property Sector	Dalian Shimao Dragon Bay	140,183
	Shanghai Shimao Sheshan Villas	68,611
	Wuhan Shimao Dragon Bay	130,566
	Fujian Jinjiang Shimao Dragon Bay	228,089
	Fuzhou Minhou Shimao Dragon Bay	122,368
Northeastern District	Shenyang Shimao Wulihe	124,700
Bohai Rim District	Tianjin Shimao Wetland Century	202,214
	Qingdao Shimao Century Land	113,414
Hangzhou District	Hangzhou Shimao Imperial Landscape	97,820
Sub-total		2,551,031
Others (projects below RMB1 billion)		273,000
Completed Inventory		200,000
Projects available for sale (as at year end of 2011)		1,276,954
Total		4,300,985



Xiamen Shimao Lakeside Garden



Wuhan Shimao Splendid River

Project	GFA (sq.m.)
Shanghai Shimao	
Xiamen Shimao MO Sky Mansion	118,414
Tianjin Wuqing Project	176,156
Jinan Jiefangge Project	111,092
Changshu Shimao The Centre	82,947
Nanjing Shimao Bund New City (Commercial)	137,356
Qingdao Jiaonan Project	142,130
Sub-total	768,095
Others (projects below RMB1 billion)	149,000
Completed Inventory	20,000
Projects available for sale (as at year end of 2011)	261,920
Total	1,199,015

MANAGEMENT DISCUSSION AND ANALYSIS

3) Completion of development projects and plans fulfilling expectations

The total GFA completed by the Group in 2011 was approximately 3.36 million sq.m., an increase of 24.4% from 2.70 million sq.m. in 2010. The Group's projects nationwide all proceeded satisfactorily on schedule during the year, with new floor area under construction reaching approximately 3.00 million sq.m.. As at 31 December 2011, the Group had a total of 69 projects under development in 34 cities. The increase in the number of projects under development created a solid foundation for the Group's future development. Looking ahead to 2012, with a view to maintaining adequate liquidity, the GFA planned to be completed was preset at approximately 3.32 million sq.m.. In 2011, the Group's construction area reached 7.20 million sq.m..



Shaoxing Shimao Dear Town

Projects completed in 2011 are set out as follows:

District/Classification	Project	GFA (sq.m.)	Group's interest
Shimao Property			
Jiangsu and Shanghai District	Kunshan Shimao Butterfly Bay	227,090	100%
	Suzhou Shimao Canal Scene	119,844	100%
	Kunshan Shimao East No. 1	112,767	100%
	Xuzhou Shimao Dongdu	105,868	100%
	Shanghai Shimao Emme County	102,999	100%
	Taizhou Shimao Riverside Garden	94,230	100%
Hangzhou District	Changzhou Shimao Champagne Lake	93,515	100%
	Hangzhou Shimao Riviera Garden	274,611	100%
Ningbo District	Jiaxing Shimao Century Park	33,671	100%
	Ningbo Shimao Riviera Garden	434,867	100%
South Central District	Ningbo Shimao World Gulf	211,928	100%
	Shaoxing Shimao Dear Town	82,000	100%
	Wuhan Shimao Splendid River	116,238	100%
Western District	Xiamen Shimao Lakeside Garden	71,729	100%
	Xianyang Shimao The Centre	39,494	100%
Bohai Rim District	Tianjin Shimao Wetland Century	81,354	75%
	Beijing Shimao Alhambra Palace	44,857	100%
Northeastern District	Harbin Shimao Riviera New City	49,515	100%
	Mudanjiang Shimao Holiday Landscape	29,169	100%
	Dalian Shimao Glory City	19,299	100%
Tourism Property Sector	Fuzhou Minhou Shimao Dragon Bay	242,852	100%
	Yantai Shimao No. 1 The Harbour	181,267	100%
	Fuzhou Guling Project	4,479	100%
	Wuhan Shimao Dragon Bay	2,603	49%
Sub-total		2,776,246	

MANAGEMENT DISCUSSION AND ANALYSIS

Project	GFA (sq.m.)	Group's interest
Shanghai Shimao		
Hangzhou Shimao Riviera COSMO	164,416	64%
Xuzhou Shimao Dongdu (Commercial)	150,326	64%
Changshu Shimao The Centre (Commercial)	92,608	64%
Nanjing Shimao Bund New City	77,297	82%
Shaoxing Shimao Dear Town (Commercial)	49,170	64%
Beijing Shimao Gongsan Plaza	44,890	64%
Wuhan Shimao Carnival	5,436	64%
Kunshan Shimao International City	2,875	64%
Sub-total	587,018	
Total (Shimao Property + Shanghai Shimao)	3,363,264	

- 4) Steady expansion of land bank ensuring sustainable development in the long run

As existing macro policies are expected to be maintained in the year, the Group has remained prudent in land acquisition. During the year, the Group acquired six parcels of premium land, with a total planned GFA of approximately 4.64 million sq.m., in Jinjiang in Fujian Province, Wenchang in Hainan Province, Guling in Fujian Province, Ningbo Yuyao, Ningbo Xiang Shan and Beijing. In terms of land cost, the average accommodation value of the new land reserve was approximately RMB1,212 per sq.m.. The above figures highlight the Group's commitment to expanding its land bank in a disciplined manner and adhering to prudent management, striking a balance between achieving rapid development and managing risks effectively. As at 31 December 2011, the Group's average land cost was RMB1,548 per sq.m.. The relatively low-cost land should help ensure a higher profit margin in the future.

As at 31 December 2011, Shimao Property had an attributable land bank of 39.50 million sq.m., making it one of the leading real estate developers in China in terms of land bank. Geographically, new land parcels acquired by Shimao Property in 2011 were situated in second and third-tier cities at provincial capital level. These are cities with enormous development potential and emerging real estate markets, ensuring ample room for project development while minimizing risks.

Particulars of projects acquired by the Group in 2011 are set out as follows:

Project	Acquisition		Land cost (RMB billion)	Interest attributable to the Group	Planned GFA ('000 sq.m.)	Cost per sq.m. (RMB)
	Month	Usage				
Shimao Property						
1. Fujian Jinjiang Shimao Dragon Bay	Feb	T/R	3.15	100%	1,760	1,790
2. Hainan Wenchang Moonriver Project	Mar	T/R	0.333	100%	400	833
3. Fuzhou Guling Project	Mar	T/R	0.36	100%	109	3,302
4. Ningbo Yuyao Project	Jun	T/R	0.5157	70%	428	1,720
5. Ningbo Xiangshan Project	Jul	T/R	0.92872	100%	788	1,179
6. Beijing Dachang Project	Aug	T/R	0.33485	65%	1,154	446
Sub-total			5.62227		4,639	1,212
Shanghai Shimao						
1. Changsha Zhaojiaping Project	Jan	C	0.431	64%	170	2,535
2. Qingdao Shimao International Plaza	May	C	0.3054	64%	170	1,796
3. Jinan Jiefangge Project	May	C	1.536	64%	280	5,485
4. Tianjin Wuqing Project	Aug	C	0.441	64%	280	1,575
5. Qingdao Jiaonan Project	Oct	C	1.165	64%	480	2,427
Sub-total			3.8784		1,380	2,791

T/R: Tourism Property/Residential C: Commercial



MANAGEMENT DISCUSSION AND ANALYSIS

Property Investment

During the year under review, the Group's turnover from leasing of investment properties amounted to RMB441 million, an increase of 36% over the previous year. The Group's commercial properties continued to perform satisfactorily and achieve stable returns, indicating the effectiveness of the Group's strategy of diversifying its property portfolio.

Shimao Property develops commercial properties through its 64% owned subsidiary Shanghai Shimao. At present, Shanghai Shimao has a land bank of approximately 9 million sq.m., ranking it as the largest listed real estate developer in China in terms of commercial land reserves. A blueprint of commercial diversification is taking shape for Shanghai Shimao, as a leading player among the listed commercial real estate companies. Shanghai Shimao currently has 14 projects under construction, and in 2011 a number of commercial developments commenced operation including 6 Shimao Plazas, 5 Shimao Department Stores, 10 Shimao cinemas and 11 Shitian i Kids.



Xiamen Shimao Lakeside Garden



Beijing Shimao Gongsan Plaza

Regarding the operation of plaza, Shanghai Shimao Shangdu Tower, Shaoxing Shimao Mall, Suzhou Shimao Plaza, Kunshan Shimao Plaza, Changshu Shimao Plaza and Xuzhou Shimao Plaza are in operation. The operating properties held by Shanghai Shimao reached a total GFA of 660,000 sq.m..

Regarding the investment in cinema theatres, the ten Shimao Cinema theatres in operation have 84 screens and over 10,600 seats in total. With nearly 1.40 million visitors in 2011, Shimao Cinema theatres recorded significant growths of 358% and 359% respectively in revenue and box office receipts as compared to 2010.

Regarding the operation of department stores, Beijing Shimao Department Store debuted at the end of December 2011, which was the first foothold set by the Shimao Department Store in Beijing after it opened outlets in Shenyang, Fuzhou, Yantai and Wuhu. As a result, the total GFA of Shimao Department Stores in operation had exceeded 200,000 sq.m..

As for the development of child-focused business, "Shitian i Kids" is an important arm of Shanghai Shimao extending to the commercial sector. As at the end of 2011, a total of 11 outlets of "Shitian i Kids" were in operation across China, and the chain management system took shape. The Group strives to differentiate the business from traditional children's playgrounds in a short period from multiple perspectives such as zoning, product positioning, value-added services and playing options.

MANAGEMENT DISCUSSION AND ANALYSIS



Yantai Shimao Cinema

Particulars of the investment property projects of the Group in 2011 are set out as follows:

Investment Properties	Total GFA (sq.m.)	Date of Commencement	2011 Turnover (RMB million)	2010 Turnover (RMB million)	Growth (%)
Shanghai Shimao International Plaza	71,239	December 2004 – Ph. I May 2007 – Ph. II	156	148	5.4%
Beijing Shimao Tower	72,175	2008	85	77	10.4%
Changshu Shimao The Centre	43,357	1Q 2009 – Retail	21	13	62%
Shanghai Shimao Shangdu Tower	9,584	November 2010	35	33	6%
Shaoxing Shimao Dear Town	181,605	May 2010	70	38	84%
Suzhou Shimao Canal Scene	49,993	June 2010	8	6	33%
Kunshan Shimao International City	88,249	April 2011	14	–	N/A
Wuhu Shimao Riviera Garden (Commercial)	19,963	2009	4	–	N/A
Xuzhou Shimao Dongdu (Commercial)	59,471	January 2011	7	–	N/A
Miscellaneous rental income	134,364		41	9	356%
Others	–		109	41	166%
Total	730,000		550	365	51%

Hotel Operations

The Group's turnover from hotel operations for 2011 amounted to RMB892 million, representing a year-on-year drop of 8.4% from 2010 (when Shanghai World Expo was staged) but growth of nearly 39% over 2009.

In the short term, the post-Expo effect will impact on the hotel market in Shanghai, similar to the case with Beijing, which picked up momentum only gradually after the 2008 Beijing Olympic Games. In the mid to long term, Shanghai is expected to develop into a world-class financial, shipping and tourism centre; this, coupled with the draw of Disney World and the development of aircraft and other pillar industries, is expected to fuel demand and provides a promising outlook for the Group's hotel operations in Shanghai.

Two of the Group's hotels, Le Royal Meridien Shanghai and Hyatt on the Bund Shanghai, ranked ahead of their rivals in the city in terms of revenue, with human resources costs being kept below the industry average. Shanghai Le Meridien Sheshan, one of a few five-star international prestige hotels on the outskirts of Shanghai, also continued to maintain its pioneering position among suburban hotels, introducing a range of initiatives such as wedding banquets, and rationalising its staff structure. During 2011, the three hotels located in Shanghai received nearly 40 honours from renowned organisations and media at home and abroad.

Mudanjiang Holiday Inn, which debuted in October 2010 as the only international prestige hotel in its locality, has been on track through the year and maintained its established position in the local market. The hotel successfully accommodated the delegation led by the former leader of North Korea.



Hilton Nanjing Riverside

MANAGEMENT DISCUSSION AND ANALYSIS



Sheshan Le Méridien Shanghai

Two other of the Group's hotels, Shaoxing Shimaoholiday Inn and Hilton Nanjing Riverside, debuted on 29 September and 8 December 2011 respectively. Being international prestige brands, both hotels are establishing a foothold in the market after a run-in period. The Group thus has a total of 6 hotels in operation with nearly 2,700 guest rooms in aggregate, managed by four well-known international hotel groups: Starwood, Hyatt, InterContinental and Hilton.

Particulars of the hotel projects of the Group in 2011 are set out as follows:

Hotel	No. of Rooms	Date of commencement	Average Daily Room Rate (RMB/room)		Turnover (RMB mil.)		EBITDA (RMB mil.)	
			2011	2010	2011	2010	2011	2010
Sheshan Le Méridien Shanghai	327	Nov 2005	769	926	128	132	46	46
Le Royal Méridien Shanghai	770	Sep 2006	1,095	1,425	384	434	173	222
Hyatt on the Bund Shanghai	631	Jun 2007	1,279	1,603	349	408	148	166
Mudanjiang Holiday Inn	266	Dec 2010	318	-	22	-	(2)	-
Holiday Inn Shaoxing	284	Sep 2011	307	-	6	-	(4)	-
Hilton Nanjing Riverside	411	Nov 2011	504	-	3	-	(11)	-
Total	2,689				892	974	350	434

Hotel properties are stated at carrying amount, i.e. cost less accumulated depreciation and impairment losses, if any, rather than at fair value. In order to provide shareholders with additional non-GAAP information on the net assets value of the Group, the Directors have appointed Vigers Appraisal and Consulting Limited, an independent valuer, to perform a valuation of the Group's hotel properties as at 31 December 2011. Had the twelve hotels (2010: six hotels), Shanghai Le Méridien Sheshan, Le Royal Méridien Shanghai, Hyatt on the Bund Shanghai, Hilton Nanjing Riverside, Mudanjiang Holiday Inn, Shaoxing Shimao Crown Plaza, Conrad Xiamen, Shaoxing Shimao Holiday Inn, Hilton Shenyang, Hilton Tianjin Eco-city, InterContinental Fuzhou and Doubletree by Hilton Wuhu been restated at fair value of RMB18.6 billion (2010: 13.4 billion), the net assets value of the Group would have been increased to RMB45.6 billion (2010: 37.5 billion). In light of the fair value adjustment of these hotels, the adjusted gearing ratio of the Group would be:

	As at 31 December 2011 RMB million	As at 31 December 2010 RMB million
Fair value of above-mentioned hotels	18,610	13,390
Less: Carrying amount	(7,985)	(5,825)
Increase in net assets value if the above-mentioned hotels are stated at fair value	10,625	7,565
Net assets value per consolidated balance sheet	35,018	29,954
Adjusted net assets value	45,643	37,519
Net debt	28,567	20,344
Adjusted gearing ratio	63%	54%

MANAGEMENT DISCUSSION AND ANALYSIS



Le Royal Méridien Shanghai

Unimpeded financing channels ensuring sound financial management

In 2011, global stock markets and the European and US exchange markets were dampened by the US and European sovereign debt crisis. In spite of the government's tightening credit policy, Shimao Property not only obtained substantial credit facilities from the top four state-owned banks but also found favour with large and medium joint equity banks and foreign banks. Sufficient financial resources were obtained to assure necessary working capital for all the Group's projects, and also provide the Group with financial support for pursuing new development projects and acquiring new land bank. In a time of global economic consolidation, large credit facilities granted by banks demonstrate the confidence of major banks in the sustainable long-term development capabilities of Shimao Property.

In addition to expanding its financing channels, the Group also reinforced its financial management by integrating various financial instruments in a bid to enhance the efficiency and liquidity of funding, which will in turn ensure steady and rapid growth. As at 31 December 2011, the Group had cash on hand of RMB14.0 billion. By continuing to maintain more prudent financial strategies, the Group will strive to adjust its lending structure and keep its net gearing ratio down to a comparatively reasonable level so as to minimise financial risks.

INVESTOR RELATIONS

It is the primary duty of the Group's investor relations team to enable the most effective two-way communication between the Company and shareholders, the financial sector, and other stakeholders. We adhere to the best practice of high

transparency and consistency in information disclosure, irrespective of the market trend of the property sector. The team is very pleased to have earned high recognition from shareholders, investors and analysts for integrity in communicating the Company's strategies and performance for the five years since its listing. To help our management and stakeholders better understand the market environment, policy changes and corporate performance, the Group participated in numerous investors conferences to large audiences, issued monthly operational data to keep stakeholders updated, designated a session for answering shareholders' questions at its annual and extraordinary general meetings, and accommodated almost all requests for meetings, calls, and project visits provided they were in compliance with the Listing Rules. Our management's quick response to market changes, the Group's robust financial position, and its strong sales performance have all drawn the financial community's attention. Analyst coverage has increased substantially to 28, facilitating a better understanding of the Company by a larger investing community.

FINANCIAL ANALYSIS

Key consolidated income statement figures are set out below:

	2011 RMB million	2010 RMB million
Revenue	26,031	21,789
Gross profit	10,000	7,977
Operating profit	11,010	9,290
Profit attributable to shareholders	5,723	4,672
Earnings per share – Basic (RMB cents)	162.2	131.8

Revenue

For the year ended 31 December 2011, the revenue of the Group was approximately RMB26,031 million (2010: RMB21,789 million), representing an increase of 19.5% over 2010. 94.5% (2010: 93.8%) of the revenue was generated from the sales of properties and 5.5% (2010: 6.2%) from hotel operation, leasing of commercial properties and others.

The components of the revenue are analysed as follows:

	2011 RMB million	2010 RMB million
Sales of properties	24,589	20,450
Hotel operation income	892	974
Rental income from investment properties	441	324
Others	109	41
Total	26,031	21,789

MANAGEMENT DISCUSSION AND ANALYSIS

(i) Sales of properties

Sales of properties for the year ended 31 December 2011 and 2010 are set out below:

	2011		2010	
	Area (Sq.m.)	RMB million	Area (Sq.m.)	RMB million
Shimao Property				
Beijing Shimao Olive Garden	–	–	3,317	25
Wuhan Shimao Splendid River	132,906	1,233	47,880	495
Shaoxing Shimao Dear Town	67,344	865	180,916	1,660
Harbin Shimao Riviera New City	47,268	530	31,616	143
Changshu Shimao The Centre	5,277	44	159,161	1,131
Kunshan Shimao Butterfly Bay	180,724	1,444	154,899	1,116
Shanghai Shimao Sheshan Villas	–	–	2,455	177
Shanghai Shimao Riviera Garden	6,348	502	6,540	534
Kunshan Shimao East No. 1	135,895	1,017	149,803	1,068
Hangzhou Shimao Riviera Garden	179,817	2,170	112,608	1,322
Shanghai Shimao Emme County	33,278	291	28,262	274
Wuhu Shimao Riviera Garden	3,002	43	54,724	401
Fuzhou Shimao Skyscrapers	19,731	407	149,999	2,152
Shenyang Shimao Wulihe	35,091	312	134,341	1,123
Suzhou Shimao Canal Scene	86,572	965	127,772	1,254
Jiaxing Shimao Century Park	11,242	86	85,228	411
Changzhou Shimao Champagne Lake	72,472	551	107,204	749
Yantai Shimao No. 1 The Harbour	30,441	353	43,214	542
Xuzhou Shimao Dongdu	87,750	542	8,776	54
Taizhou Shimao Riverside Garden	63,188	356	41,399	211
Ningbo Shimao World Gulf	243,483	2,732	159,154	1,166
Mudanjiang Shimao Holiday Landscape	1,350	5	27,730	109
Beijing Shimao Alhambra Palace	31,418	1,515	–	–
Xiamen Shimao Lakeside Garden	56,312	1,381	–	–
Ningbo Shimao Riviera Garden	107,936	889	–	–
Tianjin Shimao Wetland Century	60,704	661	–	–
Dalian Shimao Glory City	11,219	146	–	–
Xianyang Shimao The Centre	20,884	293	–	–
Sub-total (a)	1,731,652	19,333	1,816,998	16,117
Shanghai Shimao				
Changshu Shimao The Centre (Commercial)	127,506	1,103	31,482	442
Shaoxin Shimao Dear Town (Commercial)	11,273	178	20,780	331
Beijing Shimao Gongsan Plaza	60,905	2,623	35,330	1,713
Nanjing Shimao Bund New City	16,052	253	81,829	1,347
Fuzhou Shimao Bund Garden	–	–	3,330	17
Suzhou Shimao Canal Scene (Commercial)	–	–	48,057	461
Wuhu Shimao Riviera Garden (Commercial)	–	–	2,033	22
Xuzhou Shimao Dongdu (Commercial)	44,365	179	–	–
Hangzhou Shimao Riviera COSMO	94,512	920	–	–
Sub-total (b)	354,613	5,256	222,841	4,333
Total (a) + (b)	2,086,265	24,589	2,039,839	20,450

(ii) Hotel income

Hotel operation income are analysed below:

	2011 RMB million	2010 RMB million
Shanghai Le Méridien Sheshan	128	132
Le Royal Méridien Shanghai	384	434
Hyatt on the Bund Shanghai	349	408
Mudanjiang Holiday Inn	22	–
Nanjing Shimao Riviera Hilton	3	–
Shaoxing Shimao Holiday Inn	6	–
Total	892	974

Hotel operation income slightly decreased approximately 8.4% to RMB892 million in 2011 from RMB974 million in 2010. The decrease was mainly due to decline in number of tourists after Shanghai World Expo in 2010.

