中國海外宏洋集團有限公司
CHINA OVERSEAS GRAND OCEANS GROUP LTD.

Stock code: 00081

China Overseas
Grand Oceans Group Ltd.

# Robust Prosperity on Solid Foundation

Annual
Report
2012

# Contents

# Corporate and Shareholders' Information

## CORPORATE INFORMATION

### Registered Office

Unit 6703, Level 67, International Commerce Centre
1 Austin Road West, Kowloon, Hong Kong

| | | |
|---|---|---|
| Telephone | : | (852) 2988 0600 |
| Facsimile | : | (852) 2988 0606 |
| Website | : | www.cogogl.com.hk |

## COMPANY SECRETARY

Chong Wai Sang, Edmond

## REGISTRAR

Tricor Standard Limited
26/F., Tesbury Centre
28 Queen's Road East, Hong Kong

| | | |
|---|---|---|
| Telephone | : | (852) 2980 1333 |
| Facsimile | : | (852) 2810 8185 |
| E-mail | : | is-enquiries@hk.tricorglobal.com |

## LEGAL ADVISOR

Mayer•Brown JSM

## AUDITOR

BDO Limited
*Certified Public Accountants*

## PRINCIPAL BANKERS

*(In Alphabetical Order)*
Agriculture Bank of China Ltd., Hong Kong Branch
Bank of China Limited
Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd., Hong Kong Branch
Bank of Shanghai Co. Ltd.
China Construction Bank Corporation
China Merchants Bank Co., Ltd.
DBS Bank Ltd., Hong Kong Branch
Hang Seng Bank Limited
The Hong Kong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China Limited
Wing Lung Bank Limited

## STOCK CODE

### Shares

| | | |
|---|---|---|
| Stock Exchange | : | 00081 |
| Bloomberg | : | 81 : HK |
| Reuters | : | 0081.HK |

## SHAREHOLDERS' INFORMATION

### Share Listing

The Company's shares are listed on the Stock Exchange.

### Ordinary Shares (as at 31 December 2012)

| | |
|---|---|
| Shares outstanding | 2,282,239,894 shares |
| Nominal value | HK$0.01per share |

## INVESTOR RELATIONS

For any enquiries, please contact:
Corporate Communications Department

| | | |
|---|---|---|
| Telephone | : | (852) 2823 7888 |
| Facsimile | : | (852) 2529 9211 |
| E-mail | : | cogo.ir@cohl.com |

## PUBLIC RELATIONS

For any enquiries, please contact:
Corporate Communications Department

| | | |
|---|---|---|
| Telephone | : | (852) 2823 7888 |
| Facsimile | : | (852) 2529 9211 |
| E-mail | : | cogo.pr@cohl.com |

## FINANCIAL CALENDAR

| | |
|---|---|
| 2012 annual results announcement | 1 March 2013 |
| Book closure period | 6–7 May 2013 (both days inclusive) |
| Annual general meeting | 7 May 2013 |
| Book closure period | 14 May 2013 |
| Payment of final dividend | on or about 5 July 2013 |
| Financial year end | 31 December 2013 |

# Board of Directors, Honourable Chairman and Committees

## HONOURABLE CHAIRMAN

Kong Qingping #

## CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Hao Jian Min

## EXECUTIVE DIRECTORS

| | |
|---|---|
| Chen Bin | *Chief Executive Officer* |
| Xiang Hong | |
| Wang Man Kwan, Paul | |
| Yang Hai Song | (appointed on 16 October 2012) |
| Yu Shangyou | (resigned on 16 October 2012) |

## NON-EXECUTIVE DIRECTOR

| | |
|---|---|
| Yung Kwok Kee, Billy | *Vice Chairman* |

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Chung Shui Ming, Timpson
Lam Kin Fung, Jeffrey
Lo Yiu Ching, Dantes

## AUTHORIZED REPRESENTATIVES

| | |
|---|---|
| Hao Jian Min | |
| Chen Bin | |
| Xiang Hong | *(Alternate Authorized Representative to Hao Jian Min)* |
| Wang Man Kwan, Paul | *(Alternate Authorized Representative to Chen Bin)* |

## AUDIT COMMITTEE

Chung Shui Ming, Timpson*
Lam Kin Fung, Jeffrey
Lo Yiu Ching, Dantes

## REMUNERATION COMMITTEE

Lam Kin Fung, Jeffrey*
Hao Jian Min
Yung Kwok Kee, Billy
Chung Shui Ming, Timpson
Lo Yiu Ching, Dantes

## NOMINATION COMMITTEE

Hao Jian Min*
Chung Shui Ming, Timpson
Lam Kin Fung, Jeffrey
Lo Yiu Ching, Dantes

# *not a director of the Company*
* *Committee Chairman*

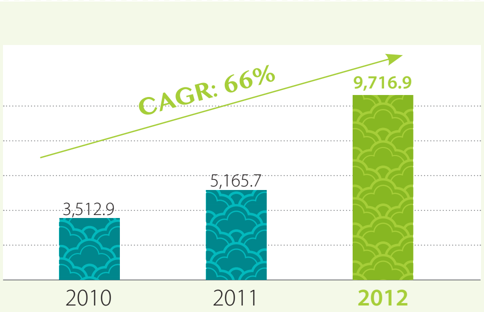
# Financial Highlights

| For the year ended 31 December | 2012 | 2011 | Change |
|---|---|---|---|
| **Key Profit and Loss Items** *(HK$ Million)* | | | |
| Revenue | **9,716.9** | 5,165.7 | 88.1% |
| Gross profit | **3,938.2** | 2,995.6 | 31.5% |
| Gross margin | **40.5%** | 58.0% | -17.5% |
| Profit attributable to owners of the Company | **2,400.7** | 1,815.4 | 32.2% |
| Net margin | **24.7%** | 35.1% | -10.4% |

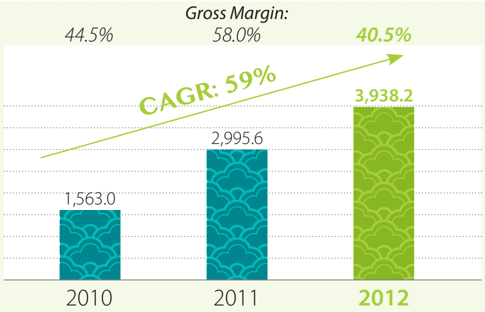
| As at 31 December | 2012 | 2011 | Change |
|---|---|---|---|
| **Key Statement of Financial Positions Items** *(HK$ Million)* | | | |
| Inventories of properties | **17,522.4** | 12,392.9 | 41.4% |
| Sales deposits received | **7,060.8** | 3,786.6 | 86.5% |
| Cash reserves | **7,803.2** | 2,826.4 | 176.1% |
| Total borrowings | **7,157.5** | 4,002.7 | 78.8% |
| (Net cash)/Net debts | **(645.7)** | 1,176.3 | N/A |
| Equity attributable to owners of the Company | **7,966.2** | 5,146.0 | 54.8% |
| Net gearing | **N/A#** | 22.9% | N/A |

| Financial Year | 2012 | 2011 | Change |
|---|---|---|---|
| **Return to shareholders** | | | |
| Return on equity | **36.6%** | 46.4% | -9.8% |
| Earnings per share (HK cents) | **105.2** | 83.4^ | 26.1% |
| Dividends per share (HK cents) | **11** | 5 | N/A* |

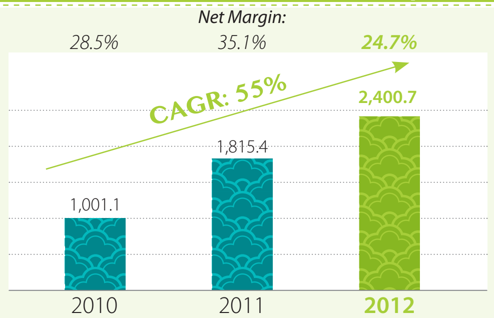
**Revenue** *(HK$Million)*




**Gross Profit** *(HK$Million)*




**Profit Attributable to Owners of the Company** *(HK$Million)*




\# *net cash*
^ *restated*
* *not comparable due to issuance of bonus shares in 2012*

*Note:*

*Formula of certain financial information as set out above are presented on page 128 for easy reference.*

Hefei — The Great Hill

Hohhot — Royal East

# Chairman's Statement

## Our Vision Expanding

The Group is visionary to become a high-growth star property developer of the highest potential in the PRC residential property market, accompanying with good customer satisfaction and company goodwill.

# Chairman's Statement

With the tremendous supports from the shareholders plus the industrious and diligent efforts rendered by all staff, the Group continued to achieve good performance result with recognized revenue increased by 88.1% to approximately HK$9.7 billion while profit attributable to the shareholders of the Company enhanced by 32.2% to approximately HK$2.4 billion.

Property sales for the year was about HK$13.5 billion for an aggregated sold area of approximately 1.03 million sq.m., representing an increase of 75.9% and 177.6% respectively over last year.

Mr. Hao Jian Min
*Chairman and Non-executive Director*

## INTRODUCTION

I am pleased to present the annual results of the Group for the year ended 31 December 2012. With the tremendous supports from the shareholders plus the industrious and diligent efforts rendered by all staff, the Group continued to achieve good performance result with recognized revenue increased by 88.1% to HK$9,716.9 million while profit attributable to the shareholders of the Company enhanced by 32.2% to HK$2,400.7 million, comparing with last year. Basic earnings per share was HK105.2 cents (2011 restated: HK83.4 cents per share).

With the increasing number of development projects undertaken when more third-tier cities were entered into by the Group, the operation scale had enlarged steadily. Property sales for the year was HK$13,521.1 million for an aggregated sold area of 1,034,768 sq.m., representing an increase of 75.9% and 177.6% respectively over last year.

During the year, newly increased land bank acquisitions amounted to 3,679,000 sq.m., of which, 3,407,600 sq.m. are attributable to the Group, excluding non-controlling shareholders. The Group made further inroads into more third-tier cities at strategic locations in the PRC. New cities entered into included Ganzhou, Yangzhou, Nantong and Changzhou. As of 31 December 2012, the Group has ongoing property development projects in twelve cities in the PRC with a land bank reached 9,126,800 sq.m.