(iii) Rental income and others

Rental income from investment properties amounted to RMB441 million. The rental income increased by 35.9% mainly due to the business growth of Shaoxing Shimao Dear Town, as well as the commencement of lease of other miscellaneous properties.

Other income amounted to RMB109 million was mainly derived from operation of department stores, cinemas and child-focused business.



Wuhan Shimao Dragon Bay

MANAGEMENT DISCUSSION AND ANALYSIS

	2011 RMB million	2010 RMB million
Shanghai Shimao International Plaza	156	148
Beijing Shimao Tower	85	77
Changshu Shopping Mall	21	13
Shanghai Shimao Shangdu Tower	35	33
Shaoxing Shimao Dear Town	70	38
Suzhou Shimao Canal Scene	8	6
Kunshan Shimao Plaza	14	–
Wuhu Shimao Riviera Garden (Commercial)	4	–
Xuzhou Shimao Dongdu (Commercial)	7	–
Miscellaneous rental income	41	9
Others	109	41
Total	550	365



Changzhou Shimao Champagne Lake



Suzhou Shimao City Cineplex

Cost of sales

Cost of sales increased by 16.1% to approximately RMB16,031 million in 2011 from RMB13,812 million in 2010, primarily due to the increase in cost of properties sold in line with the increase in areas delivered. Cost of sales are analysed as follows:

	2011 RMB million	2010 RMB million
Sales taxes	1,518	1,205
Land costs, construction costs and capitalised borrowing costs	14,094	12,235
Direct operating costs for hotels, commercial properties and others	419	372
Total	16,031	13,812

MANAGEMENT DISCUSSION AND ANALYSIS



Fujian Jinjiang Shimao Dragon Bay

Fair value gains on investment properties

During the year under review, the Group recorded aggregate fair value gains of RMB2,527 million (2010: fair value gains RMB2,340 million) mainly contributed by the addition in number of investment properties and further increase in value of certain completed investment properties. Aggregate net fair value gains after deferred income tax of RMB632 million recognised was RMB1,895 million (2010: fair value gains after deferred income tax was RMB1,755 million).

Other gains

Other gains of RMB794 million for the year ended 31 December 2011 (2010: RMB797 million) included mainly government grants and net foreign exchange gain.

Selling and marketing costs and administrative expenses

Selling and marketing costs for the year was RMB770 million (2010: RMB564 million). The increase was mainly due to number of projects with advertising activities increased. Administrative expenses for the year was RMB1,349 million (2010: RMB1,083 million). Administrative expenses increased by 24.5% which was mainly due to increase in labour cost and corporate and office expenses with the expansion of business during the year. In addition, the Group wrote back impairment losses on completed properties held for sale of RMB152.5 million in 2010, while there was no such write-back in 2011.

Operating profit

Operating profit amounted to RMB11.0 billion for the year ended 31 December 2011, representing an increase of 18.5% over 2010 (2010: RMB9.3 billion).

Finance costs – net

Net finance costs decreased to RMB380 million (2010: RMB672 million) mainly due to that more loan interests were capitalized during 2011.

Share of results of associated companies & jointly controlled entities

Share of profits of associated companies amounted to RMB98 million (2010: share of losses of RMB48 million), which was mainly derived from Guangzhou Asian Game City Project. Share of profits of jointly controlled entities amounted to RMB24 million (2010: share of profits of RMB0.01 million).

Taxation

The Group's income tax expense amounted to RMB4,303 million in which LAT was RMB1,171 million (2010: RMB3,079 million, in which LAT was RMB1,072 million) for the year.



MANAGEMENT DISCUSSION AND ANALYSIS

Profit attributable to shareholders

Profit attributable to shareholders for the year increased by 22.5% from RMB4,672 million in 2010 to RMB5,723 million in 2011. It was mainly attributable to substantial increase in recognized sales.

Liquidity and financial resources

As of 31 December 2011, total assets of the Group were RMB117.2 billion, of which current assets reached RMB73.2 billion. Total liabilities was RMB82.2 billion, whereas non-current liabilities were RMB30.8 billion. Total equity was RMB35.0 billion, of which equity attributable to the shareholders of the Company amounted to RMB30.6 billion.



Suzhou Shimao Canal Scene

As of 31 December 2011, the Group had aggregate cash and bank balances (including restricted cash) of approximately RMB14.0 billion (31 December 2010: RMB13.7 billion), total borrowings amounted to approximately RMB42.6 billion (31 December 2010: RMB34.1 billion). Total net borrowings were RMB28.6 billion (31 December 2010: RMB20.4 billion). Net gearing ratio increased from 67.9% as at 31 December 2010 to 81.7% as at 31 December 2011.

The maturity of the borrowings of the Group as at 31 December 2011 is set out as follows:

RMB million	
<i>Bank borrowings and borrowings from other financial institution</i>	
Within 1 year	14,983
Between 1 and 2 years	8,866
Between 2 and 5 years	7,126
Over 5 years	4,205
<i>Senior notes</i>	
Between 2 and 5 years	2,135
Over 5 years	5,246
<hr/>	
Total	42,561

The borrowings were denominated in different currencies set out below:

	Original currency million	RMB equivalent million
US\$	1,612	10,160
HK\$	4,102	3,325
RMB	29,076	29,076



MANAGEMENT DISCUSSION AND ANALYSIS

Financing activities

On 8 March 2011, the Group issued a total of US\$350 million senior notes due on 8 March 2018.

On 3 May 2011, the Group completed the redemption of floating rate notes issued in 2006 with the principal amount of US\$250 million.

Foreign exchange risks

Other than financing activities such as foreign currency borrowings which were denominated in foreign currencies, the Group conducts its business almost exclusively in RMB. The Group would be affected mainly by the bank deposits denominated in foreign currencies and the outstanding foreign currency borrowings which include US\$396 million equivalent syndicated loans, US\$1.2 billion senior notes and HK\$4.1 billion bank borrowings as at 31 December 2011.

Pledge of assets

As of 31 December 2011, the Group had pledged property and equipment, land use rights, properties under development, completed properties held for sale, investment properties, available-for-sale financial assets and restricted cash with a total carrying amount of RMB43.4 billion to secure bank facilities granted to the Group. The corresponding bank loans amounted to approximately RMB26.4 billion. The Group had also pledged shares of certain subsidiaries for a total borrowing of RMB6.7 billion.

Contingencies

As of 31 December 2011, the Group had provided guarantees for approximately RMB7.1 billion in respect of the mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. In addition, the Group had provided guarantees for approximately RMB1.8 billion in its portion of equity interests in an associated company and a jointly controlled entity for their borrowings.

Capital and property development expenditure commitments

As of 31 December 2011, the Group had contracted capital and property development expenditure but not provided for amounted to RMB29.5 billion.

Employees and remuneration policy

As of 31 December 2011, the Group employed a total of 4,410 employees. Total remuneration for the year amounted to RMB614 million. The Group has adopted a performance-based rewarding system to motivate its staff. In relation to staff training, the Group also provides different types of programmes for its staff to improve their skills and develop their respective expertise.



Fujian Jinjiang Shimao Dragon Bay

REPORT OF THE DIRECTORS



Kunshan Shimao Butterfly Bay

The directors (the “Directors”) of Shimao Property Holdings Limited (the “Company”) have pleasure in presenting their report and the audited financial statements of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in property development, investment and hotel operation. The principal activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2011 are set out on pages 79 to 174 of this annual report.

The Directors recommended the payment of a final dividend of HK18 cents (2010: HK25 cents) per ordinary share for the year ended 31 December 2011. The proposed final dividend, if approved at the forthcoming annual general meeting of the Company (“AGM”) to be held on 18 June 2012, will be payable on 18 July 2012 to the shareholders whose names appear on the register of members of the Company on 26 June 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

- (i) on Friday, 15 June 2012 and Monday, 18 June 2012, for the purpose of ascertaining shareholders’ entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 pm on Thursday, 14 June 2012; and



REPORT OF THE DIRECTORS

- (ii) on Monday, 25 June 2012 and Tuesday, 26 June 2012, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at the address as set out in sub paragraph (i) above for registration no later than 4:30 pm on Friday, 22 June 2012.

During the periods mentioned in sub paragraph (i) and (ii) above, no transfer of shares will be registered.

RESERVES

Movement in the reserves of the Company and the Group during the year are set out in note 22 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total turnover and 30% of the Group's total purchases respectively during the year.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the major suppliers noted above.

BANK AND OTHER BORROWINGS

Particulars of bank and other borrowings of the Company and the Group as at 31 December 2011 are set out in note 23 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB13,250,000 (2010: RMB47,326,000).

PROPERTY AND EQUIPMENT

Details of property and equipment of the Group are set out in note 6 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 21 to the consolidated financial statements.

Details of the movements of the share options of the Company during the year are set out on page 55 of this annual report.

FINANCIAL HIGHLIGHTS

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 6 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights over shares of the Company under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors

Mr. Hui Wing Mau (*Chairman*)

Mr. Hui Sai Tan, Jason (*Vice Chairman*)

Ms. Yao Li

Mr. Liu Sai Fei

Mr. Xu Younong

Mr. Tung Chi Shing (*resigned on 2 November 2011*)

REPORT OF THE DIRECTORS

Independent Non-executive Directors

Ms. Kan Lai Kuen, Alice

Mr. Lu Hong Bing

Mr. Lam Ching Kam

Mr. Gu Yunchang (*retired on 12 May 2011*)

In accordance with article 87 of the Company's articles of association, Mr. Hui Sai Tan, Jason, Ms. Yao Li, Ms. Kan Lai Kuen, Alice and Mr. Lam Ching Kam will retire by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

None of the Directors, including Directors being proposed for re-election at the forthcoming annual general meeting, has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

The Company has received, from each of the Independent Non-executive Directors, a confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all the Independent Non-executive Directors are independent.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this report, no contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INFORMATION ON SHARE OPTIONS

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme") on 9 June 2006.

(1) Pre-IPO Share Option Scheme

- (a) Movement of share options under the Pre-IPO Share Option Scheme during the year ended 31 December 2011 was as follows:

	Date of grant (DD/MM/YY)	Exercise price per share (HK\$)	Number of share options			As at 31 December 2011	Exercise period (DD/MM/YY)	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
			As at 1 January 2011	Exercised	Lapsed			
Directors								
Hui Sai Tan, Jason	09/06/06	5.625	528,000	(150,000)	-	378,000	01/04/07- 08/06/12	8.19
Yao Li	09/06/06	5.625	924,000	-	-	924,000	01/04/07- 08/06/12	-
Xu Younong	09/06/06	5.625	197,000	-	-	197,000	01/04/07- 08/06/12	-
			1,649,000	(150,000)	-	1,499,000		
Senior Management and Employees of the Group	09/06/06	5.625	8,968,750	(2,443,200)	-	6,525,550	01/04/07- 08/06/12	10.82
			10,617,750	(2,593,200)	-	8,024,550		

- (b) The purpose of the Pre-IPO Share Option Scheme is to give the participants an opportunity to have a personal stake in the Company and help motivate the participants to optimize their performance and efficiency, and also to retain the participants whose contributions are important to the long-term growth and profitability of the Group.
- (c) Options to subscribe for a total of 63,920,000 ordinary shares of the Company have been granted to directors and selected employees on 9 June 2006.

REPORT OF THE DIRECTORS

- (d) Each option has a 6-year exercise period with 30% vesting on 31 March 2007, another 30% vesting on 31 March 2008 and the remaining 40% vesting on 31 March 2009.
- (e) The consideration paid by each grantee for each grant of options is HK\$1.00.
- (f) Performance targets have been imposed as conditions for the grant of options under the Pre-IPO Share Option Scheme.
- (g) Upon listing of the Company on 5 July 2006, the Pre-IPO Share Option Scheme was terminated and no further option may be granted under the Pre-IPO Share Option Scheme. However, the options granted but not yet exercised shall continue to be valid and exercisable in accordance with the terms of the Pre-IPO Share Option Scheme.

(2) Share Option Scheme

- (a) The purpose of the Share Option Scheme is to provide the participants the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and the shares of the Company for the benefit of the Company and shareholders of the Company as a whole. The Share Option Scheme will provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to the participants.
- (b) The Directors may, at their discretion, invite any directors, employees and officers of any member of the Group and any advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners and service providers of any member of the Group to participate in the Share Option Scheme.
- (c) The total number of shares which may be issued upon exercise of all options (the "Share Options") granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company must not exceed 30% of the Company's shares in issue from time to time.
- (d) The total number of shares issued and to be issued upon exercise of the Share Options granted to each participant under the Share Option Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue and any further grant of Share Options which would result in the number of shares of the Company issued as aforesaid exceeding the said 1% limit must be approved by the shareholders of the Company.

- (e) The exercise price of the Share Options shall be no less than the higher of (i) the closing price of the shares of the Company on the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.
- (f) The consideration paid by each grantee for each grant of options is HK\$1.00.
- (g) Performance targets have been imposed as conditions for the grant of options under the Share Option Scheme.
- (h) The Share Option Scheme will expire on 8 June 2016.
- (i) No share options was granted under the Share Option scheme during the year ended 31 December 2011, nor was there any share option outstanding as at 1 January 2011 and 31 December 2011.

Other details of the Pre-IPO Share Option Scheme and Share Option Scheme are set out in note 21 to the consolidated financial statements.

SHARE AWARD SCHEME

A share award scheme of the Company (the "Share Award Scheme") was adopted by the board of Directors (the "Board") on 30 December 2011 (the "Adoption Date"). The purpose of the Share Award Scheme is to recognize the contributions by certain selected employees of the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

The maximum number of shares which can be awarded under the Share Award Scheme and to a selected employee in the scheme is 1 per cent (i.e. 34,659,508 shares) of the issued shares of the Company as at the Adoption Date.

No share was granted to the employees under the Share Award Scheme for the year ended 31 December 2011.

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS IN SECURITIES

Directors' and chief executive's interests and short position in the share capital of the Company

As at 31 December 2011, the interests and short position of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Cap. 571 of the Laws of Hong Kong)) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

(1) *Long position in the shares of the Company*

Name of Directors	Capacity/Nature of interests	Number of ordinary shares held	Approximate percentage of issued share capital
Hui Wing Mau	Interest of controlled corporation	2,208,977,444 ^(Note)	63.73%
Hui Sai Tan, Jason	Beneficial owner	1,734,000	0.05%
Yao Li	Beneficial owner	1,188,000	0.03%
Liu Sai Fei	Beneficial owner	437,600	0.01%

Note: These 2,208,977,444 shares represents the interest in the Company held by Gemfair Investments Limited and Shiyong Finance Limited, companies which are directly wholly-owned by Mr. Hui Wing Mau.

(2) *Long position in the underlying shares of the Company*

Name of Directors	Capacity/Nature of Interests	Number of underlying shares held	Approximate percentage of issued share capital
Hui Wing Mau	Interest of controlled corporation	48,915,976 ^(Note)	1.41%

Note: These 48,915,976 shares represent the interest in underlying shares of the Company held through certain unlisted physically settled equity derivatives by Shiyang Finance Limited, a company which is directly wholly-owned by Mr. Hui Wing Mau.

Details of the interests of Directors in the share options were stated in the section under the heading "Information on Share Options".

Save as disclosed above, no other interests or short position in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) were recorded in the Register.

Directors' Right to Acquire Shares or Debentures

Save as disclosed above, at no time during the year was the Company, any of its subsidiaries, or its holding company a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

REPORT OF THE DIRECTORS

Interests of Substantial Shareholders

As at 31 December 2011, the interests and short position of substantial shareholders in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long/short position in the shares or underlying shares of the Company

Name	Nature of interests	Number of shares or underlying shares held	Approximate percentage of issued share capital
Long position			
Gemfair Investments Limited ("Gemfair")	Note (1)	1,947,984,000	56.20%
Overseas Investment Group International Limited ("Overseas Investment")	Note (2)	1,947,984,000	56.20%
Shiyong Finance Limited ("Shiyong Finance")	Note (3)	309,909,420	8.94%

Notes:

- (1) The interests disclosed represents the interests in the Company which is held by Gemfair, a company which is directly wholly-owned by Mr. Hui Wing Mau.
- (2) The interests disclosed represents the right of Overseas Investment to vote on behalf of Gemfair as a shareholder at general meetings of the Company, pursuant to a deed dated 12 June 2006 between Gemfair and Overseas Investment, as long as Mr. Hui Wing Mau or his associates (directly or indirectly) hold not less than a 30% interest in the Company.
- (3) The interests disclosed represents the interests in the Company which is held by Shiyong Finance, a company which is directly wholly-owned by Mr. Hui Wing Mau.

Save as disclosed above, no other interest and short position in the shares and underlying shares of the Company were recorded in the Register.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed below that during the year ended 31 December 2011, the following Directors were considered to have interests in the following businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group.

Mr. Hui Wing Mau, the Chairman and an Executive Director, currently owns property development interests in the PRC through a number of private companies (collectively the "Private Group").

The Directors, including those interested in the businesses of the Private Group, will, as and when required under the Company's Articles of Association, abstain from voting on any board resolution in respect of any contract, arrangement or proposal in which he/she or any of his/her associates has a material interest.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

During the year ended 31 December 2011, the Company repurchased 84,055,000 of its own ordinary shares on the Stock Exchange at an aggregate price paid of HK\$514,343,000. The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Details of the repurchases are as follows:

	Number of ordinary shares repurchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Aggregate price paid (HK\$'000)
September 2011	69,055,000	7.24	5.65	431,978
October 2011	15,000,000	5.79	5.39	82,365
	84,055,000			514,343

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the year ended 31 December 2011.



REPORT OF THE DIRECTORS

CONTINUING DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

The Company entered into a credit agreement (the “Credit Agreement”) on 14 May 2010 between, among others, the Company as borrower, certain subsidiaries of the Company as guarantors, Standard Chartered Bank (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited, The Bank of East Asia, Limited, Hang Seng Bank Limited and Sumitomo Mitsui Banking Corporation as mandated co-ordinating arrangers and certain financial institutions as lenders, multi-currency term loan facilities (the “Loan Facilities”) in the amount of US\$440,000,000 and HK\$156,000,000 which will be made available to the Company for a term of 36 months from the date of the Credit Agreement.

Pursuant to the Credit Agreement, if Mr. Hui Wing Mau and his family together cease: (i) to be the single largest shareholder of the Company; (ii) to maintain (directly or indirectly) at least 51% beneficial shareholding interest in the issued share capital of the Company; (iii) to have the power to direct the management of the Company, whether through the ownership of voting capital, by contract or otherwise; or (iv) to remain as the chairman of Board, the commitments under the Loan Facilities may be cancelled and all amounts outstanding under the Loan Facilities may become immediately due and payable.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2011 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company’s issued shares as required under the Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance which it believes is crucial to the development of the Group and safeguard the interests of the shareholders of the Company. Information on the Company's corporate governance principles and practices is set out in the Corporate Governance Report on page 64 to page 71 of this annual report.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment as auditor of the Company at the forthcoming annual general meeting of the Company.

On behalf of the Board

Hui Wing Mau

Chairman

Hong Kong, 29 March 2012

CORPORATE GOVERNANCE REPORT



Wuhan Shimao Dragon Bay

Shimao Property Holdings Limited (the “Company”) is committed to achieving and maintaining high standards of corporate governance which it believes is crucial to the development of the Company and its subsidiaries (together the “Group”) and safeguard the interests of the shareholders of the Company.

The corporate governance standards of the Company are built on the principles of independence, accountability, transparency and fairness. The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the financial year ended 31 December 2011 except for one deviation as set out under the paragraph on “Chairman and Chief Executive Officer” below.

A DIRECTORS

A.1 Board of Directors

The board of directors of the Company (the “Board”) consisted of eight directors. The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Company by directing and supervising the Company’s affairs. The Board is committed to the Company’s objective of consistent growth and development and increase in shareholder value. The Board sets strategies for the Company and monitors the performance and activities of the executive management.

The Board has four scheduled meetings a year at quarterly interval and meets as and when required. During the year 2011, the Board held four meetings. The attendance of the directors of the Company (the “Directors”) at the Board meetings is set out below:

Directors	Number of attendance
<i>Executive Directors:</i>	
Hui Wing Mau (<i>Chairman</i>)	4/4
Hui Sai Tan, Jason (<i>Vice Chairman</i>)	4/4
Yao Li	4/4
Liu Sai Fei	4/4
Xu Younong	4/4
Tung Chi Shing (resigned on 2 November 2011)	4/4
<i>Independent Non-executive Directors:</i>	
Kan Lai Kuen, Alice	4/4
Lu Hong Bing	4/4
Lam Ching Kam	4/4
Gu Yunchang (retired on 12 May 2011)	1/4

CORPORATE GOVERNANCE REPORT

A.2 Chairman and Chief Executive Officer

The roles of the chairman and chief executive officer of the Company have not been segregated as required by the provision A.2.1 of the Code.

Mr. Hui Wing Mau is the Chairman of the Company and the founder of the Group. With Mr. Hui's extensive experience in property development and investment, he is responsible for the overall strategic planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high calibre individuals. The Board currently comprises five executive Directors and three Independent Non-executive Directors and therefore has a strong independence element in its composition.

A.3 Board Composition

The Company benefits from the collective experience of its Directors, who come from a variety of different backgrounds. Brief biographical particulars of all the Directors, together with information relating to the relationship among them, are set out in the "Directors and Senior Management Profiles" section under this annual report. Their diverse range of business and professional expertise ensures that the Board has the skills and experience necessary to both promote the Company's success and monitor its affairs.

The Board comprises five Executive Directors and three Non-executive Directors. All of the three Non-executive Directors are Independent Non-executive Directors who represent more than one-third of the Board. All the Independent Non-executive Directors meet the guidelines for assessment of independence, as set out in Rule 3.13 of the Listing Rules.

A.4 Appointment, Re-election and Removal of Directors

The Company has established a nomination committee on 9 June 2006 with written terms of reference. The Nomination Committee consists of four members, comprising Mr. Hui Wing Mau and the three Independent Non-executive Directors. The chairman of the Nomination Committee is Mr. Hui Wing Mau.

The primary function of the Nomination Committee is to identify and nominate suitable candidates for the Board's consideration and recommendation to stand for election by shareholders at annual general meeting, or when necessary, make recommendations to the Board regarding candidates to fill vacancies on the Board.

Attendance of individual members at Nomination Committee meeting during the year is as follows:

Directors	Number of attendance
Hui Wing Mau	2/2
Kan Lai Kuen, Alice	2/2
Lu Hong Bing	2/2
Lam Ching Kam	2/2
Gu Yunchang (retired on 12 May 2011)	1/2

Each of the Directors has entered into a service contract with the Company for a specific term. However, such term is subject to his/her re-appointment by the Company at general meeting upon retirement by rotation pursuant to the articles of association of the Company (the "Articles"). The Articles state that each Director shall retire from office by rotation at least once every three years after he/she was last elected or reelected and Directors holding offices as chairman and managing director are also subject to retirement by rotation. The Articles also provide that any Director appointed by the Board, either to fill a casual vacancy on the Board or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A.5 Responsibilities of Directors

Every newly appointed Director shall receive an information package from the company secretary on the first occasion of his/her appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a Director. In addition, the package includes materials on the operations and business of the Company. The senior management and the company secretary will subsequently conduct such briefing as is necessary, to ensure that the Directors have a proper understanding of the operations and business of the Company and that they are aware of their responsibilities under the laws and applicable regulations.

Management provides appropriate and sufficient information to Directors in a timely manner to keep them apprised of the latest development of the Group and enable them to discharge their responsibilities. Directors also have independent access to senior executives in respect of operating issues.

Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company. The Directors are continually updated with legal and regulatory developments, business and market changes and strategic development of the Group to facilitate the discharge of their responsibilities.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. All Directors confirmed they had complied with the required standard set out in the Model Code during the year.

A.6 Supply of and Access to Information

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying Board papers are sent in full to all Directors in a timely manner.

The Directors enable, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

CORPORATE GOVERNANCE REPORT

B REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 The Level and Make-up of Remuneration of Directors and Senior Management and Disclosure

The Company has established a remuneration committee on 9 June 2006 with written terms of reference. The Remuneration Committee consists of four members, comprising Mr. Hui Wing Mau and the three Independent Non-executive Directors. The chairman of the Remuneration Committee during the year was Mr. Hui Wing Mau. On 1 April 2012, Mr. Lu Hong Bing was appointed as the chairman of the Remuneration Committee in place of Mr. Hui Wing Mau.

The primary functions of the Remuneration Committee are to evaluate the performance and make recommendations on the remuneration package of the directors and senior management and evaluate, make recommendations on the Company's share option schemes, retirement scheme and the performance assessment system and bonus and commission policies.

Attendance of individual members at Remuneration Committee meeting during the year is as follows:

Directors	Number of attendance
Hui Wing Mau	2/2
Kan Lai Kuen, Alice	2/2
Lu Hong Bing	2/2
Lam Ching Kam	2/2
Gu Yunchang (retired on 12 May 2011)	1/2

During the year, the Remuneration Committee has reviewed the structure of remunerations for Directors and senior management of the Company. Details of the Directors' remuneration are set out in note 31 to the consolidated financial statements of this annual report.

C ACCOUNTABILITY AND AUDIT

C.1 Financial Reporting

The Directors are responsible for overseeing the preparation of the financial statements for each financial period which gives a true and fair view of the Group's state of affairs and the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2011, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate accounting standards; made judgments and estimates that are prudent and reasonable; and ensured the accounts are prepared on the going concern basis.

The Company recognizes that high quality corporate reporting is important in reinforcing the trustworthy relationship with the Company's stakeholders and aims at presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects in all corporate communications. The annual and interim results of the Company are announced in a timely manner after the end of the relevant periods.

A statement by the external auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 77 and 78 of this annual report.

C.2 Internal Controls

The Group has established an internal audit department which plays an important role in the Group's internal control system. The Internal Audit Department provides an independent appraisal of the Group's financial and operational activities and makes recommendations to the relevant management for necessary actions. The results of the internal audit reviews are reported to the Executive Directors and audit committee of the Company periodically. The Directors have reviewed the effectiveness of the Group's internal control system covering financial, operational, compliance and risk management functions, and consider the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget.

C.3 Audit Committee

The Company has established an audit committee on 9 June 2006 with written terms of reference pursuant to the rules set out in Chapter 3 of the Listing Rules. The Audit Committee consists of three members, namely Ms. Kan Lai Kuen, Alice, Mr. Lu Hong Bing and Mr. Lam Ching Kam. All of them are Independent Non-executive Directors. The chairman of the Audit Committee is Ms. Kan Lai Kuen, Alice.

The primary duties of the Audit Committee are to assist the board to review the financial reporting process and internal control system of the Company, nominate and monitor external auditor and provide advice and comments to the Directors.

Full minutes of Audit Committee meetings are kept by the company secretary. Draft and final versions of minutes of the Audit Committee meetings will be sent to all members of the Audit Committee for their comment and records respectively.

The Audit Committee meets the external auditor at least twice a year to discuss any areas of concerns during the audits and considers any matters raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditor. The Audit Committee reviews the interim and annual reports before submission to the Board. The Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

Attendance of individual members at Audit Committee meetings during the year is as follows:

Directors	Number of attendance
Kan Lai Kuen, Alice	2/2
Lu Hong Bing	2/2
Lam Ching Kam	2/2
Gu Yunchang (retired on 12 May 2011)	1/2

CORPORATE GOVERNANCE REPORT

The major work performed by the Audit Committee during the year included, among other things, reviewing the internal audit report, internal audit plan, annual report, interim report and connected transactions.

The remuneration to the Company's auditor, Messrs. PricewaterhouseCoopers, in respect of the services rendered for the year ended 31 December 2011 is set out as follows:

Services rendered	RMB'000
Audit service	6,000
Other services	
– Service in connection with the notes offering	900
	6,900

The Audit Committee is provided with sufficient resources, including the advice of external auditor to discharge its duties.

The consolidated annual results of the Group for the year ended 31 December 2011 have been reviewed by the Audit Committee.

D DELEGATION BY THE BOARD

D.1 Management Functions

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group whilst managing the Group's business is the responsibility of the management.

Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports, announcements and circulars for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of systems of internal controls and risk management procedures, compliance with relevant statutory requirements and rules and regulations.

D.2 Board Committees

Where board committees are established to deal with matters, the Board shall prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.

The terms of reference of the above-mentioned committees require such committees to report back to the Board on their decisions or recommendations. Material matters will be reported to the Board by the other board committees according to their respective terms of reference.

E COMMUNICATION WITH SHAREHOLDERS

E.1 Effective Communication

The management believes that effective communication with the investment community is essential. During the year, the Executive Directors and Chief Financial Officer held regular briefings, attended investor forums and participated in roadshows with institutional investors and financial analysts in the PRC, Hong Kong and overseas countries to keep them abreast of the Company's business and development.

The annual general meeting provides a useful forum for the shareholders to exchange views with the Board. The Directors and Chief Financial Officer will attend the shareholder's meetings to answer the questions of shareholders. In addition, questions received from the general public and individual shareholders were answered promptly. Published documents together with the latest corporate information and news are made available on the Company's website.

E.2 Voting by Poll

Voting at general meetings of the Company must be taken by poll as set out in Rule 13.39(4) of the Listing Rules so that each share is entitled to one vote. The chairman of general meeting shall at the commencement of the meeting ensure that an explanation is provided of the detailed procedures for conducting a poll and then answer any questions from shareholders regarding voting by way of a poll.

The Board will continue to devote efforts to maintain good corporate governance practices of the Company in future with a view to continuously enhancing shareholder value as a whole.

DIRECTORS AND SENIOR MANAGEMENT PROFILES



Fuzhou Minhou Shimao Dragon Bay

EXECUTIVE DIRECTORS

Hui Wing Mau (Chairman)

Mr. Hui Wing Mau, aged 61, the Chairman and Executive Director of Shimao Property Holdings Limited (the "Company") and the founder of the Group. With over 22 years' experience in property development, property investment and hotel operation, he is primarily responsible for the Group's overall strategic planning and business management. Mr. Hui is currently a member of the National Committee of the Eleventh Chinese People's Political Consultative Conference, vice chairman of the China National Federation of Industry and Commerce, vice president of China Overseas Chinese Entrepreneurs Association, chairman of Shanghai Overseas Chinese Chamber of Commerce, vice chairman of China Housing Industry Association, president of The Association for the Promotion of Global Chinese Traders Fraternity, Executive President of China Red Ribbon Foundation and president of New Home Association Hong Kong. Mr. Hui obtained a Masters Degree in Business Administration from the University of South Australia. Mr. Hui is also the non-executive chairman of Shanghai Shimao Co., Ltd. ("Shanghai Shimao"), a 64.21% owned subsidiary of the Company listed on the Shanghai Stock Exchange, and a director of Shimao International Holdings Limited ("Shimao International"). He is a director of Gemfair Investments Limited and Shiyong Finance Limited, substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He has been the Chairman and Executive Director of the Company since 8 November 2004. Mr. Hui is the father of Mr. Hui Sai Tan, Jason, the Vice Chairman and Executive Director of the Company, and Ms. Hui Mei Mei, Carol, the Vice Chairman and the President of Shanghai Shimao.

Hui Sai Tan, Jason (Vice Chairman)

Mr. Hui Sai Tan, Jason, aged 35, the Vice Chairman and Executive Director of the Company. He has been the Group Sales Controller since he joined the Group in March 2000. Mr. Jason Hui is responsible for the sales, marketing, management and design of the Group's projects. He has more than 13 years' experience in the property development industry and has presided over the sales and marketing of Shanghai Shimao Riviera Garden which boasted top sales proceeds among residential projects in Shanghai for four consecutive years from 2001 to 2004. Mr. Jason Hui obtained a Master of Science Degree in Real Estate from the University of Greenwich, the United Kingdom in 2001 and a Masters Degree in Business Administration from the University of South Australia in 2004. He is a member of Shanghai Committee of the Chinese People's Political Consultative Conference. He has been an Executive Director and the Vice Chairman of the Company since 17 November 2004 and 21 April 2008 respectively and was an executive director of Shimao International from July 2002 to June 2006. He is also a director of Shanghai Shimao. Mr. Jason Hui is the son of Mr. Hui Wing Mau, the Chairman and Executive Director of the Company, and a brother of Ms. Hui Mei Mei, Carol, the Vice Chairman and the President of Shanghai Shimao.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Yao Li

Ms. Yao Li, aged 57, has been an Executive Director of the Company since 25 January 2006. She was the Group Operations Controller from 2006 to 2010 and responsible for loan finance, management of enterprise operation, human resources, training and administrative support of the Group. Ms. Yao is currently a director and the President of Straits Construction Investment (Holdings) Limited ("Straits Construction"). The Company currently has a 49% indirect interest in Straits Construction. Ms. Yao obtained a Masters Degree in Business Administration from the University of South Australia. She has more than 26 years' experience in office administration, human resources management and staff training. Ms. Yao worked for China Construction Bank from 1984 to 2002 and was posted to Hong Kong and Johannesburg between 1994 and 2002. She held various positions in the bank and was the Head of the Hong Kong Training Centre. She was an executive director of Shimao International from February 2004 to February 2005.

Liu Sai Fei

Mr. Liu Sai Fei, aged 50, has joined the Group since 2003 and was appointed an Executive Director of the Company on 1 February 2010. He is currently a Vice President and Regional Project Controller of the Group, responsible for project management of the Group's projects. He obtained a Masters Degree in Project Management from the University of Western Sydney, Australia in 2000. Mr. Liu has over 27 years' experience in architectural design and project management. Prior to joining the Group, he worked for CRG Contractors Dte from 1998 to 2001. From 2001 and 2003, he worked for Shanghai Merry Land Co. Ltd. as project manager.

Xu Younong

Mr. Xu Younong, aged 53, has joined the Group since June 2001 and was appointed an Executive Director of the Company on 1 January 2011. He is currently a Vice President and Regional President of the Group, responsible for project management of the Group. Mr. Xu holds a Bachelors degree of engineering from Tong Ji University in Shanghai and has over 28 years' experience in architectural design and project management. Prior to joining the Group, he worked for Shanghai Building Material Industry Design Institute (上海市建築材料工業設計研究院) from 1983 to 1992 as an engineer and designer. From 1993 to 2001, he worked for Shanghai Fortune World Development Company Limited as project manager.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Kan Lai Kuen, Alice

Ms. Kan Lai Kuen, Alice, aged 57, has been an Independent Non-executive Director of the Company since 16 March 2006 and has more than 20 years' experience in corporate finance. She is a responsible officer of three licensed corporations registered under the Securities and Futures Ordinance, Asia Investment Management Limited, Asia Investment Research Limited and Lotus Asset Management Limited. She is also a shareholder and the managing director of Asia Investment Management Limited and Asia Investment Research Limited. Ms. Kan currently serves as an independent non-executive director on the boards of the following companies which are listed on The Stock Exchange of Hong Kong Limited: Shougang Concord International Enterprises Company Limited, Regal Hotels International Holdings Limited, Sunway International Holdings Limited, China Energin International (Holdings) Limited. She is also a non-executive independent director of AVIC International Investments Limited, a company listed on Singapore Exchange Securities Trading Limited. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Directors. Ms. Kan held various senior positions in international and local banks and financial institutions.

Lu Hong Bing

Mr. Lu Hong Bing, aged 45, has been an Independent Non-executive Director of the Company since 17 November 2004. Mr. Lu obtained a Masters Degree in law from the East China University of Politics Science and Law in 1991 and has more than 19 years' experience in corporate and securities laws in China. Mr. Lu currently serves as an independent director on the boards of the following companies which are listed on the Shanghai Stock Exchange: Shanghai Pudong Road & Bridge Construction Co., Ltd (上海浦東路橋建設股份有限公司), Shanghai Aerospace Automobile Electromechanical Co., Ltd (上海航天汽車機電股份有限公司), Shanghai Jiaoda Onlly Co., Ltd (上海交大昂立股份有限公司), Shanghai Metersbonwe Fashion & Accessories Co., Ltd. (上海美特斯邦威服飾股份有限公司), Shanghai DaZhong Public Utilities (Group) Co., Ltd (上海大眾公用事業(集團)股份有限公司). Mr. Lu is an executive partner of the Grandall Legal Group, a vice-president of the Executive Council of the All China Lawyers Association, an arbitrator of the China International Economic and Trade Arbitration Commission, an arbitrator of the Shanghai Arbitration Committee, a concurrent professor of the East China University of Policies Science and Law and the Shanghai Institute of Foreign Trade and a commissioner of the public offering commission of the Shanghai Stock Exchange. He was appointed as an independent non-executive director of Shimao International from October 2001 to February 2005.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Lam Ching Kam

Mr. Lam Ching Kam, aged 51, has been an Independent Non-executive Director of the Company since 1 June 2006. He is currently a fellow member and the committee member of the PRC committee (Quantity Surveying Division) of the Hong Kong Institute of Surveyors. Mr. Lam obtained a Masters Degree in Business Administration from the Hong Kong Open University in 2004 and is a fellow member of the Chartered Institute of Building and the Royal Institution of Chartered Surveyors. Mr. Lam was the Vice Chairman of the Royal Institution of Chartered Surveyors China Group from 2003 to 2006. He is a member of the China Civil Engineering Society (中國土木工程師學會會員) and also a registered China Costing Engineer (中國造價工程師執業資格). Mr. Lam has been a consultant to the Beijing Construction Project Management Association (北京市建設監理協會) since 2003 and has engaged in professional training and vocational education in China for more than 10 years. Mr. Lam has been in the property development and construction industry for 28 years, and has worked for construction contractors such as Shui On Building Contractors Limited, China State Construction Engineering Corporation and Hopewell Construction Co. Ltd. Mr. Lam was employed as a quantity surveyor and worked in London from 1990 to 1991. He was employed by certain consultant firms and the Architectural Services Department of the Hong Kong Government before he emigrated to Australia in 1996 and operated a project management firm in Sydney. Mr. Lam was the project controller of Sino Regal Ltd. (HK) for investment projects in China from 1994 to 1996. In 1998, Mr. Lam established a surveying and management consultant firm which has been participating in many large-scale projects in China and Macau, including a Beijing Olympic 2008 project involving the hotels, offices towers and commercial complex in Olympic Park, Beijing.

CHANGE IN INFORMATION OF DIRECTORS

The change in the information of the Directors of the Company since the publication of the interim report of the Company for the six months ended 30 June 2011 required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited is set out below:

Name of Director	Detail of changes
<i>Independent Non-executive Director</i>	
Ms. Kan Lai Kuen, Alice	Acts as a non-executive independent director of AVIC International Investments Limited, a company whose shares have been listed on the Singapore Exchange Securities Trading Limited, with effect from 12 September 2011.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules. The updated biographical details of the Directors of the Company are set out in the preceding section headed "Directors and Senior Management Profiles".

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SHIMAO PROPERTY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shimao Property Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 79 to 174, which comprise the consolidated and Company balance sheets as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 29 March 2012

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	As at 31 December	
		2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Property and equipment	6	8,325,789	6,553,628
Investment properties	7	20,566,979	11,854,995
Land use rights	8	2,475,068	2,572,389
Intangible assets	9	2,264,027	2,280,462
Associated companies	11	1,308,281	412,442
Jointly controlled entities	12	4,307,877	3,908,554
Available-for-sale financial assets	13	267,362	347,823
Deferred income tax assets	25	1,313,909	1,193,780
Other non-current assets	14	3,205,665	11,750,131
		44,034,957	40,874,204
Current assets			
Properties under development	15	37,324,085	29,013,883
Completed properties held for sale	16	7,382,116	4,761,453
Trade and other receivables and prepayments	17	4,472,085	5,124,272
Prepayment for acquisition of land use rights	18	7,634,561	—
Prepaid income taxes		949,184	640,567
Amounts due from related companies	19	1,451,591	1,526,306
Restricted cash	20	1,681,222	1,589,081
Cash and cash equivalents	20	12,312,740	12,139,549
		73,207,584	54,795,111
Total assets		117,242,541	95,669,315
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	21	355,737	362,384
Reserves			
– Proposed final dividend	22	505,772	754,623
– Others	22	29,730,171	25,581,827
		30,591,680	26,698,834
Non-controlling interests		4,426,397	3,255,150
Total equity		35,018,077	29,953,984

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	As at 31 December	
		2011 RMB'000	2010 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	23	27,577,834	24,695,507
Deferred income tax liabilities	25	3,172,815	2,370,209
		30,750,649	27,065,716
Current liabilities			
Trade and other payables	26	17,317,407	11,512,930
Advanced proceeds received from customers		11,828,902	11,932,050
Income tax payable		7,159,326	5,693,970
Borrowings	23	14,983,419	9,376,655
Derivative financial instruments	24	52,115	—
Amounts due to related parties	27	30,831	30,831
Deferred income		101,815	103,179
		51,473,815	38,649,615
Total liabilities		82,224,464	65,715,331
Total equity and liabilities		117,242,541	95,669,315
Net current assets		21,733,769	16,145,496
Total assets less current liabilities		65,768,726	57,019,700

Hui Wing Mau
Director

Hui Sai Tan, Jason
Director

The notes on pages 87 to 174 are an integral part of these consolidated financial statements.