In March 2012, the Group succeeded in issuing HK$2.2 billion 2.00% Guaranteed Convertible Bonds due 2017 (credit enhanced until 2015 with step down to zero coupon after 2015). This provides powerful supports at highly competitive finance costs towards the Group's building up of a massive land bank and rolling out its future development projects. The excellent operational performance and prudent financial indicators of the Group in recent years were well recognized and acclaimed by the international capital market. During the year, both of Morgan Stanley Capital International Index and Hang Seng Index have included the Company as their constituent indices under the MSCI China Small Cap Index, Hang Seng Global Composite Index and Hang Seng Composite Index (which includes Hang Seng Composite Industry Index — Properties & Construction and Hang Seng Composite SmallCap Index) respectively. Inclusions in these prestigious benchmark indices demonstrate the full recognition of the operation scale, profitability and governance of the Company by the international and local investors.

## PROPOSED FINAL DIVIDEND

After reviewing the result performance for the year and working capital requirements for the Group's future expansion of its business, the Board recommended the payment of a final dividend of HK6.0 cents per share (2011: HK5.0 cents per share) for the year ended 31 December 2012. Together with the interim dividend of HK5.0 cents per share (2011: Nil) paid in August 2012, total dividends will amount to HK11.0 cents per share (2011: HK5.0 cents per share) for the financial year.

The proposed final dividend is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting 2013.

## PROSPECTS

### The Economy

As a developing country, China was confronted by trading difficulty from weakened exports in recent years due to the western's stagnation. It has started to strike a better balance between external and internal economic development, as well as to speed up the transformation of the mode of economic development. The Central Economic Work Conference held in December 2012 confirmed the policy stances of a proactive fiscal policy and a prudent monetary policy, while strengthening and fine-tuning the macroscopic adjustment measures. These would enable the sustainable and healthy development of the country with the progressive urbanization of its cities cautiously, and in enormous scale with high quality. Through conducting structural reform for reallocation of value-added gains, this would help to safeguard people's livings and promote their living standard.

Beijing

Lagoon Manor

## PROSPECTS (CONTINUED)

### The Economy (continued)

China's impacts to the world economy are increasingly important and would certainly re-define the global economic landscape. It is forecasted that the GDP growth rate would attain 7.8% in 2012, well exceeding those of the major economies in the world. Meanwhile, inflation has been maintained at a relative low inflation level and tamed at 2.6%. While it is generally believed that a slightly higher CPI would be prevailing in 2013, the Central government would likely keep it under control with stabilizing monetary policy, with due caution for import inflation coming from excessive overseas liquidity.

### Real Estate Development

In the past two years, the real estate market had been developed in the right track when property prices were regulated by the government's macroscopic control measures. Restrictions in property purchase, mortgage and prices had obtained good solid results.

The core demand for property housing remains strong as a result of the demand pull arising from the demographic dividend as well as people's needs for improvement in accommodation standard.

Meanwhile, there is a contemporary trend to improve and streamline the economic structure through the process of town urbanization so that cost and price inflation due to over-concentration in very big cities are mitigated. To promote industrial modification and upgrade, the relevant economic activities would need to be spread out, with primary economic activities such as standardized manufacturing and production processes decentralized into medium size cities. The investment in infrastructure and transport systems in recent years has also paved way for this direction.

The Central Economic Work Conference's policy statement to speed up town urbanization would likely provide a strong reinforcement to the strong housing demands in third-tier cities. In China, the present average urbanization rate is marginally above 50% and is well below the global average of about 80% in developed countries. Hence, the room for expansion is enormous. With the progressive development of the town urbanization scheme in third-tier cities, it would improve the existing environment of such third-tier cities. That leads to the development of the property market and creates more business opportunities.

### Group Strategy

The Group believes that the operating strategies and positioning of itself as a middle to high-end property developer in the emerging third-tier cities with best investment value and growth potentials would contribute a lot to align with the national directives and also benefit from the same.

## PROSPECTS (CONTINUED)

### Group Strategy (continued)

The Group is visionary to become a high-growth star property developer of the highest potential in the PRC residential property market, accompanying with good customer satisfaction and company goodwill.

During the year, the Group had entered into four additional third-tier cities at different strategic locations in the PRC and lay down solid business foundation. It will continue to identify good potential third-tier cities for future business development and expansion.

Faced with the challenges ahead, the Group would continue to strengthen the cost controls, launch development project schedule sensibly and set up corporate strategies under the main theme of healthy, stable and swift development, with the supports of the human resources and financial resources assurance systems. While pursuing a framework of product standardization, the Group would concentrate its efforts to provide innovative market propositions and enhance its marketing capabilities. It will continue to expand its land bank in selective third-tier cities for a sustainable business growth.

The Group has implemented proper internal control, operating procedures, standard workflows and procedural guidelines, while undertaking continuous cost savings initiatives over the development projects. In light of the challenges ahead, the Group would closely monitor the impacts from the external economic environment and the national policy changes to the business operations.

## APPRECIATION

Finally, I would like to take this opportunity to thank my fellow directors and our staff for their dedicated efforts and contributions to the Group for the year, as well as the continued supports rendered by our shareholders.

By order of the Board
**China Overseas Grand Oceans Group Limited**
**Hao Jian Min**
*Chairman and Non-executive Director*

Hohhot

Royal East

Hohhot

The Arch

Hohhot — Dragon Cove


Lanzhou — The Arch

# Management Discussion & Analysis

## Glow In Fruitfulness

During the year, the Group had entered into four additional third-tier cities at different strategic locations in the PRC and lay down solid business foundation. It will continue to identify good potential third-tier cities for future business development and expansion.

## REVENUE AND OPERATING RESULTS

Despite the economic slowdown and stringent policy restrictions over the property market in China in the year, the Group strived to generate a 88.1% increase in revenue to HK$9,716.9 million for the year ended 31 December 2012 upon scheduled completion and delivery of properties, while gross profit increased by HK$942.6 million or 31.5% to HK$3,938.2 million compared to last year. Profit margin was 40.5% in current year versus 58.0% in last year with increasing proportional sales mix generated from third-tier cities.

Operating profit increased by HK$403.3 million or 11.8% against last year and reached HK$3,810.0 million for the year ended 31 December 2012 as a result of continuous improvement in result. Overhead expenses were properly controlled with decreasing marginal costs. The distribution and selling expenses increased by 62.4% to HK$213.2 million while administrative expenses increased by 73.9% to HK$351.3 million. Besides, there was an upward fair value gain of HK$364.3 million (2011: HK$355.1 million) in respect of the investment properties.

Finance costs lowered to HK$8.6 million from HK$33.5 million of last year, after capitalization of HK$341.9 million to the on-going development projects.

For the year ended 31 December 2012, profit attributable to equity shareholders of the Company increased by 32.2% to HK$2,400.7 million against last year (2011: HK$1,815.4 million).

## LAND BANK

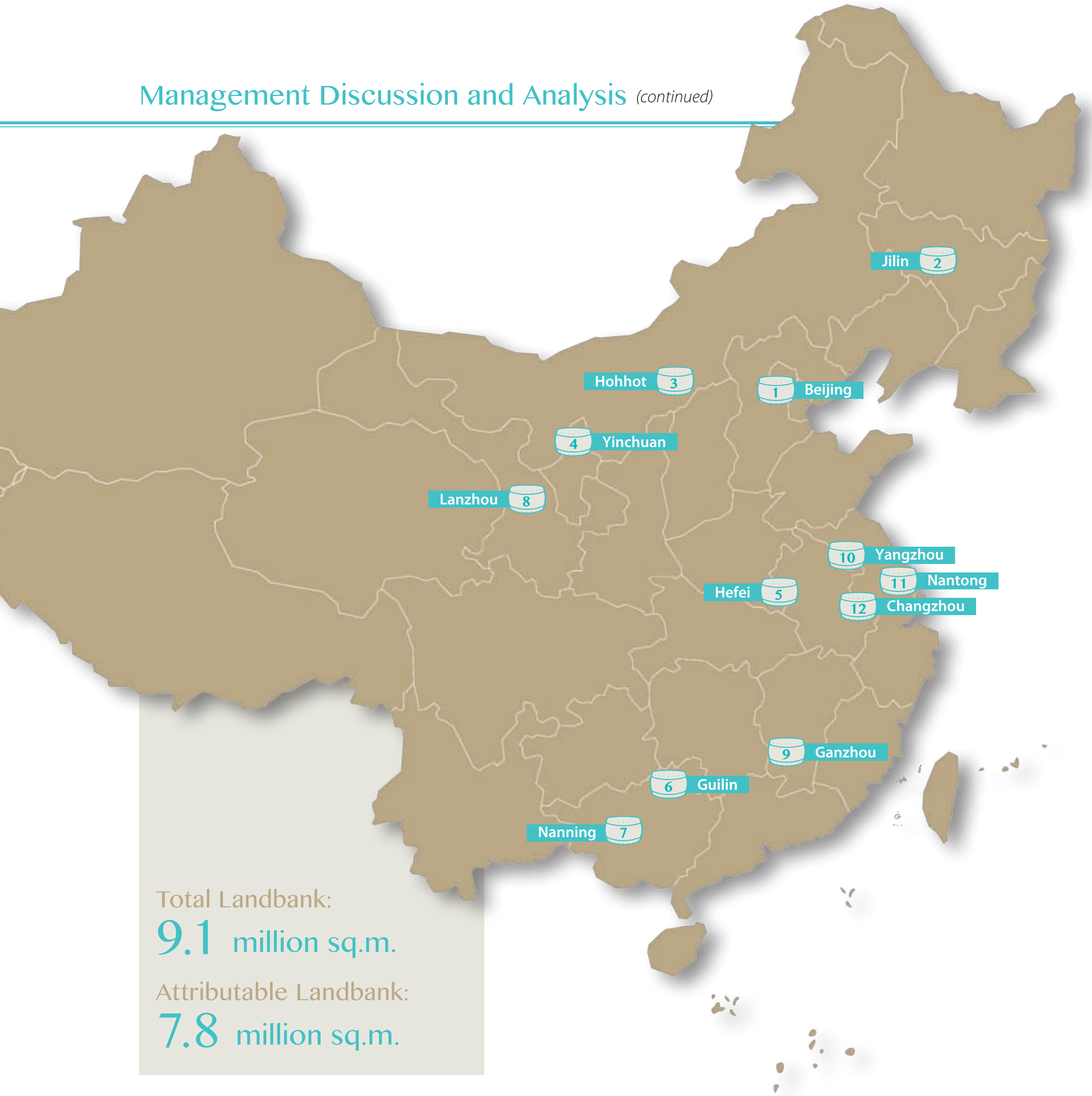
The Group's management believes that a sizable and quality land bank is one of the most important resources for a property developer. A key success factor would therefore be the Group's capability to acquire sites at competitive prices and at opportune times, thereby securing attractive returns on the properties it develops and sells.