BALANCE SHEET

As at 31 December 2011

	Note	As at 31 December	
		2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	10	21,216,520	21,629,515
Current assets			
Other receivables and prepayments		3,248	1,831
Dividend receivable from subsidiaries	10	1,246,430	—
Cash and cash equivalents	20	96,470	1,465,399
		1,346,148	1,467,230
Total assets		22,562,668	23,096,745
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	21	355,737	362,384
Reserves			
– Proposed final dividend	22	505,772	754,623
– Others	22	10,021,132	11,663,161
Total equity		10,882,641	12,780,168
LIABILITIES			
Non-current liabilities			
Borrowings	23	8,652,245	8,199,184
Current liabilities			
Borrowings	23	2,561,074	1,877,068
Derivative financial instruments	24	52,115	—
Trade and other payables		223,100	160,823
Amounts due to subsidiaries	10	191,493	79,502
		3,027,782	2,117,393
Total liabilities		11,680,027	10,316,577
Total equity and liabilities		22,562,668	23,096,745
Net current liabilities		(1,681,634)	(650,163)
Total assets less current liabilities		19,534,886	20,979,352

Hui Wing Mau
Director

Hui Sai Tan, Jason
Director

The notes on pages 87 to 174 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	Year ended 31 December	
		2011 RMB'000	2010 RMB'000
Revenue	5	26,031,426	21,789,433
Cost of sales	29	(16,031,376)	(13,812,137)
Gross profit		10,000,050	7,977,296
Fair value gains on investment properties	7	2,527,013	2,339,562
Other income/other gains – net	28	794,320	796,826
Selling and marketing costs	29	(769,889)	(563,900)
Administrative expenses	29	(1,349,272)	(1,083,122)
Other operating expenses	29	(192,173)	(176,703)
Operating profit		11,010,049	9,289,959
Finance income		100,074	66,247
Finance costs		(480,420)	(737,800)
Finance costs – net	30	(380,346)	(671,553)
Share of results of			
– Associated companies	11	97,653	(48,110)
– Jointly controlled entities	12	24,213	14
		121,866	(48,096)
Profit before income tax		10,751,569	8,570,310
Income tax expense	32	(4,302,640)	(3,079,368)
Profit for the year		6,448,929	5,490,942
Other comprehensive income:			
Fair value losses on available-for-sale financial assets, net of tax		(60,346)	(258,432)
Total comprehensive income for the year		6,388,583	5,232,510

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	Year ended 31 December	
		2011 RMB'000	2010 RMB'000
Profit for the year attributable to:			
Equity holders of the Company		5,722,775	4,671,536
Non-controlling interests		726,154	819,406
		6,448,929	5,490,942
Total comprehensive income for the year attributable to:			
Equity holders of the Company		5,684,021	4,505,571
Non-controlling interests		704,562	726,939
		6,388,583	5,232,510
Dividends	33	1,145,545	1,218,424
Earnings per share for profit attributable to the equity holders of the Company			
– Basic (RMB cents)	34	162.2	131.8
– Diluted (RMB cents)	34	162.1	131.6

The notes on pages 87 to 174 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Note	Attributable to the equity holders of the Company		Non-controlling interests RMB'000	Total RMB'000
		Share capital RMB'000	Reserves RMB'000 (Note 22)		
Balance at 1 January 2011		362,384	26,336,450	3,255,150	29,953,984
Profit for the year		—	5,722,775	726,154	6,448,929
Other comprehensive income for the year		—	(38,754)	(21,592)	(60,346)
Total comprehensive income for the year		—	5,684,021	704,562	6,388,583
Transactions with owners:					
Acquisition of subsidiaries		—	—	25,500	25,500
Capital contribution from non-controlling interests of subsidiaries		—	—	441,185	441,185
Employee share option scheme					
– Proceeds from shares issued	21(b)	216	11,996	—	12,212
Repurchases and cancellation of shares	21(d)	(6,863)	(414,718)	—	(421,581)
Dividends	33	—	(1,381,806)	—	(1,381,806)
Total transactions with owners		(6,647)	(1,784,528)	466,685	(1,324,490)
Balance at 31 December 2011		355,737	30,235,943	4,426,397	35,018,077

The notes on pages 87 to 174 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Note	Attributable to the equity holders of the Company		Non-controlling interests RMB'000	Total RMB'000
		Share capital RMB'000	Reserves RMB'000 (Note 22)		
Balance at 1 January 2010		361,938	22,985,936	2,169,211	25,517,085
Profit for the year		—	4,671,536	819,406	5,490,942
Other comprehensive income for the year		—	(165,965)	(92,467)	(258,432)
Total comprehensive income for the year		—	4,505,571	726,939	5,232,510
Transactions with owners:					
Acquisition of subsidiaries		—	—	376	376
Capital contribution from non-controlling interests of subsidiaries		—	—	358,624	358,624
Employee share option scheme					
– Proceeds from shares issued	21(b)	446	24,645	—	25,091
Dividends	33	—	(1,179,702)	—	(1,179,702)
Total transactions with owners		446	(1,155,057)	359,000	(795,611)
Balance at 31 December 2010		362,384	26,336,450	3,255,150	29,953,984

The notes on pages 87 to 174 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

	Note	Year ended 31 December	
		2011 RMB'000	2010 RMB'000
Cash flow from operating activities			
Net cash generated from operations	35(a)	1,197,445	273,984
Interest received		100,074	66,247
Interest paid		(2,916,023)	(1,545,440)
PRC income tax paid		(2,443,309)	(2,502,683)
Net cash used in operating activities		(4,061,813)	(3,707,892)
Cash flow from investing activities			
Additions of property and equipment and investment properties		(2,442,537)	(956,499)
Sales of property and equipment		11,367	2,998
Additions of land use rights and other non-current assets		(148,117)	(297,617)
Increase in amounts due from related companies		—	(983)
Prepayment for acquisition of additional interests in a subsidiary		(330,000)	—
Acquisition of subsidiaries		25,500	(2,967)
Disposal of a subsidiary	35(a)(i)	226,419	—
Loans to jointly controlled entities		(52,897)	(404,993)
Capital injection to associated companies		(803,025)	(323,778)
Capital injection to jointly controlled entities		—	(1,169,325)
Capital contribution from non-controlling interests of subsidiaries		441,185	358,624
Net cash used in investing activities		(3,072,105)	(2,794,540)
Cash flow from financing activities			
Proceeds from borrowings		21,100,031	23,445,701
Repayments of borrowings		(11,981,818)	(9,526,175)
Repurchases of shares		(421,581)	—
Issue of new shares		12,212	25,091
Dividends paid to equity holders of the Company		(1,381,806)	(1,179,702)
Increase in restricted cash for borrowings		32,464	(991,827)
Net cash generated from financing activities		7,359,502	11,773,088
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		12,139,549	6,918,958
Effect of foreign exchange rate changes		(52,393)	(50,065)
Cash and cash equivalents at end of the year	20	12,312,740	12,139,549

The notes on pages 87 to 174 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Shimao Property Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 29 October 2004 as an exempted company with limited liability under the Cayman Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries (together, the “Group”) are property development, property investment and hotel operation in the People’s Republic of China (the “PRC”).

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 5 July 2006.

These consolidated financial statements are presented in thousands of Renminbi (RMB’000), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and derivative financial instruments which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Amended standards adopted by the Group

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011:

- HKAS 24 (Revised), 'Related Party Disclosures' is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:
 - The name of the government and the nature of their relationship;
 - The nature and amount of any individually significant transactions; and
 - The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party. This revised standard does not have any significant impact on the Group's financial statements as the Group is not controlled by the government.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- Amendment to HKAS 32 'Classification of rights issues', effective for annual periods beginning on or after 1 February 2010.
- HK (IFRIC) – Int-19 'Extinguishing financial liabilities with equity instruments', effective for annual periods beginning on or after 1 July 2010.
- Amendment to HK (IFRIC) – Int-14 'Prepayments of a minimum funding requirement', effective for annual periods beginning on or after 1 January 2011.
- Third improvements to Hong Kong Financial Reporting Standards (2010) issued in May 2010 by the HKICPA, except for amendment to HKAS 34 'Interim financial reporting' and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all effective in the financial year of 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

- (c) New standards, amendments and interpretations have been issued but are not effective for financial year beginning 1 January 2011 and have not been early adopted by the Group
- HKFRS 9, 'Financial instruments', effective for the accounting period beginning on or after 1 January 2015.
 - HKFRS 10 'Consolidated financial statements', effective for the accounting period beginning on or after 1 January 2013.
 - HKFRS 11 'Joint arrangements', effective for the accounting period beginning on or after 1 January 2013.
 - HKFRS 12 'Disclosures of interests in other entities', effective for the accounting period beginning on or after 1 January 2013.
 - HKFRS 13 'Fair value measurement', effective for the accounting period beginning on or after 1 January 2013.

Management is in the process of making an assessment of their impact and is not yet in a position to state whether any substantial changes to the Group's significant accounting policies and presentation of the financial information will be resulted.

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.3 Jointly controlled entities and associates

Jointly controlled entities are entities which operate under a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Associated companies are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in jointly controlled entities and associated companies are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in jointly controlled entities and associated companies includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in a jointly controlled entity or an associated company is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity or an associated company equals or exceeds its interest in the investee, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity or the associated company.

The Group determines at each reporting date whether there is any objective evidence that the investment in the jointly controlled entity or the associated company is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entity or the associated company and its carrying value and recognises the amount adjacent to 'share of results of jointly controlled entities or associated companies' in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Jointly controlled entities and associates (*continued*)

Profits and losses resulting from upstream and downstream transactions between the Group and its jointly controlled entities or associated companies are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the jointly controlled entities or associated companies. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities and associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in jointly controlled entities and associated companies are recognised in the income statement.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the management committee that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Buildings comprise hotel buildings and self-use buildings.

Assets under construction are stated at historical cost less impairment losses. Historical cost includes expenditure that is directly attributable to the development of the assets which comprises construction costs, borrowing costs and professional fees incurred during the development period. On completion, the assets are transferred to buildings within property and equipment.

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their costs less their residual values and impairment loss over their estimated useful lives, as follows:

Buildings	50 years or the remaining lease period of the land use rights, whichever is shorter
Building improvements	10 to 20 years
Furniture and equipment	5 years
Jet plane and motor vehicles	10 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within "Other income/other gains – net" in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as 'fair value gains/losses on investment properties'.

If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

If an investment property becomes owner-occupied or commences development with a view to sale, it is reclassified as property and equipment or as properties under development or completed properties held for sale, and the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

If an item of property and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised as a revaluation of property and equipment in equity under HKAS 16. If a property commences an operating lease to another party, it is transferred from properties under development or completed properties held for sale to investment property, and any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

2.8 Intangible assets – goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries/associated companies/jointly controlled entities at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies/jointly controlled entities is included in investments in associated companies/jointly controlled entities. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Impairment of investments in subsidiaries, associated companies, jointly controlled entities and non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries, associated companies or jointly controlled entities is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries, associated companies or jointly controlled entities in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.10 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'amounts due from related companies', 'trade and other receivables', 'restricted cash' and 'cash and cash equivalents' in the balance sheet.

- *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'Other gains/(losses)-net'.

Dividends on available-for-sale equity instruments are recognised in the income statement as part of 'other income' when the Group's right to receive payments is established.

(c) Impairment of financial assets

- *Loans and receivables*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivable category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan and receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(c) Impairment of financial assets (continued)

- *Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria set out in 'loans and receivables' above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of item being hedged.

For derivative financial instruments do not qualify for hedge accounting, changes in fair value are recognized immediately in the consolidated income statement within 'other gain' or 'other operating expenses'.

The Group has entered into transactions which will mature after 7 years, where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is not recognised immediately in the consolidated income statement.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the consolidated income statement without reversal of deferred day one profit and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Development cost of properties comprises cost of land use rights, construction costs, borrowing costs and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

2.13 Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for properties sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks and deposits held at call with banks.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.19 Borrowings cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, associated companies and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred income tax (continued)

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Employee benefits (continued)

(ii) Retirement benefits (continued)

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("MPF Scheme") for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

(iii) Share-based compensation

The Group operates equity-settled pre-IPO and post-IPO share option schemes. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The subsidiaries measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, and record expense in the financial statements of the subsidiaries, with a corresponding increase recognised in equity as a contribution from the Company.

2.22 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Provisions and contingent liabilities (continued)

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of properties and services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales with the Group companies. Revenue is recognised as follows:

(i) Sales of properties

Revenue from sales of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectibility of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet under current liabilities.

(ii) Property management services

Revenue arising from property management services is recognised in the accounting period in which the services are rendered.

(iii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(iv) Rental income

Rental income from properties letting under operating leases is recognised on a straight line basis over the lease terms.

(v) Hotel operation income

Hotel operation income which includes rooms rental, food and beverage sales and other ancillary services is recognised when the services are rendered.

(vi) Sales of goods

The Group operates certain retail department stores. Sales of goods are recognized when the Group sells goods to the customers.

(vii) Dividend income

Dividend income is recognised when the right to receive payment is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property and equipment and land use rights are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight line basis over the expected lives of the related assets.

2.25 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) The Group is the lessee other than operating lease of land use rights

Payments made under operating leases (net of any incentives received from the lessor), are charged to the income statement on a straight-line basis over the period of the lease.

(ii) The Group is the lessee under operating lease of land use rights

The Group made upfront payments to obtain operating leases of land use rights on which properties will be developed.

For land use rights to be developed for investment properties and properties for sale, the upfront payments are included in the cost of investment properties and properties under development or completed properties held for sale respectively.

For land use rights to be developed for hotel properties and self-use buildings, the upfront payments are separately recorded in balance sheet as 'land use rights', and amortised over the leasing periods on a straight line basis. The amortisation during the period of construction of the properties is capitalised as the cost of assets under construction.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Insurance contracts

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is a pre-existing risk transferred from the policyholder to the insurer, and is significant only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

The Group assesses at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in the consolidated income statement.

The Group regards its financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers and financial guarantee contracts provided to its related parties as insurance contracts.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group's businesses are principally conducted in RMB, except that certain receipts of proceeds from sales of properties, public share and notes offerings and certain bank borrowings are in other foreign currencies. The major non-RMB assets and liabilities are borrowings and bank deposits denominated in Hong Kong dollar ("HK dollar", or "HK\$") and the United States dollar ("US dollar", or "US\$").

The Company and all of its subsidiaries' functional currency is RMB, so that the fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations. Given the general expectations about the strengthening of RMB and net foreign currency liabilities, the Group has not entered into any forward exchange contracts to hedge its exposure to foreign exchange risk.

As at 31 December 2011, if RMB had strengthened/weakened by 5%, against US dollar and HK dollar with all other variables held constant, post-tax profit for the year would have been RMB660,810,000 (2010: RMB526,751,000) higher/lower, mainly as a result of net foreign exchange gains/losses on translation of US dollar and HK dollar denominated bank deposits, senior notes and bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (*continued*)

(ii) Price risk

The Group is exposed to equity securities price risk from the Group's available-for-sale financial assets which are publicly traded. The performance of the listed equity securities of the Group is closely monitored.

(iii) Cash flow and fair value interest rate risk

Except for cash deposits in the banks, the Group has no other significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, especially long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The interest rate and terms of repayments of borrowings are disclosed in Note 23. The Group manages certain of its fair value interest rate risk by using fixed-to-floating interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from fixed rates to floating rates. As at 31 December 2011, the Group converted borrowings of US\$300,000,000 (2010: Nil) from fixed rate to floating rate through interest rate swap (Note 24).

The Group analyses its interest rate exposure taking into consideration of refinancing, and renewal of existing position. Based on the above consideration, the Group calculates the impact on profit and loss of a defined interest rate change.

The Group does not anticipate significant impact to interest-bearing assets resulted from the changes in interest rates as the interest rates of bank deposits are not expected to change significantly.

If interest rates on RMB denominated variable rate borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB39,732,000 (2010: RMB44,554,000) lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates as at 31 December 2011. If interest rates on US dollar and HK dollar denominated variable rate borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB17,403,000 (2010: RMB30,340,000) lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates as at 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

The Group has no concentrations of credit risk. The extent of the Group's credit exposure is represented by the aggregate balance of restricted cash, cash and cash equivalents, trade and other receivables and amounts due from related parties.

Cash transactions are limited to high-credit-quality institutions. The table below shows the bank deposit balances of the major counterparties as at 31 December 2011.

Counterparty	Rating (note)	As at 31 December	
		2011	2010
		RMB'000	RMB'000
Bank A	A –	1,215,683	3,300,956
Bank B	A –	1,725,648	2,319,612
Bank C	A –	2,629,354	1,511,491
Bank D	A1	1,710,039	1,439,907
Bank E	BBB +	454,043	1,074,707

Note: The source of credit rating is from Standard and Poor's or Moody's.

The Group has policies in place to ensure that sales of properties are made to buyers with an appropriate financial strength and appropriate percentage of down payment. Meanwhile, the Group has the right to cancel the sales contract in the event that the buyers default in payment, and put the underlying properties back to the market for re-sales. Therefore, the credit risk from sales of properties is limited. Other receivables mainly comprise bidding deposits for land use rights and prepaid tax with limited credit risk.

(c) Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operation needs and commitments in respect of property projects.

Cash flow forecast is performed by management of the Group. Management monitors the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecast mainly takes into consideration the Group's operational cash flows, construction of investment properties and hotel projects, committed payments for land use rights and contracted development expenditures, the Group's debt financing plans, covenant compliance and internal balance sheet ratio targets.

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2011					
Borrowings	14,983,419	8,866,958	9,260,601	9,450,275	42,561,253
Interests payments on borrowings (note)	2,963,760	1,989,287	4,064,242	1,679,554	10,696,843
Trade and other payables	17,264,639	9,655	25,558	17,555	17,317,407
Amounts due to related parties	30,831	—	—	—	30,831
Derivative financial instruments	52,115	—	—	—	52,115
	35,294,764	10,865,900	13,350,401	11,147,384	70,658,449
As at 31 December 2010					
Borrowings	9,376,655	7,883,433	6,885,169	9,926,905	34,072,162
Interests payments on borrowings (note)	1,978,049	1,323,139	2,622,855	1,864,388	7,788,431
Trade and other payables	11,502,079	2,382	4,029	4,440	11,512,930
Amounts due to related parties	30,831	—	—	—	30,831
	22,887,614	9,208,954	9,512,053	11,795,733	53,404,354

Note: The interest on borrowings is calculated based on borrowings outstanding as at 31 December 2011 and 2010 without taking into account of future issues. Floating-rate interest is estimated using the applicable interest rate as at 31 December 2011 and 2010 respectively.

As at 31 December 2011, the Company's current liabilities exceed current assets by approximately RMB1,681,634,000 since the Company borrowed more bank loans during the year to finance its property development subsidiaries in the mainland China, while subsidiaries did not declare adequate dividends to the Company. The Company has prepared cash flow projections for the twelve months subsequent to 31 December 2011 and has assessed the compliance of loan covenants. The directors of the Company, having taken into consideration of the expected dividends declaration from domestic subsidiaries, operation cash flows and available financial resources of the Group, are confident that the Company has adequate resources to continue in operations, to repay its liabilities when they fall due. The Company therefore continues to adopt the going concern basis in preparing its financial statements. Further information of the Company's borrowings is given in Note 23.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents and restricted cash for the group's borrowings. Total equity is owner's equity, as shown in the consolidated balance sheet.

The gearing ratios at 31 December 2011 and 2010 were as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Total borrowings	42,561,253	34,072,162
Less: Cash and cash equivalents	(12,312,740)	(12,139,549)
Restricted cash for the Group's borrowings (Note 20)	(1,316,136)	(1,348,600)
Net debt	28,932,377	20,584,013
Total equity	35,018,077	29,953,984
Net gearing ratio	82.6%	68.7%

The increase in gearing ratio was mainly due to substantial increase in borrowings such as the issue of the senior notes and draw-down of other borrowings during year 2011 to support various property development projects, partially offset by the increase in cash and cash equivalents.

(e) Fair value estimation

The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value estimation (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2011 and 2010:

As at 31 December 2011	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– equity securities	267,362	–	–	267,362
Liabilities				
Derivative financial instruments	–	–	52,115	52,115

As at 31 December 2010	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– equity securities	347,823	–	–	347,823

Available-for-sale financial assets included in Level 1 is the equity securities traded in Shanghai Stock Exchange, the fair value of which is based on quoted market prices at the balance sheet date.

Derivative financial instruments included in Level 3 are two interest rate swap contracts entered into with a commercial bank, the fair value of which is determined using valuation models for which not all inputs are market observable prices or rates.

(f) Financial instruments by category

Group

Financial assets	As at 31 December	
	2011 RMB'000	2010 RMB'000
Loans and receivables		
– Trade and other receivables	2,291,441	2,509,596
– Amounts due from related companies	1,451,591	1,526,306
– Restricted cash	1,681,222	1,589,081
– Cash and cash equivalents	12,312,740	12,319,549
Available-for-sale financial assets	267,362	347,823
Total	18,004,356	18,292,355

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Financial instruments by category (continued)

Group (continued)

Financial liabilities	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Liabilities at fair value through profit and loss:		
– Derivative financial instruments	52,115	—
Other financial liabilities at amortised cost:		
– Borrowings	42,561,253	34,072,162
– Trade and other payables (excluding other taxes payable)	16,765,462	11,004,290
– Amounts due to related companies	30,831	30,831
Total	59,409,661	45,107,283

Company

Financial assets	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Loans and receivables		
– Trade and other receivables	3,248	1,831
– Dividend receivable from related companies	1,246,430	—
– Cash and cash equivalents	96,470	1,465,399
Total	1,346,148	1,467,230

Financial liabilities	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Liabilities at fair value through profit and loss:		
– Derivative financial instruments	52,115	—
Other financial liabilities at amortised cost:		
– Borrowings	11,213,319	10,076,252
– Trade and other payables	223,100	160,823
– Amounts due to subsidiaries	191,493	79,502
Total	11,680,027	10,316,577

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes and deferred taxation

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Land appreciation tax

The Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies among different tax jurisdictions in various cities of the PRC, and the Group has not finalised its land appreciation tax calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related tax. The Group recognised the land appreciation tax based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the current income tax and deferred income tax provisions in the periods in which such tax is finalised with local tax authorities.

(c) Impairment of goodwill

The Group tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on the higher of the fair value (less cost to sell) and value in use calculation of the underlying assets, mainly properties. For a listed cash-generating unit, the fair value less cost to sell is determined by the quoted price in an active market. The fair value of the properties, when applicable, is determined by independent valuers. These valuations and calculations require the use of estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (continued)

(d) Estimated fair value of investment properties

The best evidence of fair value is current prices in an active market for the properties with similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

- (i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The Group assesses the fair value of its investment properties based on valuations determined by independent professional qualified valuers.

(e) Provision for properties under development and completed properties held for sale

The Group assesses the carrying amounts of properties under development and completed properties held for sale according to their net realisable value based on the realisability of these properties, taking into account costs to completion based on past experience and net sales value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgement and estimates.

(f) Fair value of derivatives financial instruments

The Group's derivative financial instruments are interest rate swap contracts entered into with commercial bank, the fair value of which is determined using valuation models for which not all inputs are market observable prices or rates.

(g) Estimated impairment of trade receivable

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows to determine impairment loss. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective increase rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 Critical judgements in applying the Group's accounting policy

(a) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement.

Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

(b) Impairment of available-for-sale equity investments

The Group follows the guidance of HKAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in fair value below cost were considered significant or prolonged, the Group would suffer an additional net loss of RMB182,391,000 in its 2011 financial statements, being the transfer of the accumulated fair value adjustments recognised in equity on the impaired available-for-sale financial assets to the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION

The CODM has been identified as the management committee. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports.

As majority of the Group's consolidated revenue and results are attributable to the market in the PRC and most of the Group's consolidated assets are located in the PRC, therefore no geographical information is presented.

The CODM assesses the performance of the operating segments based on a measure of revenue and operating profit. The information provided to the CODM is measured in a manner consistent with that in the financial statements.

(a) Revenue

Turnover of the Group consists of the following revenue recognised during the year:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Sales of properties	24,589,476	20,450,110
Hotel operation income	892,012	974,150
Rental income from investment properties	440,559	324,106
Others	109,379	41,067
	26,031,426	21,789,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information

Year ended 31 December 2011

	Property development and investment				Total RMB'000
	Shanghai Shimao Co., Ltd. ("Shanghai Shimao")*		Hotel operation	Unallocated**	
	RMB'000	RMB'000	RMB'000	RMB'000	
Revenue					
– Sales of properties	5,256,149	19,333,327	–	–	24,589,476
– Hotel operation income	8,245	–	883,767	–	892,012
– Rental income from investment properties	241,309	199,250	–	–	440,559
– Others	59,236	50,143	–	–	109,379
Total revenue	5,564,939	19,582,720	883,767	–	26,031,426
Operating profit	3,898,316	6,586,574	150,544	374,615	11,010,049
Finance costs – net	(101,530)	(167,823)	(7,925)	(103,068)	(380,346)
Share of results of					
– Associated companies	–	97,653	–	–	97,653
– Jointly controlled entities	–	24,213	–	–	24,213
Profit before income tax	3,796,786	6,540,617	142,619	271,547	10,751,569
Income tax expense					(4,302,640)
Profit for the year					6,448,929
Other segment items are as follows:					
Capital and property development expenditure	8,035,281	25,072,887	2,048,243	1,222	35,157,633
Fair value gains on investment properties	1,927,013	600,000	–	–	2,527,013
Fair value losses on derivative financial instruments	–	–	–	52,115	52,115
Write-off of intangible assets	–	16,435	–	–	16,435
Depreciation	18,850	27,232	230,192	21,740	298,014
Amortisation of land use rights	3,919	–	36,139	–	40,058
Provision for impairment losses on completed properties held for sale	–	15,398	–	–	15,398
Provision for impairment of receivables	6,066	–	–	–	6,066

* The Group owns an effective equity interest of 64.2% in Shanghai Shimao since 31 May 2009

** Unallocated mainly represent corporate level activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

The segment assets and liabilities at 31 December 2011 are as follows:

	Property development and investment			Total RMB'000
	Shanghai Shimao RMB'000	Others RMB'000	Hotel operation RMB'000	
Associated companies	—	1,308,281	—	1,308,281
Jointly controlled entities	—	4,307,877	—	4,307,877
Intangible assets	1,709,730	423,369	130,928	2,264,027
Other segment assets	32,951,193	64,423,050	9,761,011	107,135,254
Total segment assets	34,660,923	70,462,577	9,891,939	115,015,439
Deferred income tax assets				1,313,909
Available-for-sale financial assets				267,362
Other assets				645,831
Total assets				117,242,541
Borrowings	11,148,353	17,716,205	212,000	29,076,558
Other segment liabilities	7,835,562	22,523,401	5,851,662	36,210,625
Total segment liabilities	18,983,915	40,239,606	6,063,662	65,287,183
Corporate borrowings				13,484,695
Deferred income tax liabilities				3,172,815
Derivative financial instruments				52,115
Other liabilities				227,656
Total liabilities				82,224,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

Year ended 31 December 2010

	Property development and investment				Total RMB'000
	Shanghai		Hotel operation RMB'000	Unallocated RMB'000	
	Shimao RMB'000	Others RMB'000			
Revenue					
– Sales of properties	4,333,045	16,117,065	—	—	20,450,110
– Hotel operation income	—	—	974,150	—	974,150
– Rental income from investment properties	175,827	148,279	—	—	324,106
– Others	28,772	12,295	—	—	41,067
Total revenue	4,537,644	16,277,639	974,150	—	21,789,433
Operating profit	4,023,822	4,847,859	145,858	272,420	9,289,959
Finance costs – net	(161,409)	(274,533)	(84,298)	(151,313)	(671,553)
Share of results of					
– Associated companies	(60)	(48,050)	—	—	(48,110)
– Jointly controlled entities	—	14	—	—	14
Profit before income tax	3,862,353	4,525,290	61,560	121,107	8,570,310
Income tax expense					(3,079,368)
Profit for the year					5,490,942
Other segment items are as follows:					
Capital and property development expenditure	10,286,124	15,897,379	531,406	15,557	26,730,466
Fair value gains on investment properties	2,139,562	200,000	—	—	2,339,562
Write-off of intangible assets	—	67,799	—	—	67,799
Depreciation	7,469	26,111	239,063	—	272,643
Amortisation of land use rights	6,313	—	25,734	—	32,047
Provision for/(write back of) impairment losses on completed properties held for sale	846	(153,326)	—	—	(152,480)
Provision for impairment of receivables	—	5,898	—	—	5,898

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

The segment assets and liabilities at 31 December 2010 are as follows:

	Property development and investment		Hotel operation RMB'000	Total RMB'000
	Shanghai Shimao RMB'000	Others RMB'000		
Associated companies	2,438	410,004	—	412,442
Jointly controlled entities	—	3,908,554	—	3,908,554
Intangible assets	1,709,730	439,804	130,928	2,280,462
Other segment assets	30,104,525	47,893,854	7,679,969	85,678,348
Total segment assets	31,816,693	52,652,216	7,810,897	92,279,806
Deferred income tax assets				1,193,780
Available-for-sale financial assets				347,823
Other assets				1,847,906
Total assets				95,669,315
Borrowings	7,031,529	13,228,857	1,480,000	21,740,386
Other segment liabilities	3,357,260	21,171,184	4,583,693	29,112,137
Total segment liabilities	10,388,789	34,400,041	6,063,693	50,852,523
Corporate borrowings				12,331,776
Deferred income tax liabilities				2,370,209
Other liabilities				160,823
Total liabilities				65,715,331

Total segment assets consist primarily of property and equipment, investment properties, land use rights, other non-current assets, properties under development, completed properties held for sale, receivables, prepayments and cash balances. They also include goodwill recognised arising from acquisition of subsidiaries relating to respective segments. They exclude corporate assets, deferred income tax assets and available-for-sale financial assets.

Total segment liabilities comprise operating liabilities. They exclude corporate liabilities, derivative financial instrument, corporate borrowings and deferred income tax liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 PROPERTY AND EQUIPMENT – GROUP

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Jet plane and motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2011	2,069,136	4,488,086	114,488	446,901	404,873	7,523,484
Additions	1,870,311	29,815	103,396	25,914	19,665	2,049,101
Amortisation of land use rights	31,977	—	—	—	—	31,977
Disposals	—	(3,804)	(9,353)	(13,320)	(12,746)	(39,223)
Transfer upon completion	(906,741)	880,978	25,763	—	—	—
At 31 December 2011	3,064,683	5,395,075	234,294	459,495	411,792	9,565,339
Accumulated depreciation						
At 1 January 2011	—	835,250	47,208	39,692	47,706	969,856
Charge for the year	—	230,192	26,398	30,415	11,009	298,014
Disposals	—	(1,342)	(7,226)	(9,653)	(10,099)	(28,320)
At 31 December 2011	—	1,064,100	66,380	60,454	48,616	1,239,550
Net book value						
At 31 December 2011	3,064,683	4,330,975	167,914	399,041	363,176	8,325,789

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 PROPERTY AND EQUIPMENT – GROUP (CONTINUED)

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Jet plane and motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2010	1,519,336	4,170,756	59,783	352,574	501,786	6,604,235
Acquisition of subsidiaries	—	—	753	2,935	—	3,688
Additions	879,071	56,146	56,391	96,505	64,782	1,152,895
Amortisation of land use rights	17,128	—	—	—	—	17,128
Disposals	—	(80)	(2,439)	(5,113)	—	(7,632)
Transfer to cost of sales	—	—	—	—	(161,695)	(161,695)
Transfer to properties under development	(85,135)	—	—	—	—	(85,135)
Transfer upon completion	(261,264)	261,264	—	—	—	—
At 31 December 2010	2,069,136	4,488,086	114,488	446,901	404,873	7,523,484
Accumulated depreciation						
At 1 January 2010	—	617,948	29,699	18,489	46,497	712,633
Acquisition of subsidiaries	—	—	67	83	—	150
Charge for the year	—	217,364	19,306	24,338	11,635	272,643
Disposals	—	(62)	(1,864)	(3,218)	—	(5,144)
Transfer to cost of sales	—	—	—	—	(10,426)	(10,426)
At 31 December 2010	—	835,250	47,208	39,692	47,706	969,856
Net book value						
At 31 December 2010	2,069,136	3,652,836	67,280	407,209	357,167	6,553,628

Depreciation charge of RMB298,014,000 for the year ended 31 December 2011 (2010: RMB272,643,000) has been recorded in cost of sales and administrative expenses in the consolidated income statement (Note 29).

As at 31 December 2011, assets under construction and buildings of the Group with a total carrying amount of RMB6,955,413,000 (2010: RMB5,354,156,000) were pledged as collateral for certain bank borrowings of the Group (Note 23).

As at 31 December 2011, interest capitalised in assets under construction amounted to RMB169,950,000 (2010: RMB36,898,000).

The capitalisation rate of borrowings was 7.89% for the year ended 31 December 2011 (2010: 5.52%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 INVESTMENT PROPERTIES – GROUP

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Opening balance	11,854,995	6,372,600
Additions		
– Transfer from properties under development	3,477,519	3,139,870
– Other additions	2,707,452	2,963
Fair value gains	2,527,013	2,339,562
Ending balance	20,566,979	11,854,995

(a) Amounts recognised in profit and loss for investment properties

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Rental income	440,559	324,106
Direct operating expenses from properties that generated rental income	31,789	10,339
Direct operating expenses from properties that did not generate rental income	4,914	1,598

(b) Valuation basis

The fair values of the Group's investment properties were assessed as at 31 December 2011 by Vigers Appraisal & Consulting Limited ("Vigers") and Shanghai Zhonghua Assets Appraisal Co., Ltd. ("Shanghai Zhonghua"), two independent professional qualified valuers. Valuations were performed using either: (i) income capitalisation approach based on existing and current market rents for similar properties, using capitalisation rates that reflect current market assessments of the uncertainty in the market; or (ii) direct comparison approach assuming sales of these properties in its existing state by making reference to comparable sales transactions as available in the relevant market. Shanghai Zhonghua assessed the fair values of investment properties held by Shanghai Shimao, a subsidiary of the Group listed in Shanghai Stock Exchange. The management has evaluated the standards and assumptions used, as well as the results valued by Shanghai Zhonghua, and concluded the valuations are acceptable for preparation of these consolidation financial statements.

(c) Pledge

As at 31 December 2011, the Group's investment properties were held in the PRC on leases of between 10 to 50 years. Investment properties with a carrying amount of RMB14,423,730,000 (2010: RMB11,392,995,000) were pledged as collateral for the Group's borrowings (Note 23).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 INVESTMENT PROPERTIES – GROUP (CONTINUED)

(d) Leasing arrangements

Some of the investment properties are leased to tenants under long term operating leases with rentals receivable monthly. Minimum lease rental receivable under non cancellable operating leases of investment properties not recognised in the financial statements are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Within one year	451,152	358,008
Later than one year but no later than 5 years	1,067,904	810,663
Later than 5 years	831,485	854,981
	2,350,541	2,023,652

(e) Investment properties under construction

As at 31 December 2011, RMB6,680,698,000 of the investment properties are under construction (2010: Nil).

8 LAND USE RIGHTS – GROUP

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Land use rights relating to property and equipment under non-current assets		
Opening balance	2,572,389	3,060,382
Additions	148,117	297,617
Amortisation		
– Capitalised in property and equipment (Note 6)	(31,977)	(17,128)
– Recognised as expenses (Note 29)	(40,058)	(32,047)
Transfer to properties under development	(173,403)	(731,262)
Transfer to completed properties held for sale	–	(5,173)
Ending balance	2,475,068	2,572,389
Outside Hong Kong, held on leases of:		
Over 50 years	79,098	99,078
Between 10 to 50 years	2,395,970	2,473,311
	2,475,068	2,572,389

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 LAND USE RIGHTS – GROUP (CONTINUED)

Land use rights comprise cost of acquiring rights to use certain land, which are all located in the PRC, for assets under construction, hotel buildings and self-use buildings over fixed periods.

As at 31 December 2011, land use rights of RMB1,892,220,000 (2010: RMB2,132,254,000) were pledged as collateral for the Group's bank borrowings (Note 23).

9 INTANGIBLE ASSETS – GROUP

Intangible assets comprise goodwill arising from acquisitions:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Opening balance	2,280,462	2,348,261
Write-off of goodwill recognised as expenses (Note 29)	(16,435)	(67,799)
Ending balance	2,264,027	2,280,462

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. A segment level summary of the goodwill is presented below:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Property development and investment – Shanghai Shimao	1,709,730	1,709,730
Property development and investment – Others	423,369	439,804
Hotel operation	130,928	130,928
	2,264,027	2,280,462

The recoverable amounts of CGUs are determined based on their fair values (less cost to sell). The fair value of CGU – Property development and investment – Shanghai Shimao is determined according to the quoted price of Shanghai Shimao's equity shares in the PRC share capital market. The fair values of other CGUs are determined according to the value of the underlying properties and decrease along with the sales of underlying properties, and the attributable goodwill is impaired accordingly.

The goodwill impairment was included in other operating expenses in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 INVESTMENTS IN AND BALANCES WITH SUBSIDIARIES – COMPANY

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Investments in subsidiaries		
– Unlisted shares, at cost	301,186	334,773
– Amounts due from subsidiaries (note)	20,915,334	21,294,742
	21,216,520	21,629,515
Dividend receivable from subsidiaries	1,246,430	—
Amounts due to subsidiaries (note)	191,493	79,502

Note: The amounts due from/to subsidiaries are interest-free, unsecured and have no specific repayment terms. The Company's intention is that the amounts due from subsidiaries will only be recalled when the subsidiaries have surplus cash.

Details of the principal subsidiaries of the Group as at 31 December 2011 are set out in Note 36.

11 ASSOCIATED COMPANIES – GROUP

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Share of net assets:		
Opening balance	412,442	4,899
Capital injection	803,025	455,653
Share of results	97,653	(48,110)
Transfer to a subsidiary	(4,839)	—
Ending balance	1,308,281	412,442

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 ASSOCIATED COMPANIES – GROUP (CONTINUED)

The Group's share of the results of its associated companies, all of which are unlisted, and its aggregated assets and liabilities at year end, are as follows:

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group (%)
2011						
Guangzhou Li He Property Development Co., Ltd ("Guangzhou Li He")	PRC	4,632,830	(4,428,068)	1,289,614	120,938	20%
Eagle Rights Limited ("Eagle Rights")	British Virgin Islands	128,946	(8,334)	—	(10)	33.33%
Straits Construction Investment (Holdings) Limited	British Virgin Islands	1,833,546	(850,639)	—	(23,275)	49%
		6,595,322	(5,287,041)	1,289,614	97,653	
2010						
Wuxi Shimao New Development Property Co., Ltd. (note (a))	PRC	4,824	(688)	—	677	40.05%
Guangzhou Li He	PRC	5,381,145	(5,297,320)	—	(48,050)	20%
Straits Construction Investment (Holdings) Limited	British Virgin Islands	324,497	(16)	—	(737)	49%
		5,710,466	(5,298,024)	—	(48,110)	

Notes:

- (a) In January 2011, the Group increased its capital contribution in Wuxi Shimao New Development Property Co., Ltd. unilaterally, hence, the Group's equity interest in this entity increased from 40.05% to 95% accordingly.

Details of the principal associated companies of the Group as at 31 December 2011 are set out in Note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 JOINTLY CONTROLLED ENTITIES – GROUP

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Share of net assets:		
Opening balance	1,176,405	11,088
Capital injection	—	1,169,325
Transfer from a subsidiary (note (35(a)(ii)))	322,213	—
Transfer to a subsidiary	—	(4,022)
Share of result	24,213	14
Ending balance	1,522,831	1,176,405
Advances to jointly controlled entities (note (a))	2,785,046	2,732,149
	4,307,877	3,908,554

- (a) As at 31 December 2011, the Group made advances to several jointly controlled entities to finance their acquisition of land use rights. These advances are interest free, unsecured and have no fixed repayment terms. The Group's intention is that the advances will only be recalled when the jointly controlled entities have surplus cash.

Advances to jointly controlled entities	As at 31 December	
	2011 RMB'000	2010 RMB'000
Fast Right Investments Limited ("Fast Right")	1,603,914	1,676,650
Kingtron Enterprises Limited ("Kingtron")	780,313	796,724
Huizhou Fumao Property Development Co., Ltd. ("Huizhou Fumao")	315,500	200,000
Tianjin Jinnan New City Property Development Co., Ltd. ("Tianjin Jinnan")	85,319	58,775
	2,785,046	2,732,149

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 JOINTLY CONTROLLED ENTITIES – GROUP (CONTINUED)

The Group's share of the results of its jointly controlled entities, all of which are unlisted, and their aggregated assets and liabilities at year end, are as follows:

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group (%)
2011						
Tianjin Hean Investment Co., Ltd. ("Tianjin He An")	PRC	902,538	(900,005)	—	23	25%
Tianjin Jinnan	PRC	2,113,821	(1,233,864)	—	(9,724)	25%
Huizhou Fumao	PRC	615,654	(376,975)	—	(11,321)	50%
Qingdao Shimao New City Property Development Co., Ltd. ("Qingdao New City")	PRC	1,359,636	(1,033,765)	—	—	50%
Fast Right *	Hong Kong	1,220,209	(1,195,465)	—	15,418	50%
Kingtron *	Hong Kong	547,027	(495,980)	—	29,817	50%
		6,758,885	(5,236,054)	—	24,213	

* Fast Right and Kingtron hold 100% equity interest in two PRC property development entities, i.e. Hangzhou Shimao Shiyong Property Development Co., Ltd. and Haishu Property Development (Hangzhou) Co., Ltd. respectively.

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group (%)
2010						
Tianjin He An	PRC	902,510	(900,000)	—	10	25%
Tianjin Jinnan	PRC	1,874,191	(984,509)	—	(27,144)	25%
Huizhou Fumao	PRC	450,003	(200,003)	—	—	50%
Fast Right	Hong Kong	847,980	(838,654)	—	6,500	50%
Kingtron	Hong Kong	424,474	(399,587)	—	20,648	50%
		4,499,158	(3,322,753)	—	14	

Details of the principal jointly controlled entities of the Group as at 31 December 2011 are set out in Note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Opening balance	347,823	692,399
Fair value losses recognised in other comprehensive income	(80,461)	(344,576)
Ending balance	267,362	347,823

Available-for-sale financial assets represented investment in listed equity securities in the PRC which were stated at market value based on the quoted price.

As at 31 December 2011, available-for-sale financial assets with a carrying amount of RMB207,480,000 (2010: RMB269,920,000) were pledged as collateral for the Group's borrowings (Note 23).

14 OTHER NON-CURRENT ASSETS – GROUP

As at 31 December 2011, the Group has made prepayments of RMB2,875,665,000 (2010: RMB11,255,096,000) for certain land use rights for the purpose to develop hotel buildings, self-used buildings and investment properties, the ownership certificates of which have not been obtained.