As the Group strategy is to expand into emerging third-tier cities in the PRC, it succeeded in entering into four additional new cities including Ganzhou, Yangzhou, Nantong and Changzhou during the year. In addition, a total of six new acquisitions of land parcels were transacted through participation in public land auctions, with an approximate gross floor area of 3,679,000 sq.m. in aggregate added to the Group's land bank for total consideration of approximately RMB4,713.3 million.

As at 31 December 2012, total land bank of the Group is estimated available to build gross floor area of approximately 9,126,800 sq.m. (of which, 7,776,900 sq.m. are attributable to the Group, excluding non-controlling shareholders) in twelve different cities in the PRC.

Jilin

Royal East




Total Landbank:
**9.1 million sq.m.**

Attributable Landbank:
**7.8 million sq.m.**

| | | Total GFA ('000 sq.m.) | % | Attributable GFA ('000 sq.m.) | Attributable % |
|---|---|---|---|---|---|
| 1. | Beijing | 216.9 | 2.4 | 191.9 | 2.5 |
| 2. | Jilin | 762.6 | 8.4 | 656.4 | 8.4 |
| 3. | Hohhot | 622.6 | 6.8 | 622.6 | 8.0 |
| 4. | Yinchuan | 3,300.4 | 36.1 | 2,310.2 | 29.7 |
| 5. | Hefei | 523.0 | 5.7 | 462.7 | 5.9 |
| 6. | Guilin | 141.5 | 1.6 | 141.5 | 1.8 |
| 7. | Nanning | 509.7 | 5.6 | 509.7 | 6.6 |
| 8. | Lanzhou | 385.7 | 4.2 | 385.7 | 5.0 |
| 9. | Ganzhou | 1,402.0 | 15.3 | 1,233.8 | 15.9 |
| 10. | Yangzhou | 233.3 | 2.6 | 233.3 | 3.0 |
| 11. | Nantong | 762.4 | 8.4 | 762.4 | 9.8 |
| 12. | Changzhou | 266.7 | 2.9 | 266.7 | 3.4 |
| | **Total** | **9,126.8** | **100** | **7,776.9** | **100** |

## SEGMENT INFORMATION

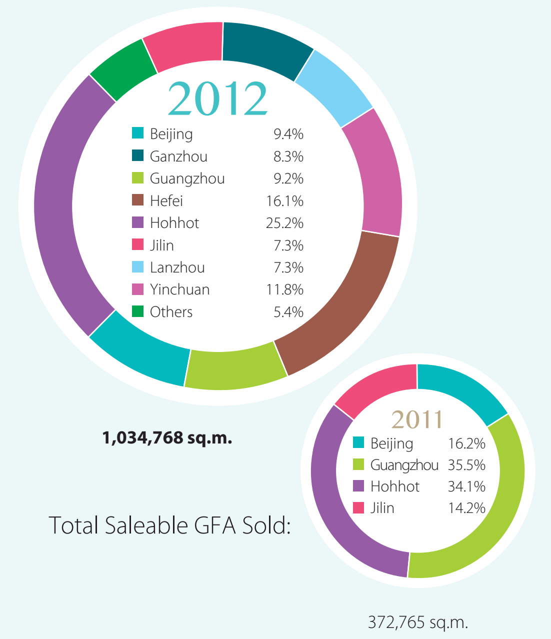
### Property Sales and Development

The Group's high quality housing products continued to receive positive feedbacks from middle to high income level end-users of residential properties market. Sales performance of the Group was prominent alongside the marketing of a quality driven brand name.

With an increasing number of third-tier cities entered into during the past few years, property sales increased significantly by HK$5,834.1 million to HK$13,521.1 million against last year, corresponding to a saleable gross floor area of 1,034,768 sq.m. (2011: 372,765 sq.m.).

**Proportion of Property Sales by Cities**


**Proportion of Property Saleable GFA Sold by Cities**




Property sales from major projects during the year:

| City | Name of project | Saleable GFA (sq.m.) | Amount (HK$ Million) |
|---|---|---|---|
| Beijing | Lagoon Manor | 90,948 | 2,854.0 |
| Guangzhou | The Oakwood | 81,632 | 2,443.0 |
| Hefei | The Great Hill | 149,182 | 1,429.5 |
| Hohhot | The Arch | 137,444 | 1,180.7 |
| | Royal East | 75,658 | 676.7 |
| | Dragon Cove | 30,180 | 636.1 |
| Yinchuan | International Community | 122,159 | 932.3 |
| Lanzhou | The Arch | 76,020 | 763.0 |
| Ganzhou | International Community | 86,005 | 643.4 |
| Jilin | Royal East | 72,087 | 607.5 |

Ganzhou — International Community

Guangzhou — The Oakwood

Yinchuan — International Community

## SEGMENT INFORMATION (CONTINUED)

### Property Sales and Development (continued)

Progress for all development projects were satisfactory and largely in line with the construction programs. Nearly 848,200 sq.m. of construction sites were completed for occupation in the year (2011: 243,530 sq.m.) with about 82% of these sold out. Coupled with stock sales, recognized revenue increased to HK$9,530.7 million (2011: HK$4,995.9 million) while segment result soared to HK$3,434.8 million (2011: HK$2,989.9 million) due to increasing turnover.

Recognized revenue from major projects during the year:

| City | Name of project | Saleable GFA (sq.m.) | Amount (HK$ Million) |
|---|---|---|---|
| Guangzhou | The Oakwood | 146,709 | 3,988.5 |
| | Banyan Bay | 6,813 | 407.5 |
| Beijing | Lagoon Manor | 83,925 | 2,338.7 |
| Hohhot | Royal East | 91,555 | 811.2 |
| | The Arch | 54,017 | 445.7 |
| Hefei | The Great Hill | 23,570 | 450.8 |
| Jilin | Royal East | 50,780 | 372.8 |
| | Royal Waterfront | 36,600 | 362.2 |
| Yinchuan | International Community | 9,701 | 160.5 |
| Guilin | The Chief Palace | 10,833 | 81.6 |

In addition to the above, the following projects had commenced the construction work in the year:

| City | Name of project | Construction commenced |
|---|---|---|
| Hefei | Maison du Lac | March 2012 |
| Hohhot | The Bund | June 2012 |
| Yinchuan | International Community (Land Lot No. 53-2) | July 2012 |

At year end date, properties under construction and stock of completed properties amounted to 3,214,492 sq.m. and 198,998 sq.m. respectively, totaling 3,413,490 sq.m.. Properties of 741,920 sq.m. had been contracted for sales and were pending for handover upon completion.

Further details of the respective projects are shown in the Particulars of Major Properties & Property Interests on page 121 to page 125 in the annual report.

Nanning — The Green Peak

Hefei — Maison du Lac

Guilin — The Chief Palace

## PROPERTY LEASING

For the year ended 31 December 2012, with increased rental rate for expired leases and thus a higher average rental rate, rental income increased to HK$119.9 million (2011: HK$109.7 million). Taken into account a further upside fair value gain (net of ancillary goodwill impairment) of HK$338.3 million (2011: HK$355.1 million) in respect of the investment properties and contribution from the jointly controlled entities of HK$8.9 million (2011: HK$6.2 million), segment profit was HK$435.0 million for the year (2011: HK$445.3 million).

At the year end, China Overseas International Center in Xicheng District, Beijing was 85% let while the occupancy rate for the scientific research office building in Zhang Jiang High-tech Zone in Shanghai was about 93%. The Group owns 100% and 65% of these projects respectively.

## ISSUANCE OF BONUS SHARES

The Group issued 760,746,631 bonus shares in June 2012 on the basis of issuance of one bonus share for every two existing shares after the approval at the annual general meeting held on 30 May 2012.

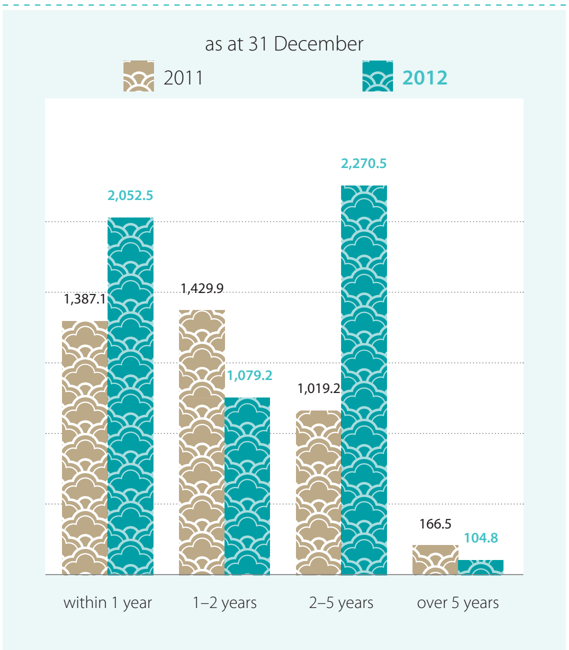
The number of shares of the Company in issue has increased to 2,282,239,894 at year end.

## FINANCIAL RESOURCES AND LIQUIDITY

As a Hong Kong incorporated and listed entity, the Company and its subsidiaries have multiple accesses to funds from both investors and financial institutions in the PRC and international market through Hong Kong as a leading international financial center.

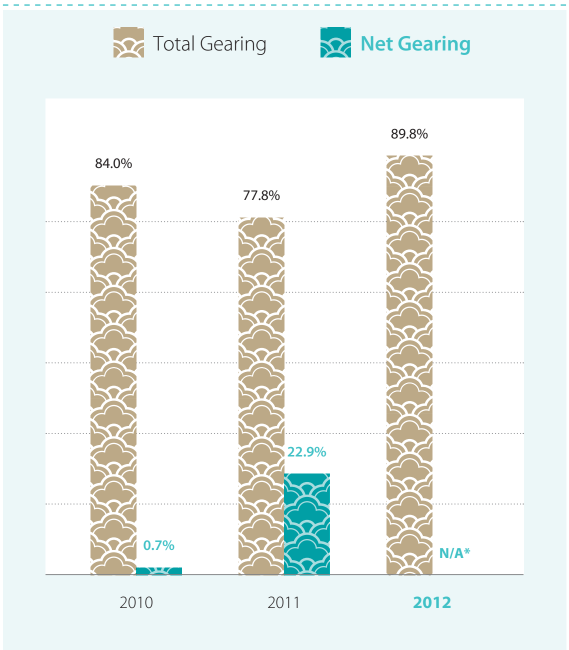
In March 2012, the Group completed the issuance of HK$2.2 billion 2.00% Guaranteed Convertible Bonds due 2017 (credit enhanced until 2015 with step down to zero coupon after 2015) that was listed in the Singapore Exchange Securities Trading Limited. Besides, the Group had obtained additional unsecured credit facilities of approximately HK$3,027.0 million during the year from the financial institutions. While drawdowns of HK$2,417.9 million from the credit facilities were partly offset by the repayments of HK$912.3 million during the year, total borrowings (exclude the convertible bonds) increased by 37.6% to HK$5,507.0 million against last year end. Interest of such borrowings was charged at floating rates with a weighted average of 4.817% per annum. About 37.3% of such borrowings is repayable within one year.

**Debt# Maturity Profile** *(HK$Million)*




\# *excluding the convertible bonds*

**Gearing Ratio**

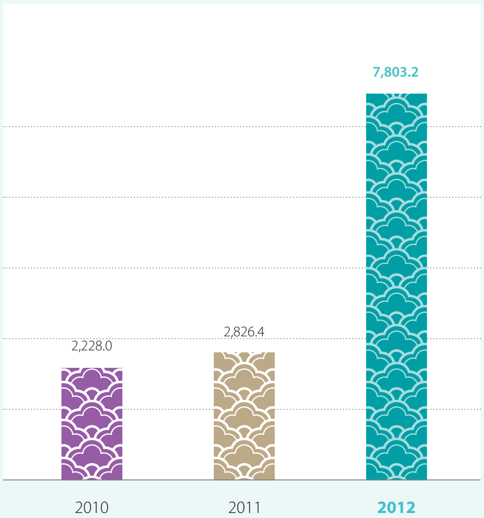



* *net cash*

## FINANCIAL RESOURCES AND LIQUIDITY (CONTINUED)

Coupled with significant sales achieved during the year, cash and cash equivalents plus restricted cash and deposits were 176.1% higher at a total of HK$7,803.2 million compared with the last financial year end (HK$2,826.4 million). Accordingly, the Group was at a net cash position as at 31 December 2012 (net gearing ratio as at 31 December 2011: 22.9%).

**Cash Reserves** *(HK$Million)*




*The Group has unutilized bank credit facilities of HK$1,391.6 million as at 31 December 2012*

On the other hand, net working capital amounted to HK$12,471.2 million as of 31 December 2012 (31 December 2011: HK$7,101.8 million) with a quick ratio of 0.7 (31 December 2011: 0.5).

Taking into consideration of the unutilized bank credit facilities available to the Group of HK$1,391.6 million, the Group's total available funds (including restricted cash and deposits of HK$1,821.1 million) reached HK$9,194.8 million as at 31 December 2012. The Group would regularly re-evaluate its operational and investment status and endeavour to improve its cash flow and minimize its financial risks.

## FOREIGN EXCHANGE EXPOSURE

As at 31 December 2012, about 41.0% and 59.0% of the Group's total borrowings (including the liability component of the convertible bonds) were denominated in Renminbi and Hong Kong Dollar/US Dollar respectively. As the Group conducted its sales, receivables and payables, expenditures and part of the borrowings in Renminbi for its PRC property development business, the management considered that a natural hedge mechanism existed. While the Group would closely monitor the volatility of the Renminbi exchange rate, the management assessed that the Group's risk exposure to foreign exchange rate fluctuations remained at acceptable range.

## CAPITAL COMMITMENTS AND GUARANTEE

As at 31 December 2012, the Group had capital commitments totaling HK$8,259.4 million which related mainly to property development and construction works. In addition, the Group issued guarantees to banks amounting to HK$5,066.8 million, (equivalent to RMB4,108.3 million) mainly for facilitating end-user mortgages in connection with its PRC property sales as a usual commercial practice.

## CAPITAL EXPENDITURE AND CHARGES ON ASSETS

The Group had capital expenditures totaling HK$17.6 million approximately during the year under review, mainly referred to additions in leasehold improvement, motor vehicles, furniture, fixtures and office equipment.

On the other hand, as at 31 December 2012, certain property assets with an aggregate carrying value of HK$2,254.9 million in the PRC were pledged to obtain HK$425.5 million (equivalent to RMB345.0 million) of secured borrowings from a PRC bank for the development projects.

## EMPLOYEES

As at 31 December 2012, the Group has approximately 677 employees (31 December 2011: 403). The pay levels of these employees are commensurate with their responsibilities, performance and the prevailing market condition.

# Human Resources and Sustainable Development

## STAFF TRAINING AND DEVELOPMENT

The Group targets to build up the core competitiveness of our team and enhance the all-round development and expertise of our staff. It actively creates a healthy and positive team spirit and cultivates a learning culture by organizing a series of training activities so as to boost the morale and sense of belonging. The Group provides training to our staff by organizing short-term off-site exchange tours, focus learning, video conferencing, discussion, etc. via the e-learning academy of the Group. During the year, the Group organized 586 training courses for each staff totally up to 15,589 runs which effectively accelerated the rapid growth of our employees.

The Group advocates the talent-deployment policy by integrating employees' development into the long-term development of the enterprise. During the year, the Group enhanced various practical experience and capabilities of the employees by ways of deployment, inter-company transfer and exchange to cope with the rapid expansion of its operations. Total counts of 455 staff mobilization through promotion, internal transfer and inter-company job rotation were recorded in the year. The Group also pursues to meet the employees' pursuit of career development by setting up dual respects of management and technical development side-by-side.

Staff Training Activity

## RECRUITING THE BEST TALENTS

The Group recognizes the importance of nurturing talents to our future development. During the year, in order to keep pace with the rapid development of the Group, we leverage on the schemes of graduate recruitment and society recruitment as platforms of recruitment, and successfully attracted 234 outstanding talents for the Group's sustainable development. The Group organized the graduate recruitment scheme in 19 cities and successfully attracted 66 outstanding graduates who were deployed in various regions such as Hefei, Lanzhou, Yinchuan, Hohhot, etc. to receive employment and training. Also, in order to expand our middle to senior experienced management team, the Group successfully recruited 168 management personnel via the society recruitment scheme to join the headquarter and regional offices. The recruitment effectively beefed up the professional and technical capability of the companies and the overall competitiveness.

Graduate Recruitment

## ENVIRONMENTAL PROTECTION AND CARBON EMISSIONS REDUCTION

The Group pursues to develop top-quality properties which emphasize environmental protection, energy conservation and sustainability of the natural environment. The Group strives to fulfill its obligations as a corporate citizen by constantly innovating and applying "low-carbon construction" techniques during the construction process, design, development and management of projects. It also strives to achieve standardization and minimize the wastage of resources to help build a green community.

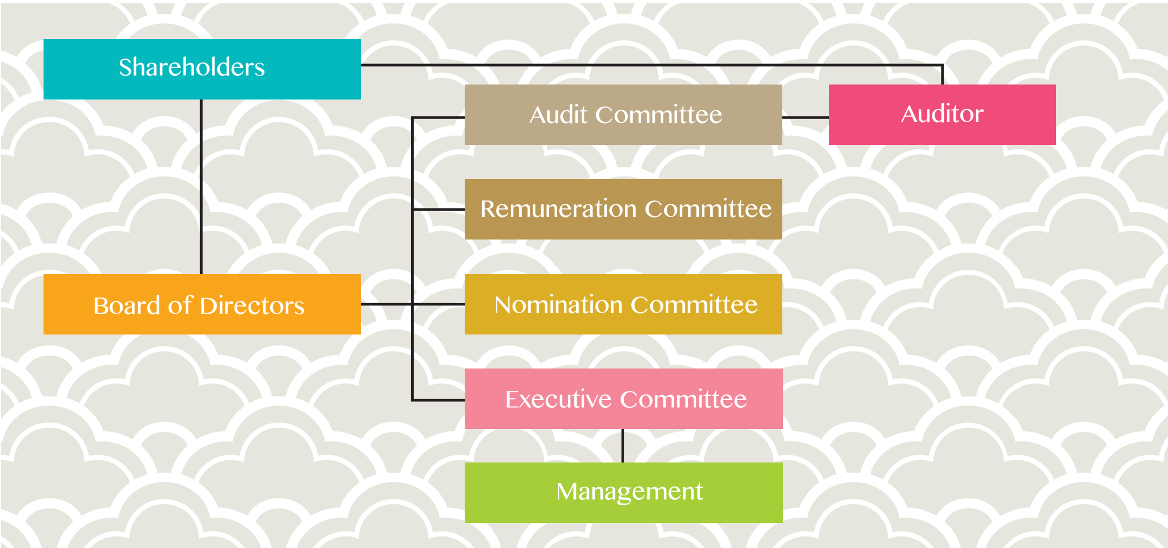
Group Study

## CORPORATE GOVERNANCE PRACTICES

The Group strives to raise the standard of corporate governance and regards corporate governance as part of value creation. This reflects the commitment of the Board and senior management on abiding by the standards of corporate governance, as well as our willingness to maintain transparency and accountability to maximise the value of our shareholders as a whole.

## CORPORATE GOVERNANCE STRUCTURE

The following are key players involved in ensuring the application of good governance practices and policies within the Group and their major roles and explanations of their corporate governance practices and policies are set out in the following report:




## BOARD OF DIRECTORS

### Management Functions

The Board is the highest decision-making and managing body of the Company. Having regard to the best interests of the Company and its shareholders, the Board reviews and approves major matters such as business strategies, budgets, major investments as well as mergers and acquisitions. In addition, the Directors have acknowledged that the principal responsibilities of the Board include supervising and administrating the operation and financial position of the Company, enhancing corporate governance practices and promoting the communication with our shareholders.