As at 31 December 2011, the Group made prepayments of RMB330,000,000 for acquisition of additional interests in a subsidiary (2010: Nil).

As at 31 December 2010, RMB495,035,000 have been advanced to certain local government authorities for land resettlement and site formation.

15 PROPERTIES UNDER DEVELOPMENT – GROUP

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Properties under development comprise:		
Land use rights	20,424,315	19,466,113
Construction costs and capitalised expenditures	14,702,487	8,726,084
Interests capitalised	2,197,283	821,686
	37,324,085	29,013,883

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 PROPERTIES UNDER DEVELOPMENT – GROUP (CONTINUED)

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Land use rights		
Outside Hong Kong, held on leases of:		
Over 50 years	14,772,368	12,740,173
Between 10 to 50 years	5,651,947	6,725,940
	20,424,315	19,466,113

The properties under development are all located in the PRC. The relevant land use rights are on leases of 40 to 70 years.

As at 31 December 2011, properties under development of approximately RMB17,502,613,000 (2010: RMB12,596,883,000) were pledged as collateral for the Group's bank borrowings (Note 23).

The capitalisation rate of borrowings was 7.89% for the year ended 31 December 2011 (2010: 6.16%).

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Properties under development:		
Expected to be completed and available for sale after more than 12 months	18,233,372	17,002,416
Expected to be completed and available for sale within 12 months	19,090,713	12,011,467
	37,324,085	29,013,883

16 COMPLETED PROPERTIES HELD FOR SALE – GROUP

All completed properties held for sale are located in the PRC. Included in completed properties held for sale, there are land use rights as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Outside Hong Kong, held on leases of:		
Over 50 years	1,125,561	508,815
Between 10 to 50 years	247,374	365,380
	1,372,935	874,195

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 COMPLETED PROPERTIES HELD FOR SALE – GROUP (CONTINUED)

As at 31 December 2011, completed properties held for sale of RMB1,049,536,000 (2010: RMB681,061,000) were pledged as collateral for the Group's bank borrowings (Note 23).

For the year ended 31 December 2011, the Group recognised impairment losses of RMB15,398,000 (2010: net write back of impairment losses of RMB152,480,000) on completed properties held for sale.

17 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS – GROUP

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Bidding deposits for land use rights (note (a))	1,177,617	1,450,656
Trade receivables (note (b))	1,549,466	2,022,178
Prepaid business tax on pre-sale proceeds	676,215	606,901
Prepayments for construction costs	326,812	557,119
Other receivables	741,975	487,418
	4,472,085	5,124,272

(a) Bidding deposits for land use rights mainly represented deposits of the Group placed with various municipal governments for the participation in miscellaneous land auctions. These deposits will be deducted against the total land costs to be paid if the Group wins the bid at the auction. If the Group's bid did not win, the amount will be fully refunded.

(b) Trade receivables are mainly arisen from sales of properties. Consideration in respect of properties sold is paid in accordance with the terms of the related sales and purchase agreements. The ageing analysis of trade receivables at respective balance sheet dates is as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Within 90 days	1,220,336	1,710,853
Over 90 days and within 365 days	289,375	297,947
Over 365 days	39,755	13,378
	1,549,466	2,022,178

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS – GROUP (CONTINUED)

As at 31 December 2011, receivables arising from sales of properties was approximately RMB1,422,348,000 (2010: RMB1,928,480,000).

Trade receivables are analysed as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Fully performing under credit terms	872,166	1,471,488
Past due but not impaired	677,300	550,690
	1,549,466	2,022,178

As the Group normally holds collateral of the properties before collection of the outstanding balances and passing the titles to the purchasers, the Directors consider that the past due trade receivables would be recovered and no provision was made against past due receivables as at 31 December 2011 (2010: Nil).

As at 31 December 2011, provision for impairment of other receivables was approximately RMB22,173,000 (2010: RMB16,107,000).

As at 31 December 2011, the fair value of trade receivables and other receivables of the Group approximate their carrying amounts.

As at 31 December 2011 and 2010, trade and other receivables of the Group were mainly denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 PREPAYMENT FOR ACQUISITION OF LAND USE RIGHTS

Prepayments for acquisition of land use rights are related to acquisition of land for the purpose to develop properties for sale, the ownership certificates of which have not been obtained as at 31 December 2011.

19 AMOUNTS DUE FROM RELATED COMPANIES – GROUP

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Companies with common directors		
Shimao International Holdings Limited ("Shimao International")	486	520
Shanghai Mason Club Co., Ltd. ("Shanghai Mason")	161	161
Jointly controlled entities		
Qingdao New City (note)	284,261	—
Tianjin Jinnan	2,432	—
Associated companies		
Beijing Jia Lin Fu Cheng Consultant Co., Ltd	—	1,000
Straits Construction Investment (Holdings) Limited	22,939	—
Guangzhou Li He (note)	1,141,312	1,524,625
	1,451,591	1,526,306

The balances due from related companies are unsecured, interest-free and have no fixed repayment terms.

The carrying amounts of amounts due from related companies approximate their fair values.

Note: The Group made advances to Guangzhou Li He and Qingdao New City to finance their acquisition of land use rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Group		
Bank balances and cash		
– denominated in RMB	13,670,876	11,872,942
– denominated in US dollar	305,164	1,745,989
– denominated in HK dollar	17,922	109,699
Less: Restricted cash	(1,681,222)	(1,589,081)
	12,312,740	12,139,549

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Company		
Bank balances and cash – unrestricted		
– denominated in US dollar	88,167	1,439,106
– denominated in HK dollar	8,298	26,293
– denominated in EUR dollar	5	—
	96,470	1,465,399

As at 31 December 2011, the Group's cash of approximately RMB365,086,000 (2010: RMB240,481,000) was restricted and deposited in certain banks as guarantee deposits for the benefit of mortgage loan facilities granted by the banks to the purchasers of the Group's properties. The Group's cash of approximately RMB1,316,136,000 (2010: RMB1,348,600,000) was pledged as collateral for the Group's borrowings (Note 23).

The conversion of RMB denominated balances into foreign currencies and the remittance of the foreign currencies out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

The effective interest rate on bank deposits as at 31 December 2011 was 0.5% (2010: 0.4%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 SHARE CAPITAL – GROUP AND COMPANY

(a) Details of share capital of the Company are as follows:

	Note	Par value HK\$	Number of shares '000	Nominal value of ordinary shares Equivalent to RMB'000	
Authorised:					
At 31 December 2011 and 2010		0.1	5,000,000	500,000	
Issued and fully paid:					
At 1 January 2010			3,542,287	354,229	361,938
Employee share option scheme					
– Shares issued	(b)		5,126	513	446
At 31 December 2010			3,547,413	354,742	362,384
Employee share option scheme					
– Shares issued	(b)		2,593	259	216
Repurchases and cancellation of shares	(d)		(84,055)	(8,406)	(6,863)
At 31 December 2011			3,465,951	346,595	355,737

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 SHARE CAPITAL – GROUP AND COMPANY (CONTINUED)

(b) Pre-IPO Share Option Scheme

Pursuant to the shareholders' resolution passed on 9 June 2006 for approval of the Pre-IPO Share Option Scheme, options for a total of 63,920,000 ordinary shares of the Company have been conditionally granted to directors and selected employees. The exercise price of HK\$5.625 per share under the Pre-IPO Share Option Scheme is determined at a 10% discount to the global offering price, which was HK\$6.25 per share, excluding brokerage, Securities and Futures Commission transaction levy and the Stock Exchange trading fee. Each option has 6-year exercise period from the date of grant, with 30% vested on 31 March 2007, another 30% vested on 31 March 2008 and the remaining 40% vested on 31 March 2009. Options are conditional on the employee completing the services up to the respective vesting dates and evaluation of performance as specified in the scheme, and become exercisable immediately after each vesting date. The Group has no legal or constructive obligation to repurchase or settle the options in cash. These options will expire on 8 June 2012.

Movements in the number of share options outstanding are as follows:

	Year ended 31 December	
	2011 '000	2010 '000
Balance at beginning of the year	10,617	15,743
Exercised	(2,593)	(5,126)
Balance at end of the year	8,024	10,617

All the 8,024,000 outstanding options (2010: 10,617,000 options) were vested and exercisable. During the year ended 31 December 2011, 2,593,200 options (2010: 5,125,200 options) have been exercised at exercise price of HK\$5.625 per share, totaling HK\$14,586,750 (equivalent to RMB12,212,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 SHARE CAPITAL – GROUP AND COMPANY (CONTINUED)

(c) Share Option Scheme

Pursuant to the shareholders' resolution passed on 9 June 2006, another share option scheme ("Share Option Scheme") was approved. Pursuant to the terms of the Share Option Scheme, the Company may grant options at its discretion, to any eligible person (including directors, employees, officers of any member of the Group, advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture partners and service providers of any members of the Group). The total number of shares which may be issued upon exercise of all options (the "Share Option") granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company must not exceed 30% of the Company's shares in issue from time to time.

No options may be granted under the Share Option Scheme after 10 years since the adoption. The vesting periods, exercise periods and vesting conditions may be specified by the Company at the time of the grant, and the options expire no later than 10 years from the relevant date of grant. The exercise price of the option under the Share Option Scheme shall be no less than the higher of (i) the closing price of the Company's shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five Stock Exchange business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.

Pursuant to the board resolution, options for a total of 15,350,000 ordinary shares of the Company under this scheme have been granted to independent non-executive directors, an executive director and selected employees on 4 February 2008, with exercise price of HK\$16.24 per share. As at 31 December 2008, all 15,350,000 options were forfeited or cancelled.

Since 15,350,000 options were forfeited or cancelled in year 2008, no options have been granted under Share Option Scheme up to 31 December 2011.

(d) Repurchases and cancellation of shares

During the year ended 31 December 2011, the Company purchased back its own shares of 84,055,000 in aggregate, from the Stock Exchange at a total price of HK\$514,343,000 (equivalent to RMB421,581,000). The purchased back shares were cancelled and accordingly the issued share capital of the Company was reduced by nominal value of these shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 RESERVES – GROUP AND COMPANY

	Merger reserve RMB'000 (note (a))	Share premium RMB'000 (note (b))	Share-based compensation reserve RMB'000 (note (c))	Statutory reserve fund RMB'000 (note (d))	Capital redemption reserve RMB'000	Available-for- sale financial assets RMB'000	Retained earnings RMB'000	Total RMB'000
Group								
Balance at 1 January 2010	(185,787)	12,014,185	105,117	207,541	4,949	87,589	10,752,342	22,985,936
Profit for the year	—	—	—	—	—	—	4,671,536	4,671,536
Other comprehensive loss for the year, net of tax	—	—	—	—	—	(165,965)	—	(165,965)
Employee share option scheme – proceeds from shares issued	—	24,645	—	—	—	—	—	24,645
Profit appropriations	—	—	—	99,727	—	—	(99,727)	—
2009 final dividend	—	—	—	—	—	—	(714,565)	(714,565)
2010 interim dividend	—	—	—	—	—	—	(465,137)	(465,137)
Balance at 31 December 2010	(185,787)	12,038,830	105,117	307,268	4,949	(78,376)	14,144,449	26,336,450
Profit for the year	—	—	—	—	—	—	5,722,775	5,722,775
Other comprehensive loss for the year, net of tax	—	—	—	—	—	(38,754)	—	(38,754)
Employee share option scheme – proceeds from shares issued	—	11,996	—	—	—	—	—	11,996
Repurchases and cancellation of shares	—	(414,718)	—	—	—	—	—	(414,718)
Profit appropriations	—	—	—	323,604	—	—	(323,604)	—
2010 final dividend	—	(742,033)	—	—	—	—	—	(742,033)
2011 interim dividend	—	(639,773)	—	—	—	—	—	(639,773)
Balance at 31 December 2011	(185,787)	10,254,302	105,117	630,872	4,949	(117,130)	19,543,620	30,235,943
Representing:								
Proposed final dividend		505,772						505,772
Others		9,748,530						29,730,171
		10,254,302						30,235,943

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 RESERVES – GROUP AND COMPANY (CONTINUED)

	Share premium RMB'000 (note (b))	Share-based compensation reserve RMB'000 (note (c))	Capital redemption reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
Company					
Balance at 1 January 2010	12,014,185	105,117	4,949	(214,854)	11,909,397
Profit for the year	—	—	—	1,663,444	1,663,444
Employee share option scheme					
– proceeds from shares issued	24,645	—	—	—	24,645
2009 final dividend	—	—	—	(714,565)	(714,565)
2010 interim dividend	—	—	—	(465,137)	(465,137)
Balance at 31 December 2010	12,038,830	105,117	4,949	268,888	12,417,784
Loss for the year	—	—	—	(106,352)	(106,352)
Employee share option scheme					
– proceeds from shares issued	11,996	—	—	—	11,996
Repurchases and cancellation of shares	(414,718)	—	—	—	(414,718)
2010 final dividend	(742,033)	—	—	—	(742,033)
2011 interim dividend	(639,773)	—	—	—	(639,773)
Balance at 31 December 2011	10,254,302	105,117	4,949	162,536	10,526,904
Representing:					
Proposed final dividend	505,772				505,772
Others	9,748,530				10,021,132
	10,254,302				10,526,904

Notes:

- Merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiary purchased pursuant to the reorganisation and the nominal value of the shares of the Company issued in exchange effected prior to the listing of the Company's shares on the Stock Exchange in 2006.
- Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company.
- Share-based compensation reserve represents value of employee services in respect of share options granted under the share option schemes (Note 21).
- According to the Articles of Association of the respective subsidiaries established in the PRC, which are foreign investment enterprises, the subsidiaries shall set aside certain percentage of their net income after offsetting accumulated losses from prior years as reported in their statutory accounts for the reserve fund, enterprise expansion fund and staff bonus and welfare fund. The reserve fund and enterprise expansion fund form part of the shareholders' funds. The staff bonus and welfare fund are accounted for as liabilities. Certain subsidiaries have made appropriation to such funds during the year.
- The distributable reserve of the Company as at 31 December 2011 amounted to RMB10,526,904,000 (2010: RMB12,417,784,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 BORROWINGS – GROUP AND COMPANY

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Group		
Borrowings included in non-current liabilities		
Long-term bank borrowings		
– secured by assets (note (i))	18,161,449	16,322,683
– secured by shares of subsidiary guarantors (note (iv))	2,575,912	2,977,629
– unsecured	750,000	1,098,000
Long-term borrowings from other financial institutions		
– secured by assets (note (i))	3,152,900	1,500,000
– secured by shares of a listed subsidiary (notes (v))	3,605,000	603,000
– unsecured	200,000	—
Senior notes – secured (note (iii))	7,380,822	7,098,623
	35,826,083	29,599,935
Less: Long-term bank borrowings due within one year	(3,965,249)	(3,325,123)
Long-term borrowings from other financial institutions due within one year	(4,283,000)	—
Senior notes due within one year	—	(1,579,305)
Amounts due within one year	(8,248,249)	(4,904,428)
	27,577,834	24,695,507
Borrowings included in current liabilities		
Short-term bank borrowings		
– secured by assets (notes (i))	4,369,627	2,773,524
– secured by shares of a listed subsidiary (note (ii))	—	300,000
– unsecured	25,000	800,000
Short-term borrowings from other financial institutions		
– secured by assets (note (i))	700,000	—
– secured by shares of a listed subsidiary (note (v))	500,543	598,703
– unsecured	1,140,000	—
Current portion of long-term borrowings	8,248,249	4,904,428
	14,983,419	9,376,655

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Company		
Borrowings included in non-current liabilities		
Senior notes – secured (note (iii))	7,380,822	7,098,623
Long-term bank borrowings		
– secured by shares of subsidiary guarantors (note (iv))	2,575,912	2,977,629
	9,956,734	10,076,252
Less: Senior notes due within one year	—	(1,579,305)
Long-term bank borrowings due within one year		
– secured by shares of subsidiary guarantors (note (iv))	(1,304,489)	(297,763)
Amounts due within one year	(1,304,489)	(1,877,068)
	8,652,245	8,199,184
Borrowings included in current liabilities		
Short term bank borrowings – secured	1,256,585	—
Current portion of long-term borrowing	1,304,489	1,877,068
	2,561,074	1,877,068

Notes:

- (i) As at 31 December 2011, the Group's total secured bank borrowings and borrowings from other financial institutions of RMB26,383,976,000 (2010: RMB20,596,207,000) were secured by its assets under construction and buildings (Note 6), investment properties (Note 7), land use rights (Note 8), properties under development (Note 15), completed properties held for sale (Note 16), available-for-sale financial assets (Note 13) and restricted cash (Note 20). As at 31 December 2011, secured borrowings of RMB6,450,333,000 (2010: RMB5,233,153,000) were further guaranteed by Mr. Hui Wing Mau.
- (ii) As at 31 December 2010, 30,000,000 shares of Shanghai Shimao have been pledged for a total bank borrowings of RMB300,000,000 for group companies.
- (iii) On 29 November 2006, the Company issued a total of US\$600,000,000 senior notes, including US\$250,000,000 at a floating interest rate due on 1 December 2011 and US\$350,000,000 at a fixed interest rate due on 1 December 2016. The Company may at its option to redeem the notes, in whole or in part, by certain dates based on the terms of the notes. The notes are senior obligations guaranteed by certain subsidiaries other than those established under the laws of the PRC ("Subsidiary Guarantors"), and secured by a pledge of the shares of these Subsidiary Guarantors. On 3 May 2011, the Company early redeemed senior notes of US\$250,000,000, which was originally due in December 2011.
- On 3 August 2010, the Company issued a total of US\$500,000,000 senior notes at a fixed interest rate due on 3 August 2017. In addition, on 8 March 2011, the Company issued a total of US\$350,000,000 senior notes at a fixed interest rate due on 8 March 2018. The Company may at its option to redeem the notes, in whole or in part, by certain dates based on the terms of the notes. The notes are senior obligations guaranteed by certain restricted offshore subsidiaries and secured by a pledge of the shares of these offshore restricted subsidiaries.
- (iv) On 14 May 2010, the Company entered into a multi-currency loan facility agreement with a syndicate of 14 banks. Pursuant to the agreement, the Company obtained 3-year syndicated loan facilities, including a US\$440,000,000 facility and a HK\$156,000,000 facility at a floating rate of interest, 10% out of the loan principal will mature in 2011, 45% will mature in 2012 and remaining 45% will mature in 2013. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the share of these subsidiary guarantors. All the facilities have been drawn down as of 31 December 2011.
- (v) As at 31 December 2011, 793,770,000 shares (2010: 261,720,000 shares) of Shanghai Shimao have been pledged for a total borrowings from other financial institutions of RMB4,105,543,000 (2010: RMB1,201,703,000) for group companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

Borrowings from other financial institutions are mainly in the form of trust arrangement with trust financing companies. The substance of the trust arrangement is borrowing, normally with the pledge of assets or shares of Shanghai Shimao as collateral.

The interest-bearing bank borrowings, including the term loans repayable on demand, are carried at amortised cost. RMB1,987,836,400 of the term loans due for repayment after one year which contain a repayment on demand clause were classified as current liabilities as at 31 December 2011 (2010: RMB1,958,772,000), none of these loans are expected to be settled within one year.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity whichever is the earlier date is as follows:

	6 months or less RMB'000	6-12 months RMB'000	1-5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
Borrowings included in non-current liabilities:					
At 31 December 2011	16,390,677	994,335	4,947,047	5,245,775	27,577,834
At 31 December 2010	17,210,189	1,966,000	—	5,519,318	24,695,507
Borrowings included in current liabilities:					
At 31 December 2011	9,130,520	5,852,899	—	—	14,983,419
At 31 December 2010	5,799,928	3,576,727	—	—	9,376,655
Company					
Borrowings included in non-current liabilities:					
At 31 December 2011	1,271,422	—	2,135,048	5,245,775	8,652,245
At 31 December 2010	2,679,866	—	—	5,519,318	8,199,184
Borrowings included in current liabilities:					
At 31 December 2011	1,304,489	1,256,585	—	—	2,561,074
At 31 December 2010	1,877,068	—	—	—	1,877,068

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

The maturity of the borrowings included in non-current liabilities is as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Group		
Bank borrowings:		
Between 1 and 2 years	8,866,957	7,883,433
Between 2 and 5 years	7,125,554	6,885,169
Over 5 years	4,204,500	4,407,587
Senior notes:		
Between 2 and 5 years	2,135,048	—
Over 5 years	5,245,775	5,519,318
	27,577,834	24,695,507
Company		
Bank borrowings:		
Between 1 and 2 years	1,271,422	1,339,933
Between 2 and 5 years	—	1,339,933
Senior notes:		
Between 2 and 5 years	2,135,048	—
Over 5 years	5,245,775	5,519,318
	8,652,245	8,199,184

The effective interest rates at the balance sheet date were as follows:

	As at 31 December	
	2011	2010
Group		
Bank borrowings – RMB	7.78%	6.18%
Bank borrowings – US dollar	3.59%	3.47%
Bank borrowings – HK dollar	2.73%	1.86%
Senior notes – US dollar	10.02%	8.13%
Borrowings from other financial institutions – RMB	9.46%	7.33%
Company		
Bank borrowings – US dollar	3.68%	3.47%
Bank borrowings – HK dollar	3.68%	3.47%
Senior notes – US dollar	10.02%	8.13%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

The carrying amounts and fair values of fixed rate borrowings which are included in non-current liabilities, are as follows:

	Carrying amounts RMB'000	Fair values RMB'000
Group		
At 31 December 2011	10,055,722	10,055,294
At 31 December 2010	6,122,318	5,690,895
Company		
At 31 December 2011	7,380,822	7,380,064
At 31 December 2010	5,519,318	5,118,225

The carrying amounts of other floating rates borrowings approximate their fair values.