## BOARD OF DIRECTORS (CONTINUED)

### Board Composition

Our Board currently has nine members drawn from diverse and complementary backgrounds and experience:

| Name of Directors | Background* |
|---|---|
| Mr. Hao Jian Min<br>*(Chairman and Non-executive Director)* | Property development and general corporate management |
| Mr. Yung Kwok Kee, Billy<br>*(Vice Chairman and Non-executive Director)* | Property development and general corporate management |
| Mr. Chen Bin<br>*(CEO and Executive Director)* | Property development and general corporate management |
| Mr. Xiang Hong<br>*(Vice President and Executive Director)* | Finance and general corporate management |
| Mr. Wang Man Kwan, Paul<br>*(CFO and Executive Director)* | Finance and investment |
| Mr. Yang Hai Song<br>*(Executive Director)* | Finance and investment |
| Dr. Chung Shui Ming, Timpson<br>*(Independent and Non-executive Director)* | Finance and investment |
| Mr. Lam Kin Fung, Jeffrey<br>*(Independent and Non-executive Director)* | General corporate management |
| Mr. Lo Yiu Ching, Dantes<br>*(Independent and Non-executive Director)* | Construction and public administration |

* *Full biographies of the Directors are set out in the section headed "Directors and Organization" of this annual report.*

During the year, the Company has complied with Rules 3.10 and 3.10(A) of the Listing Rules regarding the appointment of at least three independent non-executive directors including at least one independent non-executive director with appropriate professional qualifications or accounting or relating financial management expertise. The Board has received annual written confirmation of independence from each of the independent non-executive Directors and believed that, as at the date of this annual report, they were independent of the Company in accordance with the relevant requirement of the Listing Rules.

## BOARD OF DIRECTORS (CONTINUED)

### Chairman and CEO

The roles between the Chairman of the Board and the Chief Executive Officer are separated to ensure a balance of power and authority.

Mr. Hao Jian Min served as the Chairman of the Board throughout the year and is responsible for providing leadership and management of the Board. He is responsible for ensuring that before any meeting is held, all Directors receive complete and reliable information in a timely manner and that Directors are properly briefed on issues arising at the meetings. He also ensures that the Board works effectively and discharges its responsibilities; good corporate governance practices and procedures are established; and appropriate steps are taken to provide effective communication with shareholders and those views of shareholders are communicated to the Board as a whole. Mr. Hao also holds meeting annually with the non-executive Directors to discuss corporate governance and other matters without the executive Directors present.

Mr. Chen Bin is our Chief Executive Officer who is responsible for the implementation of strategies and objectives set by the Board and is responsible for day-to-day management of the Company's businesses.

### Appointments, Re-election and Removal

In accordance with our articles of association, one-third of the Directors will retire from office by rotation for re-election by shareholders at the annual general meeting. In addition, any new appointment to the Board is subject to re-appointment by shareholders at the upcoming general meeting.

CG Codes A.4.1 and D.1.4 stipulate that non-executive Directors should be appointed for a specific term and Directors should have formal letters of appointment. The non-executive Directors of the Company are not appointed for a specific term and do not have formal letters of appointment, however, they are subject to retirement by rotation and re-election in accordance with the articles of association of the Company.

### Directors' Securities Transactions

The Company has adopted a set of Code of Conduct for Securities Transactions by Directors ("Code of Conduct"), the terms of which are not less exacting than the Model Code. Having made specific inquiries to Directors, all Directors confirmed that they have complied with the Code of Conduct throughout 2012.

### Directors and Officers Liabilities Insurance

The Company has arranged appropriate insurance cover in respect of legal action against Directors and officers.

### Supply of and Access to Information

Full Board or committee papers will be sent to all Directors at least three days before the intended date of a Board meeting or committee meeting.

Management has supplied the Board and its committees with adequate information and explanations so as to enable them to make an informed assessment of the financial and other information put before the Board and its committees for approval. Management is also invited to join the Board or committee meetings where appropriate.

All the Directors are also entitled to have access to timely information such as monthly updates in relation to our businesses and have separate and independent access to senior management.

### Directors' Training

During the year, all Directors were provided with regular updates on applicable legal and regulatory requirements. Individual Directors also participated in courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of reading the relevant materials.

In addition, every newly appointed Director will receive an induction on the first occasion of his appointment, so as to ensure that he has a proper understanding of the operations and business of the Company, and his responsibilities under laws, regulations and especially the governance policies of the Company.

## CORPORATE STRATEGY AND BUSINESS MODEL

The Group is visionary to become a high-growth star property developer of the highest potential in the PRC residential property market, accompanying with good customer satisfaction and company goodwill.

The Group believes that the operating strategies and positioning of itself as a middle to high-end property developer in the emerging third-tier cities with best investment value and growth potentials would contribute a lot to align with the national directives and also benefit from the same.

Details of the Group's business and financial review in the year 2012 are set out in the "Management Discussion and Analysis" section of this annual report.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

Directors acknowledge their responsibility for preparing the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Company's financial statements are prepared in accordance with the relevant laws and standards. Appropriate accounting policies are selected and applied consistently; judgements and estimates made are prudent and reasonable. The Directors endeavour to ensure that a balanced, clear and understandable assessment of the Company's position and prospects are presented in annual reports, interim reports, announcements and other disclosures required under the Listing Rules and other statutory requirements.

### Internal Controls

The Directors of the Company are responsible for the maintenance of an effective system of internal control. The Board has implemented a system of internal controls to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, reliable financial information are provided for management and publication purposes and investment and business risks affecting the Group are identified and properly managed. The Company has established the Intendance and Audit department so as to enhance a good internal control environment. The Intendance and Audit department provides internal control assessment reports to the management on a regular or ad hoc basis. It also regularly reports to the Audit Committee and the Board on internal control affairs. To minimize risk faced by the Company, the department evaluates and reviews the Company's internal control processes to avoid risks and provide a solid foundation for building up an effective internal control system.

The Directors have reviewed the efficiency of internal control systems of the Company and its subsidiaries in aspects such as financial condition, operation, regulatory compliance and risk management. The Directors believe that the internal control system is efficient and effectively controls the risks that may have impacts on the Company in achieving its goals.

The Directors have also considered the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

## DELEGATION BY THE BOARD

### Board Proceedings

The Board held four meetings during the year and meetings were also held as and when necessary to discuss significant transactions, including material acquisitions and disposals and connected transactions, if any. All Directors can give notice to the Chairman or the Company Secretary if they intend to include matters in the agenda for Board meetings. Before each Board meeting, notice of at least 14 days or sufficient notice of meeting was sent to each Director to promote better attendance. Where necessary, the Directors can seek separate independent professional advice at the Company's expenses so as to discharge their duties to the Company. Minutes of the meetings are kept by the Company Secretary, and the Board and committee members may inspect the documents and minutes of the Board and the committees at anytime. All Directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that procedures are followed and that all applicable laws and regulations are complied with.

To safeguard their independence, Directors are required to declare their direct/indirect interest, if any, in any business proposals to be considered by the Board and, where appropriate, they are required to abstain from voting. In 2012, no Director withdrew from a meeting due to a potential conflict of interest.

## DELEGATION BY THE BOARD (CONTINUED)

### Board Committees

Currently, the Board has set up four committees, namely, Executive Committee, Audit Committee, Remuneration Committee and Nomination Committee to implement internal supervision and control on each relevant aspect of the Company.

### Executive Committee

The Executive Committee has been established since August 2012 and its major responsibilities and functions are as follows:

- To review and approve loans or banking facilities to be granted to the Group and the opening of bank or securities related accounts matters;
- To review and monitor training and continuous professional development of Directors and senior management;
- To oversee all matters and to formulate policies in relation to the Company's corporate governance functions; and
- To deal with any other specific business delegated by the Board.

Members of the Executive Committee comprise the Chairman, Chief Executive Officer and all executive directors of the Company.

During the year, the Executive Committee reviewed and approved banking facilities and updated the Directors with the new CG Code, amendments to the Listing Rules and the amendments to SFO regarding the general obligation of disclosure of inside information.

### Audit Committee

The Company established the Audit Committee whose principal duties are as follows:

- To review the financial statements of the Group;
- To review with the Group's management, external auditor and internal auditor, the adequacy of the Group's policies and procedures regarding internal controls and risk management; and
- To review and monitor the scope, effectiveness and results of internal audit function.

The Audit Committee comprises of three members, namely Dr. Chung Shui Ming, Timpson, Mr. Lam Kin Fung, Jeffrey and Mr. Lo Yiu Ching, Dantes, all of whom are independent non-executive Directors. The Audit Committee is chaired by Dr. Chung Shui Ming, Timpson. For the purpose of reinforcing their independence, all members of the Audit Committee have appropriate professional qualifications, accounting or related financial management experience referred to in the Listing Rules.

The Audit Committee held four meetings during 2012 and has reviewed:

(i) the Group's financial reports for the year ended 31 December 2011, interim and quarterly results;

(ii) the audit plans from the external auditor;

(iii) the internal and independent audit results;

(iv) the continuing connected transactions entered into by the Group;

(v) the revised terms of reference of the Audit Committee for the Board's approval;

(vi) internal control and financial reporting system; and

(vii) the re-appointment of the external auditor and their remuneration.

The Audit Committee also met with the auditor annually in the absence of management to discuss matters relating to any issues arising from audit and any other matters the auditor may wish to raise.

## DELEGATION BY THE BOARD (CONTINUED)

### Remuneration and Nomination of Directors and Senior Management

#### Remuneration Committee

The Company has established the Remuneration Committee whose principal duties are as follows:

- To make recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration;
- To make recommendations to the Board on the remuneration packages of individual executive Directors and senior management; and
- To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

The remuneration of the Directors approved by the shareholders is determined by the Board with reference to factors such as salaries paid by comparable companies, time commitment, responsibilities of the Directors and employment conditions.

The Remuneration Committee has five members, namely Mr. Hao Jian Min, Mr. Yung Kwok Kee, Billy, Dr. Chung Shui Ming, Timpson, Mr. Lam Kin Fung, Jeffrey and Mr. Lo Yiu Ching, Dantes, majority of whom are independent non-executive Directors. The Committee is chaired by Mr. Lam Kin Fung, Jeffrey.

The Remuneration Committee held one meeting during 2012 and has reviewed:

(i) the remuneration policy of the Group and Directors' remunerations;

(ii) the remuneration package of individual executive Directors and non-executive Directors;

(iii) the appointment of chairman of the Remuneration Committee; and

(iv) the revised terms of reference of the Remuneration Committee.

#### Nomination Committee

The Company has also established the Nomination Committee with the following major responsibilities and duties:

- To review the structure, size and composition (including the skills, knowledge and experience) of the Board;
- To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- To assess the independence of independent non-executive directors; and
- To make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors.

A proposal for the appointment of a new Director will be considered and reviewed by the Nomination Committee. Candidates to be selected and recommended are experienced, high calibre individuals. All candidates must be able to meet the standards set out in the Listing Rules.

The Nomination Committee has four members, namely Mr. Hao Jian Min, Dr. Chung Shui Ming, Timpson, Mr. Lam Kin Fung, Jeffrey and Mr. Lo Yiu Ching, Dantes, majority of whom are independent non-executive Directors. The Committee is chaired by Mr. Hao Jian Min.

The Nomination Committee held two meetings during the year and has reviewed:

(i) the rotation and appointment of Directors; and

(ii) the revised terms of reference of the Nomination Committee.

## COMPANY SECRETARY

Mr. Chong Wai Sang, Edmond was appointed as the Company Secretary of the Company on 16 March 2011 and has day-to-day knowledge of the Company's affairs. The Company Secretary reports to the Chairman of the Company and is responsible for advising the Board on governance matters. According to the Rule 3.29 of the Listing Rules, the Company Secretary has taken no less than 15 hours of relevant professional training during the year.

## COMMUNICATION WITH SHAREHOLDERS

Apart from reporting to the shareholders and investors on its operation and financial conditions semi-annually and annually, the Company also discloses relevant information monthly and quarterly so that the investors can have a better understanding about the operations of the Company.

A shareholders' communication policy was adopted during the year pursuant to the new CG Code which aims at establishing a two-way relationship and communication between the Company and its shareholders.

During the year, the Company has not complied with CG Code A.6.7 which requires the independent non-executive Directors to attend the general meeting. Due to an overseas engagement, Dr. Timpson Chung Shui Ming, one of the independent non-executive Directors, was unable to attend the annual general meeting of the Company held on 30 May 2012. However, all other independent non-executive Directors were present thereat to be available to answer any question to ensure effective communication with shareholders of the Company.

The Company also holds regular meetings with financial analysts and investors, during which the Company's management will directly provide relevant information and data to the financial analysts, fund managers and investors, as well as answer their enquiries in a prompt, complete and accurate manner. The Company's website is updated continuously, providing up-to-date information regarding every aspect of the Company.

Save as disclosed above, the Company has strictly complied with all CG Codes in 2012.

## SHAREHOLDERS' RIGHTS

### Procedures for Shareholders to Convene an Extraordinary General Meeting ("EGM")

Pursuant to the articles and association of the Company and the Companies Ordinance, shareholders holding not less than 5 percent of the paid-up capital of the Company can deposit a written request to convene an EGM (stating the objects of the meeting and signed by the shareholders concerned) at the registered office of the Company. If the Directors do not within 21 days from the date of the deposit of a request (after being verified to be valid) proceed to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the shareholders concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any EGM so convened shall not be held after the expiration of three months from the date of the deposit of the request.

### Procedures for Shareholders to Put Forward Proposals at General Meetings

Pursuant to the Companies Ordinance, either any shareholder holding not less than one-fortieth (1/40) of the total voting rights of all shareholders having the right to vote at the meeting, or not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000, can request the Company in writing (a) to give to shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting, and (b) to circulate to shareholders any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at any general meeting.

The written request must be signed by all the shareholders concerned in one or more documents in like form and deposited at the registered office of the Company for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution, and not less than one week before the meeting in the case of any other requisition. Upon the request verified to be valid, the Company will give notice of the resolution or circulate the statement provided that the shareholders concerned have deposited a sum reasonably sufficient to meet the Company's expenses in regard thereto.

### Enquiries to the Board

The Board always welcomes shareholders' views and input. Shareholders may at any time send their enquiries and concerns to the Board by addressing them to Company Secretary of the Company and his contact details are as follows:

Company Secretary
China Overseas Grand Oceans Group Limited
Unit 6703, Level 67, International Commerce Centre,
1 Austin Road West, Kowloon, Hong Kong
Email: companysecretary81@cohl.com
Tel. No.: (852) 2988 0623
Fax No.: (852) 2988 0606

## ATTENDANCE RECORDS

Details of Directors' attendance at the Board meetings, meetings of Board committees and annual general meeting held in 2012 are set out in the following table:

| Name of Directors | Board Meetings *(Note)* | Audit Committee meetings | Remuneration Committee meetings | Nomination Committee meetings | Annual General Meeting |
|---|---|---|---|---|---|
| Mr. Hao Jian Min | 4/4 | N/A | 1/1 | 2/2 | 1/1 |
| Mr. Yung Kwok Kee, Billy | 4/4 | N/A | 1/1 | N/A | 1/1 |
| Mr. Chen Bin | 4/4 | N/A | N/A | N/A | 1/1 |
| Mr. Yu Shangyou (resigned in October 2012) | 4/4 | N/A | N/A | N/A | 0/1 |
| Mr. Xiang Hong | 4/4 | N/A | N/A | N/A | 1/1 |
| Mr. Wang Man Kwan, Paul | 4/4 | N/A | N/A | N/A | 1/1 |
| Mr. Yang Hai Song (appointed in October 2012) | 1/1 | N/A | N/A | N/A | N/A |
| Dr. Chung Shui Ming, Timpson | 3/4 | 3/4 | 1/1 | 2/2 | 0/1 |
| Mr. Lam Kin Fung, Jeffrey | 4/4 | 4/4 | 1/1 | 2/2 | 1/1 |
| Mr. Lo Yiu Ching, Dantes | 4/4 | 4/4 | 1/1 | 2/2 | 1/1 |

*Note: The attendance figure represents actual attendance/the number of meetings a Director entitled to attend.*

## AUDITOR'S REMUNERATION

For the year ended 31 December 2012, fees for audit services and non-audit services payable to the auditor of the Company amounted to approximately HK$1,380,000 and HK$130,000 respectively. The non-audit services payable included professional services rendered in connection with the Group's continuing connected transactions, corporate financing activities and taxation matters.

## CONSTITUTIONAL DOCUMENTS

During the year, there is no change in the Company's constitutional documents.

# Directors and Organization

## NON-EXECUTIVE DIRECTORS:

**MR. HAO JIAN MIN**, *Chairman*
Aged 48, holds a Master degree from Harbin Institute of Technology and a MBA from Fordham University in the USA. Mr. Hao joined COHL in 1989. He is now an executive director of COHL and an executive director, vice chairman and chief executive officer of COLI. He is also acting as the chairman or director of certain subsidiaries of COHL and COLI. Mr. Hao has more than 25 years' experience in construction and property development businesses. Mr. Hao has been appointed as the chairman and non-executive Director of the Company since February 2010. He is the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company.

**MR. YUNG KWOK KEE, BILLY**, *Vice Chairman*
Aged 59, received a Bachelor degree in Electrical Engineering from University of Washington and a Master degree in Industrial Engineering from Stanford University. Mr. Yung has over 30 years of experience in managing manufacturing, retailing, transportation, semi-conductor, computer hardware and software business in US, Hong Kong and China. He has also over 30 years of experience in real-estate investment and development in USA, Canada, Holland, Hong Kong, Taiwan, Macau and China. Mr. Yung resigned as the group chairman and chief executive of the Company with effect from 10 February 2010 and has been re-designated from chairman of the Board and executive Director to vice chairman of the Board and non-executive Director of the Company with effect from 27 February 2010. He is now the vice chairman, non-executive Director and member of the Remuneration Committee of the Company. Mr. Yung is currently a member of Chinese People's Political Consultative Conference Guangzhou Committee, the Permanent Honorary President of Friends of Hong Kong Association Ltd., the Honorary President of Shun Tak Fraternal Association and was awarded the Honorary Citizen of the City of Guangzhou and the Honorary Citizen of the City of Foshan.

## EXECUTIVE DIRECTORS:

**MR. CHEN BIN**, *Chief Executive Officer*
Aged 43, BEng. (Southeast University), MBA (Kellogg-HKUST), Senior Engineer. He joined China State Construction Engineering Corporation in 1993 and has been appointed as a director of COHL during the period from March 2004 to July 2012. Mr. Chen was an executive director of COLI from November 2006 to August 2011 and then was re-designated as its non-executive director and resigned from the post in March 2012. However, Mr. Chen continues to act as director of certain subsidiaries of COLI. He has more than 20 years' management experience in construction business and personnel administration. Mr. Chen has been appointed as the chief executive officer and executive Director of the Company with effect from February 2010.

**MR. XIANG HONG**, *Vice President*
Aged 45, senior accountant and holder of master degree, graduated from Hangzhou Institute of Commerce and Murdoch University in Australia. He has more than 20 years' experience in corporate financial management experience. Mr. Xiang joined COLI in 1993 and was appointed as a deputy financial controller of a COLI's subsidiary in February 2006. He was subsequently designated as the deputy financial controller of COLI in November 2009 and resigned from the post in July 2011. Mr. Xiang was appointed as the Company's chief financial officer and executive Director in February 2010 and has been re-designated as Vice President and executive Director since July 2011.

## EXECUTIVE DIRECTORS: (CONTINUED)

**MR. WANG MAN KWAN, PAUL**, *Chief Financial Officer*
Aged 56, graduated from the Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University). Mr. Wang is a fellow member of The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants. He is also an associate member of Certified General Accountants of Canada, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Mr. Wang joined COLI as general manager, Finance & Treasury Department in December 2004. Between February 2005 and August 2009, he was appointed as executive director and deputy financial controller and qualified accountant of COLI. He also currently serves as chief operating officer of COLI ICBCI China Investment Management Ltd. Prior to joining COLI, Mr. Wang was director and chief financial officer of Guangdong Investment Limited. Mr. Wang has extensive experience in corporate restructuring and corporate financial services. His previous experience includes working in the Hong Kong Inland Revenue Department, Jardine Matheson (Company Secretary's Department and JMS Finance), Deloitte (Hong Kong and Toronto offices) and as a director and chief operating officer of a South East Asian Group in charge of operations in China, Philippines, Indonesia, Singapore, Dubai and Germany. Mr. Wang was appointed an executive Director and chief financial officer of the Company in July 2011.