The carrying amounts of the borrowings are denominated in the following currencies:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Group		
RMB	29,076,557	21,740,386
HK dollar	3,325,177	2,319,165
US dollar	10,159,519	10,012,611
	42,561,253	34,072,162
Company		
HK dollar	1,337,340	129,731
US dollar	9,875,979	9,946,521
	11,213,319	10,076,252

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 DERIVATIVE FINANCIAL INSTRUMENTS – GROUP AND COMPANY

Derivative financial instruments liabilities as at balance sheet date are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Interest rate swap contracts	52,115	—

On 6 January 2011, the Group entered into two interest rate swap contracts with The Hongkong and Shanghai Banking Corporation Limited (“HSBC”), with an aggregate notional amount of US\$300,000,000 (the “Swap Contracts”). The Swap Contracts took effective from 3 August 2010, and will terminate on 3 August 2017. Pursuant to the Swap Contracts, the Group receives interest at a fixed rate of 9.65%, and pays interest at floating rate with reference to the HSBC Vol-Budgeted Dynamic Term Premium Index as published on Bloomberg but subject to a ceiling of 12.1%, semi-annually on 3 February and 3 August commencing from 3 February 2011 and up to termination.

The Swap Contracts do not qualify for hedge accounting, so that they are classified as derivative financial instruments held for trading as current assets or current liabilities, and with fair value changes recognized in the consolidated income statement.

There is a day-one loss of approximately RMB125,306,000 arising from the Swap Contracts, which is deferred and amortised into the consolidated income statement using the straight-line method within the effective lives of the Swap Contracts. For the year ended 31 December 2011, the amortisation recognised in “other operating expenses” was approximately RMB23,591,000. In addition, fair value losses of RMB28,524,000 on the Swap Contracts from day-one to 31 December 2011 was also recognized in “other operating expenses”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 DEFERRED INCOME TAX – GROUP

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes relate to the same tax authority. The net deferred income tax balances after offsetting are as follows:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	895,648	822,331
– to be recovered within 12 months	418,261	371,449
	1,313,909	1,193,780
Deferred income tax liabilities		
– to be recovered after more than 12 months	2,943,190	2,316,041
– to be recovered within 12 months	229,625	54,168
	3,172,815	2,370,209
Net deferred income tax liabilities	1,858,906	1,176,429

The gross movement on the net deferred income tax account is as follows:

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Opening balance	1,176,429	1,074,867
Charged to the consolidated income statement (Note 32)	702,592	187,706
Credited to other comprehensive income	(20,115)	(86,144)
Ending balance	1,858,906	1,176,429

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 DEFERRED INCOME TAX – GROUP (CONTINUED)

Movement in deferred income tax assets and liabilities for the year ended 31 December 2011, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Provision for land appreciation tax deductible for future income tax clearance RMB'000	Unrealized profit on intra-group transaction RMB'000	Tax loss and temporary difference on recognition of expenses RMB'000	Total RMB'000
At 1 January 2010	655,393	21,905	110,338	787,636
Credited to the consolidated income statement	84,196	266,473	69,508	420,177
At 31 December 2010	739,589	288,378	179,846	1,207,813
Credited/(charged) to the consolidated income statement	115,044	(64,653)	(4,674)	45,717
At 31 December 2011	854,633	223,725	175,172	1,253,530

Deferred income tax liabilities

	Fair value gains on investment properties RMB'000	Fair value adjustments on assets and liabilities upon acquisition RMB'000	Withholding tax on the retained earnings of certain subsidiaries RMB'000	Total RMB'000
At 1 January 2010	727,350	1,106,732	28,421	1,862,503
Charged to the consolidated income statement	584,891	22,992	—	607,883
Credited to other comprehensive income	—	(86,144)	—	(86,144)
At 31 December 2010	1,312,241	1,043,580	28,421	2,384,242
Charged/(credited) to the consolidated income statement	631,753	(68,444)	185,000	748,309
Credited to other comprehensive income	—	(20,115)	—	(20,115)
At 31 December 2011	1,943,994	955,021	213,421	3,112,436

Deferred income tax arose as a result of differences in timing of recognising certain revenue, costs and expenses between the tax based financial statements and the HKFRS financial statements. These constitutes temporary differences, being the differences between the carrying amounts of the assets or liabilities in the consolidated balance sheet and their tax bases in accordance with HKAS 12.

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB72,302,000 (2010: RMB76,976,000) in respect of accumulated losses amounting to RMB289,208,000 (2010: RMB307,905,000). Accumulated losses amounting to RMB10,490,000, RMB48,412,000, RMB21,380,000, RMB10,754,000 and RMB198,171,000 as at 31 December 2011 will expire in 2012, 2013, 2014, 2015, and 2016 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 TRADE AND OTHER PAYABLES – GROUP

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade payables (note (a))	15,525,549	9,337,094
Other taxes payable	551,945	508,640
Accrued expenses	463,316	284,697
Other payables (note (b))	776,597	1,382,499
	17,317,407	11,512,930

Notes:

(a) The ageing analysis of trade payables is as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Within 90 days	14,517,012	8,733,743
Over 90 days and within 1 year	1,008,537	603,351
	15,525,549	9,337,094

(b) Other payables comprise:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Loan from a third party (note)	—	500,000
Deposits received from customers	264,830	454,629
Fees collected from customers on behalf of government agencies	127,719	153,714
Deposits from constructors	136,289	82,433
Rental deposits from tenants and hotel customers	140,074	68,423
Others	107,685	123,300
	776,597	1,382,499

Note:

The Group borrowed RMB500,000,000 from a third party during the year ended 31 December 2010. The balance is unsecured, interest free and has no fixed repayment terms. The amount was fully repaid in 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 AMOUNTS DUE TO RELATED PARTIES – GROUP

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Companies with common directors		
Perfect Zone International Limited	1,861	1,861
Others		
Mr. Xu Shiyong and Ms. Wang Lili (relatives of Mr. Hui Wing Mau)	28,970	28,970
	30,831	30,831

The balances due to related parties are unsecured, interest-free and have no fixed repayment terms.

The carrying amounts of amounts due to related parties approximate their fair values.

28 OTHER INCOME/OTHER GAINS– NET

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Compensation income from government (note)	—	265,943
Government grants received	261,925	261,213
Net exchange gain	520,134	257,367
Others	12,261	12,303
	794,320	796,826

Note:

The Group made advances to a local government authority for land resettlement and site formation in prior years, in return the Group could get profit sharings from the auction of the developed land. During 2010, the local government authority cancelled the above arrangement and the Group received compensation income accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing costs, administrative expenses and other operating expenses are analysed as follows:

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Staff costs – including directors' emoluments (note (a))	613,674	559,583
Auditor's remuneration	6,900	6,300
Depreciation (Note 6)	298,014	272,643
Amortisation of land use rights (Note 8)	40,058	32,047
Provision for impairment of receivables (Note 17)	6,066	5,898
Provision of/(net write back of) impairment losses on completed properties held for sale (Note 16)	15,398	(152,480)
Fair value loss on derivative financial instruments (Note 24)	52,115	—
Advertising, promotion and commission costs	460,822	343,375
Cost of properties sold	14,157,018	12,223,369
Business taxes and other levies on sales of properties (note (b))	1,413,713	1,116,060
Write-off of intangible assets (Note 9)	16,435	67,799
Charitable donations	13,250	47,326
Direct expenses arising from investment properties	36,703	11,937
Operating lease rental expenses	79,659	66,260
Direct expenses arising from hotel operation	396,604	423,170
Loss from disposal of a subsidiary	34,450	—
Corporate and office expenses	441,311	393,598
Other expenses	260,520	218,977
Total cost of sales, selling and marketing costs, administrative expenses and other operating expenses	18,342,710	15,635,862

(a) Staff costs (including directors' emoluments) comprise:

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Wages and salaries	460,089	420,044
Pension costs – statutory pension (note (c))	45,318	37,995
Other allowances and benefits	108,267	101,544
	613,674	559,583

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 EXPENSES BY NATURE (CONTINUED)

(b) Business tax and other levies

The Group's companies incorporated in the PRC are subject to business taxes of 5% and other levies on their revenue from sales of properties.

(c) Pensions-defined contribution plans

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on a certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

30 FINANCE COSTS – NET

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Interest on bank borrowings		
– wholly repayable within five years	1,467,887	953,110
– not wholly repayable within five years	270,748	233,163
Interest on senior notes		
– wholly repayable within five years	189,520	86,544
– not wholly repayable within five years	558,824	320,416
Interest on borrowing from other financial institutions		
– wholly repayable within five years	552,913	82,352
	3,039,892	1,675,585
Less: interest capitalised	(2,559,472)	(937,785)
Finance costs	480,420	737,800
Finance income	(100,074)	(66,247)
Finance costs – net	380,346	671,553

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The remuneration of each of the directors of the Company for the year ended 31 December 2011 is set out as follows:

Name of directors	Salaries, allowances and benefits		Bonuses	Retirement	Employee	Total
	Fees	in kind		benefit contributions	share option schemes	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Mr. Hui Wing Mau	—	4,978	1,659	10	—	6,647
Mr. Hui Sai Tan, Jason	—	3,185	1,857	10	—	5,052
Ms. Yao Li	—	2,514	—	10	—	2,524
Mr. Tung Chi Shing (Note 1)	—	1,927	161	8	—	2,096
Mr. Liu Sai Fei	—	1,557	2,605	10	—	4,172
Mr. Xu Younong (Note 2)	—	1,821	1,093	51	—	2,965
Independent non-executive directors						
Ms. Kan Lai Kuen, Alice	199	—	—	—	—	199
Mr. Lu Hong Bing	199	—	—	—	—	199
Mr. Gu Yunchang (Note 3)	73	—	—	—	—	73
Mr. Lam Ching Kam	199	—	—	—	—	199
	670	15,982	7,375	99	—	24,126

Notes:

1. Mr. Tung Chi Shing resigned on 2 November 2011.
2. Mr. Xu Younong was appointed as an executive director with effect from 1 January 2011.
3. Mr. Gu Yunchang retired on 12 May 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Directors' emoluments (continued)

The remuneration of each of the directors of the Company for the year ended 31 December 2010 is set out as follows:

Name of directors	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Retirement benefit contributions RMB'000	Employee share option schemes RMB'000	Total RMB'000
Executive directors						
Mr. Hui Wing Mau	—	5,229	1,743	10	—	6,982
Mr. Hui Sai Tan, Jason	—	2,909	1,371	10	—	4,290
Ms. Yao Li	—	2,233	1,424	10	—	3,667
Mr. Ip Wai Shing, Andy	—	1,873	—	10	—	1,883
Mr. Tung Chi Shing	—	1,880	1,991	10	—	3,881
Mr. Liu Sai Fei (note 1)	—	1,390	1,627	10	—	3,027
Non-executive director						
Mr. Tang Ping Fai (note 2)	—	—	—	—	—	—
Independent non-executive directors						
Ms. Kan Lai Kuen, Alice	209	—	—	—	—	209
Mr. Lu Hong Bing	209	—	—	—	—	209
Mr. Gu Yunchang	209	—	—	—	—	209
Mr. Lam Ching Kam	209	—	—	—	—	209
	836	15,514	8,156	60	—	24,566

Note:

1. Mr. Liu Sai Fei was appointed as an executive director with effect from 1 February 2010.
2. Mr. Tang Ping Fai resigned on 1 February 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Five highest paid individuals

Four of the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2011 are directors (2010: four). The aggregate amounts of emoluments of the five highest paid individuals are set out below:

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Salaries and allowances	13,485	13,641
Bonuses	7,869	8,156
Retirement scheme contributions	91	50
	21,445	21,847

The emoluments fell within the following bands:

	Number of individuals	
	2011	2010
RMB2,500,001 – RMB3,000,000	2	—
RMB3,000,001 – RMB3,500,000	—	1
RMB3,500,001 – RMB4,000,000	—	2
RMB4,000,001 – RMB4,500,000	1	1
RMB5,000,001 – RMB5,500,000	1	—
RMB6,500,001 – RMB7,000,000	1	1

(c) No emolument was paid or payable by the Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended 31 December 2011 and 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 INCOME TAX EXPENSE

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Current income tax		
– PRC enterprise income tax	2,304,624	1,819,915
– PRC withholding income tax	124,643	—
– PRC land appreciation tax	1,170,781	1,071,747
	3,600,048	2,891,662
Deferred income tax (Note 25)		
– PRC enterprise income tax	517,592	187,706
– PRC withholding income tax	185,000	—
	702,592	187,706
	4,302,640	3,079,368

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the companies within the Group as follows:

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Profit before income tax	10,751,569	8,570,310
Less: Share of results of associated companies and jointly controlled entities	(121,866)	48,096
Land appreciation tax	(1,170,781)	(1,071,747)
	9,458,922	7,546,659
Calculated at PRC enterprise income tax rate of 25% (2010: 25%)	2,364,731	1,886,665
Effect of different tax rates in other countries or regions	(2,140)	(3,835)
Expenses not deductible for income tax purposes (note (a))	542,393	167,579
Income not subject to tax (note (b))	(132,311)	(46,141)
Tax losses not recognised	49,543	3,353
PRC enterprise income tax charge	2,822,216	2,007,621
PRC land appreciation tax	1,170,781	1,071,747
Current income tax – PRC withholding income tax	124,643	—
Deferred income tax – PRC withholding income tax	185,000	—
	4,302,640	3,079,368

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 INCOME TAX EXPENSE (CONTINUED)

Notes:

- (a) Expenses not deductible for income tax purposes mainly resulted from expenses incurred by the Company and its subsidiaries established in Cayman Islands, the British Virgin Islands and Hong Kong which are not deductible for tax purpose.
- (b) Income not subject to tax arose mainly from interest income and net exchange gains incurred by companies incorporated in Cayman Islands, the British Virgin Islands and Hong Kong.

Hong Kong profits tax

No Hong Kong profits tax has been provided for as the Group has no assessable profit in Hong Kong for the year ended 31 December 2011 (2010: Nil).

PRC enterprise income tax

PRC enterprise income tax is provided for at 25% of the profits for the PRC statutory financial reporting purpose, adjusted for those items, which are not assessable or deductible for the PRC enterprise income tax purposes.

PRC land appreciation tax

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including cost of land use rights, borrowing costs, business taxes and all property development expenditures. The tax is incurred upon transfer of property ownership.

PRC withholding income tax

According to the new Enterprise Income Tax Law of the PRC, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong according to the tax treaty arrangements between the PRC and Hong Kong.

Gain on disposal of an investment in the PRC by overseas holding companies may also be subject to withholding tax of 10%.

33 DIVIDENDS

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Interim dividend paid of HK22 cents (2010: HK15 cents) per ordinary share (note (a))	639,773	463,801
Proposed final dividend of HK18 cents (2010: HK25 cents) per ordinary share (note (b))	505,772	754,623
	1,145,545	1,218,424

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 DIVIDENDS (CONTINUED)

Notes:

- (a) An interim dividend in respect of the six months ended 30 June 2011 of HK22 cents per ordinary share, amounting to approximately HK\$780,684,000 (equivalent to RMB639,773,000) was declared at the Company's board meeting held on 31 August 2011 (2010: HK15 cents).
- (b) At a meeting held on 29 March 2012, the directors proposed a final dividend of HK18 cents per ordinary share out of share premium as at 31 December 2011. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of share premium for the year ending 31 December 2012 upon approval by the shareholders at the forthcoming annual general meeting of the Company. A final dividend in respect of 2010 of HK25 cents per ordinary share, amounting to approximately HK\$887,282,000 (equivalent to RMB754,623,000) was proposed at the Company's board meeting held on 22 March 2011, and was approved at the annual general meeting of the Company held on 12 May 2011.

34 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2011	2010
Profit attributable to the equity holders of the Company (RMB'000)	5,722,775	4,671,536
Weighted average number of ordinary shares in issue (thousands)	3,527,568	3,544,710
Basic earnings per share (RMB cents)	162.2	131.8

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the share options granted under share option schemes (Note 21) assuming they were exercised.

	Year ended 31 December	
	2011	2010
Profit attributable to the equity holders of the Company (RMB'000)	5,722,775	4,671,536
Weighted average number of ordinary shares in issue (thousands)	3,527,568	3,544,710
Adjustment for share options granted under the Pre-IPO Share Option Scheme (thousands)	3,181	5,966
Weighted average number of ordinary shares for diluted earnings per share (thousands)	3,530,749	3,550,676
Diluted earnings per share (RMB cents)	162.1	131.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net cash generated from operations:

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Profit before income tax	10,751,569	8,570,310
Adjustments for:		
Interest income	(100,074)	(66,247)
Finance costs	480,420	737,800
Provision for impairment of receivables	6,066	5,898
Provision for/(write back of) impairment losses on completed properties held for sale	15,398	(152,480)
Depreciation	298,014	272,643
Gain on disposal of property and equipment	(464)	(510)
Share of results of associated companies	(97,653)	48,110
Share of results of jointly controlled entities	(24,213)	(14)
Net loss on disposal of a subsidiary (note (i))	34,450	—
Amortisation of land use rights	40,058	32,047
Fair value loss on derivative financial instruments	52,115	—
Fair value gains on investment properties	(2,527,013)	(2,339,562)
Write-off of intangible assets	16,435	67,799
Net exchange gain	(520,134)	(257,367)
	8,424,974	6,918,427
Changes in working capital:		
Properties under development, completed properties held for sale and prepayment for acquisition of land use rights	(6,795,909)	(11,252,988)
Restricted cash	(124,605)	(36,871)
Trade and other receivables and prepayments	713,177	(505,560)
Amount due from related companies	358,975	(1,524,625)
Trade and other payables	(1,276,020)	1,254,372
Advanced proceeds received from customers	(103,147)	5,429,195
Amounts due to related parties and non-controlling interests	—	(7,966)
Net cash generated from operations	1,197,445	273,984

Note:

- (i) Disposal of a subsidiary
In December 2011, the Group disposed 50% equity interest in Qingdao New City, a then wholly owned subsidiary, to a third party at a consideration of RMB290,000,000. According to the revised articles of association, the Group and the third party will jointly control the operation of Qingdao New City. The disposal of Qingdao New City had resulted in a net loss of RMB34,450,000 and the net cash inflow on the disposal was RMB226,419,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the principal subsidiaries, associated companies and jointly controlled entities of the Group as at 31 December 2011 are as follows:

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2011	Principal activities
Principal subsidiaries – established and operation conducted in the PRC					
上海世茂房地產有限公司 (Shanghai Shimao Real Estate Co., Ltd.)	15 March 2000	Foreign investment enterprise	Registered capital US\$75,000,000	100%	Property development
上海世茂國際廣場有限責任公司 (Shanghai Shimao International Plaza Co., Ltd.)	15 September 1994	Foreign investment enterprise	Registered capital RMB1,600,000,000	100%	Hotel and shopping mall
上海世茂建設有限公司 (Shanghai Shimao Jianshe Co., Ltd.)	16 March 2001	Foreign investment enterprise	Registered capital RMB540,000,000	100%	Investment holding
上海世茂莊園置業有限公司 (Shanghai Shimao Manor Real Estate Co., Ltd.)	19 June 2002	Foreign investment enterprise	Registered capital US\$18,400,000	100%	Property development and hotel
上海世茂北外灘開發建設有限公司 (Shanghai Shimao North Bund Co., Ltd.)	17 May 2002	Foreign investment enterprise	Registered capital HK\$650,000,000	100%	Hotel
哈爾濱世茂濱江新城開發建設有限公司 (Harbin Shimao Riviera New City Development and Construction Co., Ltd.)	24 March 2004	Foreign investment enterprise	Registered capital HK\$548,000,000	100%	Property development
常熟世茂房地產開發有限公司 (Changshu Shimao Real Estate Development Co., Ltd.)	24 December 2004	Foreign investment enterprise	Registered capital HK\$440,000,000	100%	Property development
昆山世茂蝶湖灣開發建設有限公司 (Kunshan Shimao Butterfly Bay Development and Construction Co., Ltd.)	10 November 2003	Foreign investment enterprise	Registered capital RMB412,410,000	100%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2011	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
武漢世茂錦繡長江房地產開發有限公司 (Wuhan Shimao Splendid River Real Estate Development Co., Ltd.)	6 June 2005	Foreign investment enterprise	Registered capital US\$114,269,000	96.1%	Property development
昆山世茂房地產開發有限公司 (Kunshan Shimao Real Estate Co., Ltd.)	24 December 2003	Domestic enterprise	Registered capital RMB547,668,147	64.2%	Property development
嘉興世茂新城房地產開發有限公司 (Jiaxing Shimao New City Real Estate Development Co., Ltd.)	28 September 2006	Foreign investment enterprise	Registered capital US\$62,800,000	100%	Property development
紹興世茂新城房地產開發有限公司 (Shaoxing Shimao New City Real Estate Development Co., Ltd.)	11 July 2006	Foreign investment enterprise	Registered capital US\$52,350,000	100%	Property development
紹興世茂置業有限公司 (Shaoxing Shimao Real Estate Co., Ltd.)	11 July 2006	Foreign investment enterprise	Registered capital US\$79,030,000	100%	Property development
蕪湖世茂房地產開發有限公司 (Wuhu Shimao Real Estate Development Co., Ltd.)	8 September 2006	Foreign investment enterprise	Registered capital US\$56,500,000	100%	Property development
煙台世茂置業有限公司 (Yantai Shimao Real Estate Co., Ltd.)	6 September 2006	Foreign investment enterprise	Registered capital US\$48,500,000	100%	Property development
常州世茂房地產有限公司 (Changzhou Shimao Real Estate Co., Ltd.)	27 November 2006	Foreign investment enterprise	Registered capital US\$313,730,000	100%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2011	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
瀋陽世茂新發展置業有限公司 (Shenyang Shimao New Development Property Co., Ltd.)	5 December 2006	Foreign investment enterprise	Registered capital US\$108,900,000	100%	Property development
天津生態城世茂新紀元投資 開發有限公司 (Tianjin Econ City Shimao New Era Investment & Development Co., Ltd.)	9 November 2009	Domestic enterprise	Registered capital RMB409,140,400	75%	Property development
蘇州世茂商業運營有限公司 (Suzhou Shimao Commercial Management Co., Ltd.)	5 December 2008	Domestic enterprise	Registered capital RMB10,000,000	64.2%	Commercial developments
杭州世茂置業有限公司 (Hangzhou Shimao Real Estate Co., Ltd.)	13 December 2006	Foreign investment enterprise	Registered capital US\$111,900,000	100%	Property development
徐州世茂新城房地產開發有限公司 (Xuzhou Shimao New City Real Estate Development Co., Ltd.)	14 February 2007	Foreign investment enterprise	Registered capital US\$75,980,000	100%	Property development
徐州世茂置業有限公司 (Xuzhou Shimao Property Co., Ltd.)	14 February 2007	Domestic enterprise	Registered capital RMB491,412,600	64.2%	Property development
福州世茂置業有限公司 (Fuzhou Shimao Property Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB430,000,000	100%	Property development
福州世茂新城房地產開發有限公司 (Fuzhou Shimao New City Real Estate Development Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB880,000,000	100%	Property development
蕪湖世茂新發展置業有限公司 (Wuhu Shimao New Development Property Co., Ltd.)	16 May 2007	Domestic enterprise	Registered capital RMB110,000,000	64.2%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2011	Principal activities
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Principal subsidiaries – established and operation conducted in the PRC (continued)

蕪湖世茂新世紀置業有限公司 (Wuhu Shimao New Century Property Co., Ltd.)	26 September 2007	Foreign investment enterprise	Registered capital RMB35,000,000	100%	Property development
瀋陽世茂新世紀房地產開發 有限公司 (Shenyang Shimao New Century Real Estate Development Co., Ltd.)	24 May 2007	Domestic enterprise	Registered capital RMB580,058,500	64.2%	Property development
大連世茂龍河發展有限公司 (Dalian Shimao Dragon River Development Co., Ltd.)	9 June 2006	Foreign investment enterprise	Registered capital US\$109,600,000	100%	Property development
蘇州世茂投資發展有限公司 (Suzhou Shimao Investment & Development Co., Ltd.)	2 March 2007	Domestic enterprise	Registered capital RMB526,795,630	64.2%	Property development
蘇州世茂置業有限公司 (Suzhou Shimao Property Co., Ltd.)	26 January 2007	Foreign investment enterprise	Registered capital US\$178,000,000	100%	Property development
紹興世茂新紀元置業有限公司 (Shaoxing Shimao New Era Property Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB245,520,127	64.2%	Property development
紹興世茂新置業發展有限公司 (Shaoxing Shimao New Property Development Co., Ltd.)	13 July 2007	Foreign investment enterprise	Registered capital US\$14,500,000	100%	Property development
紹興世茂新世紀置業有限公司 (Shaoxing Shimao New Century Property Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB423,457,740	64.2%	Property development
嘉興世茂新世紀置業有限公司 (Jiaxing Shimao New Century Property Co., Ltd.)	6 July 2007	Foreign investment enterprise	Registered capital RMB5,000,000	100%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2011	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
牡丹江世茂置業有限公司 (Mudanjiang Shimao Property Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US\$16,000,000	95%	Property development
牡丹江世茂新城房地產開發有限公司 (Mudanjiang Shimao New City Real Estate Development Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US\$29,980,000	100%	Property development
常熟世茂新發展置業有限公司 (Changshu Shimao New Development Property Co., Ltd.)	24 August 2007	Domestic enterprise	Registered capital RMB692,174,000	64.2%	Property development
昆山世茂新發展置業有限公司 (Kunshan Shimao New Development Property Co., Ltd.)	12 September 2007	Foreign investment enterprise	Registered capital US\$49,980,000	100%	Property development
上海世源建材貿易有限公司 (Shanghai Shine Construction Product Co., Ltd.)	22 January 2007	Foreign investment enterprise	Registered capital HK\$5,000,000	100%	Trading of construction materials
上海世盈投資管理有限公司 (Shanghai Shiyong Investment Management Co., Ltd.)	21 August 2007	Domestic enterprise	Registered capital RMB200,000,000	100%	Investment holding
廈門信誠建築裝潢有限公司 (Xiamen Xincheng Building Decoration Co., Ltd.)	6 March 2007	Domestic enterprise	Registered capital RMB5,000,000	100%	Trading of construction materials
北京財富時代置業有限公司 (Beijing Fortune Times Property Co., Ltd.)	18 September 2001	Domestic enterprise	Registered capital RMB1,010,000,000	64.2%	Property development
牡丹江睿智營銷企劃有限公司 (Mudanjiang Ruizhi Marketing Planning Co., Ltd.)	4 December 2007	Domestic enterprise	Registered capital RMB1,000,000	100%	Marketing

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2011	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
牡丹江世拓建材貿易有限公司 (Mudanjiang Shituo Construction Product Co., Ltd.)	3 April 2008	Domestic enterprise	Registered capital RMB1,000,000	100%	Trading of construction materials
咸陽世茂房地產開發有限公司 (Xianyang Shimao Real Estate Development Co., Ltd.)	29 April 2004	Foreign investment enterprise	Registered capital HK\$30,000,000	60%	Property development
上海碧橙房地產有限公司 (Shanghai Bicheng Real Estate Co., Ltd.)	28 September 2003	Domestic enterprise	Registered capital RMB236,200,000	100%	Property development
福建世茂投資發展有限公司 (Fujian Shimao Investment and Development Limited)	17 November 2003	Foreign investment enterprise	Registered capital RMB200,000,000	82.1%	Property development
南京世茂房地產開發有限公司 (Nanjing Shimao Real Estate Development Limited)	23 July 2004	Foreign investment enterprise	Registered capital RMB328,000,000	82.1%	Property development
上海世茂投資管理有限公司 (Shanghai Shimao Investment Management Co., Ltd.)	11 May 2009	Domestic enterprise	Registered capital RMB50,000,000	100%	Investment holding
上海逸景園林景觀工程有限公司 (Shanghai Yijing Landscaping Architect Co., Ltd.)	3 September 2009	Domestic enterprise	Registered capital RMB10,000,000	100%	Architect
福建世茂新里程房地產開發 有限公司 (Fujian Shimao New Way Real Estate Development Co., Ltd.)	10 October 2009	Domestic enterprise	Registered capital RMB1,867,000,000	81.8%	Property development
上海世茂企業發展有限公司 (Shanghai Shimao Enterprises Development Co., Ltd.)	22 June 2000	Domestic enterprise	Registered capital RMB101,723,568	50.9%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2011	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
泰州世茂新城房地產開發有限公司 (Taizhou Shimao New City Real Estate Development Co., Ltd.)	22 February 2008	Foreign investment enterprise	Registered capital US\$40,000,000	100%	Property development
無錫世茂房地產開發建設有限公司 (Wuxi Shimao Real Estate Development Co., Ltd.)	20 November 2009	Domestic enterprise	Registered capital RMB102,000,000	95%	Property development
武漢世茂嘉年華置業有限公司 (Wuhan Shimao Jianianhua Property Co., Ltd.)	14 December 2009	Domestic enterprise	Registered capital RMB200,000,000	81.7%	Property development
寧波世茂房地產開發有限公司 (Ningbo Shimao Real Estate Development Co., Ltd.)	24 December 2007	Foreign investment enterprise	Registered capital US\$99,980,000	100%	Property development
大連世茂嘉年華置業有限公司 (Dalian Shimao Jianianhua Property Co., Ltd.)	4 September 2009	Foreign investment enterprise	Registered capital US\$100,000,000	100%	Property development
天津世茂新里程置業有限公司 (Tianjin Shimao Xinlichen Property Co., Ltd.)	5 November 2009	Domestic enterprise	Registered capital RMB470,000,000	100%	Property development
成都世茂置業有限公司 (Chengdu Shimao Property Co., Ltd.)	13 October 2009	Domestic enterprise	Registered capital RMB299,021,884	100%	Property development
無錫世茂新發展置業有限公司 (Wuxi Shimao New Development Property Co., Ltd.)	23 November 2009	Domestic enterprise	Registered capital RMB102,000,000	77.8%	Property development
瀋陽兆隆地產開發有限公司 (Shenyang Zhaolong Real Estate Development Co., Ltd.)	19 April 2007	Domestic enterprise	Registered capital RMB30,000,000	100%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2011	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
福州世茂新紀元置業有限公司 (Fuzhou Shimao New Property Co., Ltd)	23 December 2010	Domestic enterprise	Registered capital RMB619,500,000	100%	Property development
福建世茂置業有限公司 (Fujian Shimao Property Co., Ltd)	16 July 2009	Domestic enterprise	Registered capital RMB986,560,000	100%	Property development
泉州世茂新領域置業有限公司 (Quanzhou Shimao New Domain Property Co., Ltd)	15 March 2011	Domestic enterprise	Registered capital RMB1,037,750,000	100%	Property development
武漢世茂新城房地產開發有限公司 (Wuhan Shimao New City Real Estate Development Co., Ltd)	23 March 2010	Domestic enterprise	Registered capital RMB361,000,000	100%	Property development
牡丹江德威建材貿易有限公司 (Mudanjiang Dewei Building Material Trading Co., Ltd)	21 July 2010	Domestic enterprise	Registered capital RMB5,000,000	100%	Trading of construction materials
牡丹江雅商建材貿易有限公司 (Mudanjiang Yashang Building Material Trading Co., Ltd)	7 February 2010	Domestic enterprise	Registered capital RMB5,000,000	82.1%	Trading of construction materials
牡丹江潤景園林景觀工程有限公司 (Mudanjiang Runjing Landscaping Architect Co., Ltd.)	25 May 2010	Domestic enterprise	Registered capital RMB10,000,000	100%	Architect
北京鵬麗花園房地產發展有限公司 (Beijing Pengli Garden Real Estate Development Co., Ltd)	5 May 1995	Foreign investment	Registered capital US\$12,000,000	100%	Property development
長沙世茂房地產有限公司 (Changsha Shimao Real Estate Co., Ltd.)	21 July 2010	Domestic enterprise	Registered capital RMB25,000,000	100%	Property development
南昌世茂新發展置業有限公司 (Nanchang Shimao New Developments Property Co., Ltd.)	19 October 2010	Domestic enterprise	Registered capital RMB10,000,000,000	100%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2011	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
成都世茂投資有限公司 (Chengdu Shimao Investments Co., Ltd.)	17 November 2009	Domestic enterprise	Registered capital RMB212,195,865	80%	Property development
杭州世茂新里程置業有限公司 (Hangzhou Shimao New Way Property Co., Ltd.)	16 April 2010	Foreign investments enterprise	Registered capital RMB685,000,000	100%	Property development
寧波世茂新城房地產開發有限公司 (Ningbo Shimao New City Development Co., Ltd.)	19 May 2010	Domestic enterprise	Registered capital RMB160,000,000	100%	Property development
寧波世茂新紀元置業有限公司 (Ningbo Shimao New Era Property Co., Ltd.)	22 March 2010	Domestic enterprise	Registered capital RMB50,000,000	100%	Property development
上海世茂股份有限公司 (Shanghai Shimao Co., Ltd)	1 July 1992	Domestic enterprise	Registered capital RMB1,170,595,338	64.2%	Property development
昆山世茂華東商城開發有限公司 (Kunshan Shimao East China Mall Development Co., Ltd)	24 August 2005	Domestic enterprise	Registered capital RMB150,000,000	64.2%	Property development
北京世茂置業有限公司 (Beijing Shimao Property Co., Ltd)	19 January 2009	Domestic enterprise	Registered capital RMB50,000,000	64.2%	Property development
牡丹江茂源建材貿易有限公司 (Mudanjiang Maoyuan Building Material Trading Co., Ltd)	22 April 2008	Domestic enterprise	Registered capital RMB1,000,000	64.2%	Trading of construction materials
福州世茂天城百貨有限公司 (Fuzhou Shimao Skyscrapers Department Store Co., Ltd)	14 November 2008	Domestic enterprise	Registered capital RMB30,000,000	64.2%	Commercial Developments
瀋陽世茂新世紀百貨有限公司 (Shenyang Shimao New Century Department Co., Ltd)	20 October 2008	Domestic enterprise	Registered capital RMB20,000,000	64.2%	Commercial Developments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2011	Principal activities
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Principal subsidiaries – established and operation conducted in the PRC (continued)

上海世茂百貨有限公司 (Shanghai Shimao Department Co., Ltd)	20 January 2009	Domestic enterprise	Registered capital RMB50,000,000	64.2%	Commercial Developments
煙台世茂百貨有限公司 (Yantai Shimao Department Co., Ltd)	11 May 2009	Domestic enterprise	Registered capital RMB10,000,000	64.2%	Commercial Developments
北京世茂新世紀百貨有限公司 (Beijing Shimao New Century Department Co., Ltd)	28 January 2010	Domestic enterprise	Registered capital RMB30,000,000	64.2%	Commercial Developments
蕪湖世茂百貨有限公司 (Wuhu Shimao Department Co., Ltd)	6 April 2010	Domestic enterprise	Registered capital RMB30,000,000	64.2%	Commercial Developments

Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands

Shimao Property Holdings (BVI) Limited	23 August 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Advance Assets Holdings Limited	22 June 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Best Empire Investments Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Double Achieve Assets Limited	31 January 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Easy Reach Group Limited	13 December 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
East Light Group Limited	12 May 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Everactive Properties Limited	2 May 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2011	Principal activities
Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands (continued)					
Highsharp International Limited	23 February 2007	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Keen View Limited	10 May 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Magic Dynasty Investments Limited	15 November 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Mega Universe Limited	10 July 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Peak Castle Assets Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Peak Gain International Limited	13 December 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Precise Choice Investments Limited	18 October 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Prime Master Holdings Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Shimao Management (Overseas) Limited	18 December 2002	Limited liability company	1 ordinary share of US\$1	100%	Management services
Significant Asset Group Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Vicking International Ltd.	19 January 1994	Limited liability company	50,000 ordinary shares of US\$1	100%	Investment holding
Wickfair Investments Limited	8 October 2004	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Year Grant Investments Limited	3 September 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2011	Principal activities
Principal subsidiaries – incorporated and operation conducted in Hong Kong					
Brilliant Architectural and Construction Professional Consultancy Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK\$1	100%	Consultancy services
Bonus Boom Limited	13 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Charm Field Group Limited	1 August 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Clear Rise Investments Limited	8 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Daily Right Holdings Limited	7 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Excel Grand Group Limited	22 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Excel Mode Investments Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Faith Joy Investments Limited	7 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Fine Tune Investments Limited	5 June 2006	Limited liability company	1 ordinary share of HK\$1	100%	Holding of trademarks
Future Right Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Global Square Investments Limited	29 October 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Lion Kingdom Investments Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Modern Professional Architectural Design Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK\$1	100%	Design services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2011	Principal activities
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Principal subsidiaries – incorporated and operation conducted in Hong Kong (continued)

Mount Profit Investments Limited	14 December 2006	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
New Sincere Investments Limited	11 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Power One Holdings Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Rich Noble Group Limited	8 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Rise Max International Limited	16 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Shimao Holdings Company Limited	3 February 1994	Limited liability company	100 million ordinary shares of HK\$1	100%	Investment holding
Swift Time Limited	18 March 2009	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Topwise Limited	29 March 2005	Limited liability company	1 ordinary share of HK\$1	100%	Management services

Associated companies – established and operation conducted in the PRC

廣州利合房地產開發有限公司 (Guangzhou Li He Property Development Co., Ltd)	12 January 2010	Domestic enterprise	Registered capital RMB659,376,984	20%	Property development
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Associated company – established and operation conducted in the British Virgin Islands

Straits Construction Investment (Holdings) Limited	17 November 2009	Limited liability company	32,258,0683 ordinary shares of US\$10,000	49%	Investment Holding
Eagle Rights Limited	31 March 2010	Limited liability company	45,000,000 ordinary shares with no par value	33.33%	Investment Holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2011	Principal activities
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Jointly controlled entities – established and operation conducted in the PRC

杭州世茂世盈房地產開發有限公司 (Hangzhou Shimaoshiying Property Development Co., Ltd.)	24 January 2008	Foreign investment enterprise	Registered capital US\$249,800,000	50%	Property development
海墅房地產開發(杭州)有限公司 (Hai Shu Property Development (Hangzhou) Co., Ltd.)	25 September 2007	Foreign investment enterprise	Registered capital US\$199,880,000	50%	Property development
惠州富茂房地產開發有限公司 (Huizhou Fumao Property Development Co., Ltd.)	14 May 2010	Domestic enterprise	Registered capital RMB500,000,000	50%	Property development
天津津南新城房地產開發有限公司 (Tianjin Jinnan New City Property Development CO., Ltd)	26 May 2010	Domestic enterprise	Registered capital RMB3,667,300,000	25%	Property development
天津和安投資有限公司 (Tianjin Hean Investment Co., Ltd.)	19 August 2010	Domestic enterprise	Registered capital RMB10,000,000	25%	Investment holding
青島世茂新城房地產開發有限公司 (Qingdao Shimaoshiying Real Estate Development Limited)	29 April 2010	Foreign investment enterprise	Registered capital RMB99,980,000	50%	Property development

Jointly controlled entities – established and operation conducted in Hong Kong

Fast Right Investments Limited	7 May 2007	Limited liability company	2 ordinary shares of HK\$1	50%	Investment holding
Kingtron Enterprises Limited	14 June 2007	Limited liability company	2 ordinary shares of HK\$1	50%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 CONTINGENCIES

The Group had the following contingent liabilities:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Guarantees in respect of mortgage facilities for certain purchasers (note (a))	7,093,011	3,898,553
Guarantees in respect of borrowings (note (b))	1,822,500	1,924,578
	8,915,511	5,823,131

Note:

- (a) The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the Group obtained the "property title certificate" for the mortgagees, or when the Group obtained the "master property title certificate" upon completion of construction. The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.
- (b) The Group and the other shareholders of Guangzhou Li He, an associated company, provided guarantees in proportion of their respective equity interests in Guangzhou Li He for its bank borrowings. The respective guarantees provided by the Group amounted to RMB922,500,000 as at 31 December 2011 (2010: RMB1,024,578,000).

The Group and the other shareholders of Tianjin Jinnan, a jointly controlled entity, provided guarantees in proportion of their respective equity interests in Tianjin Jinnan for its borrowings from a trust plan. As at 31 December 2011, the Group provided guarantees amounted to RMB900,000,000 (2010: RMB900,000,000), as well as the pledge of the Group's equity interest in Tianjin Jinnan.

38 COMMITMENTS

- (a) Commitments for capital and property development expenditure

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Contracted but not provided for		
– Property and equipment	1,463,953	1,025,577
– Land use rights (including those related to associated companies and jointly controlled entities)	14,633,073	13,146,262
– Properties being developed by the Group for sale	13,395,760	8,836,592
– Advances to local government authorities for land resettlement and site formation	–	2,700,000
	29,492,786	25,708,431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Within one year	77,541	58,161
Between two to five years	488,442	412,268
After five years	662,194	850,007
	1,228,177	1,320,436

39 RELATED PARTY TRANSACTIONS

(a) Other than those disclosed elsewhere in the financial statements, the Group had entered into the following major related party transactions during the year ended 31 December 2011:

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Operating lease rental expense charged by a related company (note)	3,738	4,386

Notes:

On 1 January 2009, the Group entered into a lease agreement with a wholly-owned subsidiary of Shimao International, of which certain directors of the Group are also directors, to lease part of office premises of Shimao International in Hong Kong.

(b) Key management compensation

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Emoluments		
– Salaries and other short-term employee benefits	29,553	30,258
– Retirement scheme contributions	131	140
	29,684	30,398

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40 SUBSEQUENT EVENTS

In January 2012, the Group's associated company, Straits Construction Investment (Holdings) Limited obtained a loan facility of US\$225,000,000 organised by Standard Chartered Bank (Hong Kong) Limited and borrowed from PAG Asset Portfolio. The loan is guaranteed by the Company and other shareholders in Straits Construction Investment (Holdings) Limited.

41 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on 29 March 2012.