**MR. YANG HAI SONG**
Aged 39, graduated from Zhongnan University of Economics and Law and Judge Business School of The University of Cambridge (UK). He joined COHL in 2000 and has more than 16 years' experience in corporate finance, investment and risk management, and operations in relation to capital markets. Mr. Yang was appointed as an executive Director of the Company on 16 October 2012.

## INDEPENDENT NON-EXECUTIVE DIRECTORS:

**DR. CHUNG SHUI MING, TIMPSON** *GBS, JP*
Aged 61, holds a bachelor of science degree from the University of Hong Kong, a master's degree of business administration from the Chinese University of Hong Kong and a Doctor of Social Sciences honoris causa from the City University of Hong Kong. He is a fellow member of The Hong Kong Institute of Certified Public Accountants. Dr. Chung is currently a member of the National Committee of the 11th Chinese People's Political Consultative Conference. Besides, Dr. Chung is an independent non-executive director of China Unicom (Hong Kong) Limited, Glorious Sun Enterprises Limited and The Miramar Hotel & Investment Co. Limited (all listed on the Stock Exchange). Dr. Chung is also an independent director of China State Construction Engineering Corporation Limited and China Everbright Bank Corporation Limited (both listed on the Shanghai Stock Exchange). From October 2004 to November 2008, Dr. Chung served as an independent non-executive director of China Netcom Group Corporation (Hong Kong) Limited. Formerly, Dr. Chung was an independent non-executive director of Nine Dragons Paper (Holdings) Limited, a director of Hantec Investment Holdings Limited, the chairman of China Business of Jardine Fleming Holdings Limited, the deputy chief executive officer of BOC International Limited, the independent non-executive director of Tai Shing International (Holdings) Limited, and the chairman of the Council of the City University of Hong Kong. He was also the chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the vice chairman of the Land Fund Advisory Committee of Hong Kong Special Administrative Region Government, a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Hong Kong Housing Authority, a member of the Disaster Relief Fund Advisory Committee and a vice-chairman, director & deputy general manager of Nanyang Commercial Bank Limited and the chief executive officer of the Hong Kong Special Administrative Region Government Land Fund Trust. Since May 2010, Dr. Chung has been appointed as an independent non-executive Director of the Company, chairman of the Audit Committee, and member of both the Remuneration Committee and Nomination Committee of the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS: (CONTINUED)

**MR. LAM KIN FUNG, JEFFREY** *GBS, JP*
Aged 61, holds a Bachelor Degree from Tufts University in USA. He has over 30 years of experience in the toy industry and is currently the managing director of Forward Winsome Industries Limited which is engaged in toy manufacturing. He is also a member of the National Committee of the Chinese People's Political Consultative Conference. Mr. Lam also holds a number of other public and community service positions including non-official member of the Executive Council, member of the Legislative Council in Hong Kong, chairman of the Assessment Committee of the Mega Events Funds, member of the board of the West Kowloon Cultural District Authority, member of the Fight Crime Committee, council member of Hong Kong Trade Development Council and general committee member of Hong Kong General Chamber of Commerce. In addition, he is an independent non-executive director of Hsin Chong Construction Group Limited, CC Land Holdings Limited, Wynn Macau, Limited, Sateri Holdings Limited and Chow Tai Fook Jewellery Group Limited. Since May 2010, Mr. Lam has been appointed as an independent non-executive Director of the Company, and he is currently the member of the Audit Committee and Nomination Committee and the chairman of the Remuneration Committee of the Company.

**MR. LO YIU CHING, DANTES** *GBS, JP*
Aged 66, graduated in London in 1970 and further obtained his Master of Science degree in civil engineering from the University of Hong Kong in 1980. He is a fellow of the Institution of Civil Engineers; a fellow of the Institution of Structural Engineers; a fellow of the Hong Kong Institution of Engineers and a member of the China Civil Engineering Society.

Mr. Lo had been engaged both in Hong Kong and overseas in the administration, planning, design and supervision of major capital works projects in civil and structural engineering, including multi-storey buildings, slope works, construction of roads and bridges, reclamations and port works and new town development. In 1970, Mr. Lo started his career with Ove Arup & Partners in London as a project engineer. He joined the Hong Kong Government in 1974 as an engineer and was promoted to director of Civil Engineering Department in 1999 and then director of Highways Department in 2000. In 2002, Mr. Lo was appointed the permanent secretary for the Environment, Transport and Works (Works). He retired from the civil service in 2006. Before his retirement, Mr. Lo was awarded the Gold Bauhinia Star (GBS) in recognition of his loyal and distinguished service to the Government and the Hong Kong Community. In particular, he had made valuable contribution in steering forward major public works projects and in promoting quality improvements in the construction industry.

Mr. Lo is a Justice of the Peace and had been a part-time senior consultant to the Hospital Authority on capital planning. He has been appointed as a distinguished adjunct professor in the Department of Civil Engineering, University of Hong Kong since 2003. Mr. Lo is also an adjunct professor in the Department of Civil and Structural Engineering, Hong Kong Polytechnic University. Since May 2010, Mr. Lo has been appointed as an independent non-executive Director of the Company, member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company.

## SENIOR MANAGEMENT STAFF:

**MS. FAN YI TING**, *Assistant President & Vice Chief Architect*
Aged 40, graduated from the South China University Of Technology and attained a master of Architecture. Ms. Fan joined a subsidiary of COHL in 2000 and has been appointed General Manager of Planning & Design Center and Director of China Overseas Property Group Co., Ltd ("China Overseas Property Group") and Design Director of China Overseas Property Group (Northern China) from 2002. Ms. Fan was appointed as Assistant President and Vice Chief Architect of the Company in June 2011. She has 17 years' experience in planning & design management.

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2012.

## PRINCIPAL ACTIVITIES

During the current year, the principal activities of the Group are property investment and development, property leasing and investment holding. Details of the activities of its principal subsidiaries and a jointly controlled entity are set out in note 47 and note 48 to the financial statements respectively.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 42.

The Board has recommended the payment of a final dividend of HK6.0 cents per ordinary share for the year ended 31 December 2012 with a total amount of approximately HK$136,934,000.

## SHARE CAPITAL

Details of the movements during the year in the share capital of the Company are set out in note 33 to the financial statements.

## RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity and note 34 to the financial statements respectively.

## DISTRIBUTABLE RESERVE

Distributable reserve of the Company at 31 December 2012, calculated under section 79B of the Companies Ordinance was HK$1,132,417,000 (2011: HK$390,813,000).

## DONATIONS

During the year, charitable and other donations made by the Group amounted to HK$139,000 (2011: Nil).

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group and the Company are set out in note 16 to the financial statements.

## FIVE YEAR FINANCIAL SUMMARY

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 120.

## MAJOR PROPERTIES

Particulars of the major properties and property interests of the Group as at 31 December 2012 are set out on pages 121 to 125.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2012.

## SHARES ISSUED

With approval of the shareholders at the annual general meeting of the Company held on 30 May 2012, the Company issued bonus shares on the basis of one bonus share for every two existing shares in issue on 5 June 2012, the bonus issue record date. As at 5 June 2012, there were 1,521,493,263 shares in issue and accordingly the number of bonus shares issued was 760,746,631. The bonus shares, which rank pari passu in all respects with the shares then existing (except that they are not entitled to the final dividend for the year ended 31 December 2011) were credited as fully paid by way of capitalisation of an amount equal to the total par value of the bonus shares standing to the credit of the reserve account of the Company. For the year ended 31 December 2012, an amount of approximately HK$7,607,466 was transferred from the reserve account to share capital accordingly. For details of the bonus shares issue, please refer to the circular dated 20 March 2012 and the announcement dated 28 February 2012 published by the Company.

## DIRECTORS

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

**Non-executive Directors**
Mr. Hao Jian Min *(Chairman of the Board)*
Mr. Yung Kwok Kee, Billy *(Vice Chairman of the Board)*

**Executive Directors**
Mr. Chen Bin *(Chief Executive Officer)*
Mr. Xiang Hong *(Vice President)*
Mr. Wang Man Kwan, Paul *(Chief Financial Officer)*
Mr. Yang Hai Song

**Independent non-executive Directors**
Dr. Chung Shui Ming, Timpson
Mr. Lam Kin Fung, Jeffrey
Mr. Lo Yiu Ching, Dantes

The date of appointment of the above Directors are set out in the section headed "Directors and Organization" of this annual report.

During the year, Mr. Yu Shangyou ceased to be director of the Company with effect from 16 October 2012.

In accordance with article 94 of the Company's articles of association, Mr. Yang Hai Song, the executive Director recently appointed by the Board, shall retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with article 103 of the Company's articles of association, Mr. Hao Jian Min, Mr. Chen Bin and Mr. Lam Kin Fung, Jeffrey shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such Directors to be independent.

Each Director (including non-executive Directors) is subject to retirement by rotation in accordance with the Company's articles of association.

## DIRECTORS AND ORGANIZATION

Brief biographical details of Directors and senior management as at the date of this report are set out on pages 29 to 31.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, as at the date of this report, the following Directors had declared interests in the following entities which compete or are likely to compete, either directly or indirectly, with the businesses of the Company:

Mr. Hao Jian Min, Chairman of the Board, is also the Vice Chairman and Chief Executive Officer of COLI and a director of various subsidiaries of COLI and COHL. In addition, Mr. Hao is a director of COHL. Both COLI and COHL are engaged in construction, property development and related businesses.

Mr. Chen Bin, executive Director and Chief Executive Officer of the Company, is a director of various subsidiaries of COLI.

The entities in which the Directors have declared interests are managed by separate boards of directors and management, which are accountable to their respective shareholders. Further, the Board includes three independent non-executive Directors and one non-executive Director (other than Mr. Hao Jian Min) whose views carry significant weight in the Board's decisions. The Audit Committee of the Company, which consists of three independent non-executive Directors, meets regularly to assist the Board in reviewing the financial performance, internal control and compliance systems of the Company and its subsidiaries. The Company is, therefore, capable of carrying on its businesses independently of, and at arm's length from, the businesses in which Directors have declared interests.

## CONVERTIBLE BONDS

During the year, the Company had successfully issued the Convertible Bonds, details of which are set out in note 32 to the financial statements.

The net proceeds from the issuance of the Convertible Bonds, after deduction of commissions and expenses, amount to approximately HK$2,139,614,000 which are used for general corporate purposes including for financing the Group's property investment and development in the PRC and to repay the outstanding bank loans.

The Directors are of the view that the funds raised from the issuance of the Convertible Bonds will improve the liquidity position of the Group as well as potentially enhance the equity base and reduce the financing costs of the Group.

## SHARE OPTION SCHEME

At the annual general meeting of the Company held on 11 May 2005, the Company's shareholders approved the adoption of Option Scheme and the purposes of the Option Scheme are to attract and retain high-calibre personnel to provide them with the opportunity to acquire equity in the Company and to motivate them to high level of performance.

Unless otherwise terminated by the Board or the shareholders of the Company in general meeting in accordance with the terms of the Option Scheme, the Option Scheme shall be effective for a period of 10 years from 11 May 2005 (the "Scheme Period") and after which no further options will be granted but the provisions of the Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto.

The Board may, at its absolute discretion, offer any eligible person options to subscribe for shares in the Company. Upon acceptance of the offer of an option, the grantee shall pay HK$1.00 to the Company as a consideration for option granted. No options were granted since 11 May 2005.

The maximum number of shares that can be granted under the Option Scheme shall not in aggregate exceed 10% of the total number of shares in the Company in issue as at 11 May 2005 unless the Company obtains a further approval from its shareholders in general meeting for refreshing such 10% limit.

The exercise price per share under the Option Scheme shall be determined by the Board but shall be not less than the greatest of:

(a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the offer date, which must be a business day;

(b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the offer date; and

(c) the nominal value of the shares.

In the event of a capitalisation issue, rights issue, sub-division or consolidation of the shares or reduction of the capital of the Company whilst any option remains exercisable, the Company shall make such corresponding adjustments to the exercise price per share for the outstanding options.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2012, the Directors and the chief executives of the Company had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

**Long Positions in shares of the Company**

| Name of Director | Capacity | Nature of Interests | Number of ordinary shares held | Aggregate long position | Percentage of aggregate long position in shares to the issued share capital of the Company *(Note 1)* |
|---|---|---|---|---|---|
| Mr. Hao Jian Min | Beneficial owner | Personal | 1,750,000 | 1,750,000 | 0.08% |
| Mr. Yung Kwok Kee, Billy | Beneficial owner<br>Beneficiary of a trust *(Note 2)* | Personal<br>Other | 17,849,999<br>398,827,688 | 416,677,687 | 18.26% |
| Dr. Chung Shui Ming, Timpson | Beneficial owner | Personal | 213,250 | 213,250 | 0.01% |

*Notes:*

*(1) The percentage has been adjusted based on the total number of shares of the Company in issue as at 31 December 2012 (i.e. 2,282,239,894 shares).*

*(2) These shares are held by a trust for the benefit of Mr. Yung Kwok Kee, Billy and his family members.*

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or chief executive of the Company or their respective associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the Directors and chief executive of the Company (including their spouses and children under the age of 18) had, as at 31 December 2012, any interest in, or had been granted any right to subscribe for the shares and options of the Company and its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2012, the following persons (other than Directors or the chief executive of the Company) were interested in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

| Name of substantial shareholder | Capacity | Nature of interests | Number of ordinary shares held | Aggregate long position | Percentage of aggregate long position in shares to the issued share capital of the Company *(Note 1)* |
|---|---|---|---|---|---|
| China State Construction Engineering Corporation ("CSCEC") | Interest of controlled corporation *(Note 2)* | Interest in controlled corporation | 866,700,549 | 866,700,549 | 37.98% |
| Diamond Key Enterprises Inc. ("Diamond Key") | Beneficial owner *(Note 3)* | Beneficial | 225,894,069 | 225,894,069 | 9.90% |
| On Fat Profits Corporation ("On Fat") | Beneficial owner *(Note 3)* | Beneficial | 156,698,369 | 156,698,369 | 6.87% |
| UBS TC (Jersey) Ltd. ("UBS TC") | Trustees of trusts *(Note 3)* | Other | 398,827,688 | 398,827,688 | 17.48% |
| Mr. Wang Tao Guang | Beneficial owner | Beneficial | 225,883,774 | 225,883,774 | 9.90% |

*Notes:*

*(1) The percentage has been adjusted based on the total number of shares of the Company in issue as at 31 December 2012 (i.e. 2,282,239,894 shares).*

*(2) CSCEC is interested in 866,700,549 shares which comprises of 833,531,049 shares held by Star Amuse Limited ("Star Amuse") and 33,169,500 shares held by Chung Hoi Finance Limited ("Chung Hoi"). Star Amuse is a wholly-owned subsidiary of Big Crown Limited ("Big Crown"). Big Crown and Chung Hoi are wholly-owned subsidiaries of COLI which in turn is a non-wholly owned subsidiary of COHL. COHL is a subsidiary of CSCECL which in turn is a non-wholly owned subsidiary of CSCEC.*

*(3) 398,827,688 shares held by UBS TC (including 225,894,069 shares and 156,689,369 shares held by Diamond Key and On Fat respectively) are disclosed in the section headed "Directors' and Chief Executives' Interests in Securities" above as being held under a trust with Mr. Yung Kwok Kee, Billy and his family members as the beneficiaries. None of the Directors are directors or employees of On Fat and Diamond Key.*

Save as disclosed above, the Company had not been notified by any other person (other than Directors or the chief executive of the Company) who had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31 December 2012.

## CONNECTED TRANSACTIONS ENTERED INTO BY THE GROUP

### (a) Connected Transaction

***Formation of Joint Venture with 錫華實業投資集團有限公司 (Xihua Shiye Investment Group Limited*) ("Xihua Shiye")***

On 3 February 2012, China Grand (H.K.) Limited ("China Grand (H.K.)", a subsidiary of the Company) and Xihua Shiye entered into the framework agreement, pursuant to which China Grand (H.K.) and Xihua Shiye will procure to establish a joint venture entity for property acquisition, development and management in the PRC. The joint venture company is owned as to 88% by China Grand (H.K.) and as to 12% by Xihua Shiye.

The registered capital of the joint venture company was approximately RMB300 million. China Grand (H.K.) and Xihua Shiye contributed approximately RMB264 million and approximately RMB36 million to the joint venture company, respectively.

As Xihua Shiye is a substantial shareholder of the Company's subsidiaries, Xihua Shiye is a connected person of the Company at the subsidiary level. Accordingly, the entering into the framework agreement constitutes a connected transaction of the Company under the Listing Rules.

### (b) Continuing Connected Transactions

***(1) CSCECL Group Engagement Agreement with CSCECL***

On 29 March 2011, the Company and CSCECL entered into the CSCECL Group Engagement Agreement, whereby the Company and its subsidiaries may engage the CSCECL Group as construction contractor in the PRC upon successful tender for a term of three years commencing from 1 June 2011 and ending on 31 May 2014 provided that the total contract sum that may be awarded by the Group to the CSCECL Group for the period between 1 June 2011 and 31 December 2011 shall not exceed HK$850,000,000, for each of the two years ending 31 December 2013 shall not exceed HK$850,000,000, and for the period between 1 January 2014 and 31 May 2014 shall not exceed HK$800,000,000.

CSCECL is an intermediate holding company of COLI, a controlling shareholder of the Company. Accordingly, CSCECL is a connected person of the Company by virtue of it being an associate of COLI. The transactions contemplated under the CSCECL Group Engagement Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

***(2) Trademark Licence Agreement with COLI***

On 6 April 2011, the Company and COLI entered into the Trademark Licence Agreement, pursuant to which COLI grants the Company a non-exclusive licence to use the trademark "中海地產" in the PRC for a term commencing from 6 April 2011 and ending on 31 March 2014. The royalty payable in arrears by the Company under the Trademark Licence Agreement is one per cent of the Group's audited annual turnover for each financial year ending on 31 December 2011, 2012 and 2013 respectively provided that the royalty payable for each of the 12-month period between 1 April 2012 and 31 March 2014 shall not exceed HK$100 million.

COLI is a controlling shareholder of the Company and therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into the Trademark Licence Agreement constitutes a continuing connected transaction of the Company.

## CONNECTED TRANSACTIONS ENTERED INTO BY THE GROUP (CONTINUED)

### (b) Continuing Connected Transactions (continued)

***(3) Property Lease Agreements with 北京中海豪峰地產開發有限公司 (Beijing Zhong Hai Hao Feng Real Estate Development Co., Ltd.*) and 北京嘉益德房地產開發有限公司 (Beijing Jia Yi De Real Estate Development Co., Ltd.*) (collectively, referred to as the "Tenants")***

On 2 August 2011, 北京中京藝苑房地產開發有限責任公司 (Beijing Zhong Jing Yi Yuan Real Estate Development Company Limited*), a subsidiary of the Company, entered into the following Property Lease Agreements with the Tenants respectively and the principal terms of the agreements are set out below:

| Address of premises | Area of premises | Use | Annual Rent and Cap | Lease Term |
|---|---|---|---|---|
| 22nd Floor, China Overseas International Center, No. 28 Pinganlixi Avenue, Xicheng District, Beijing | 2,355.22 sq.m. | Office | RMB8.31 million or RMB692,435 per month. The rent is payable quarterly. | 1 August 2011 to 31 July 2014 |
| Units 01, 02, 03 & 09, 23rd Floor, China Overseas International Center, No. 28 Pinganlixi Avenue, Xicheng District, Beijing | 1,181.2 sq.m. | Office | RMB4.167 million or RMB347,273 per month. The rent is payable quarterly. | 1 August 2011 to 31 July 2014 |
| | | | Annual Cap: RMB12.477 million. | |

Since the Tenants are subsidiaries of COLI, a controlling shareholder of the Company, the Tenants are connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into the Property Lease Agreements constitutes a continuing connected transaction of the Company.

***(4) Framework Agreement with 中海物業管理有限公司 (China Overseas Property Management Co., Ltd.*) ("COPM")***

On 3 August 2011, the Company and COPM (a subsidiary of COLI) entered into the Framework Agreement, whereby the Company and its subsidiaries may engage COPM group as property manager in the PRC upon successful tender for a term of three years commencing from 3 August 2011 and ending on 31 July 2014 provided that the total management fee payable under the Framework Agreement for the period from 3 August 2011 to 31 July 2012 and for each of the 12-month period between 1 August 2012 and 31 July 2014 shall not exceed RMB25.2 million, RMB33.6 million and RMB33.0 million respectively.

COPM is one of the subsidiaries of COLI, a controlling shareholder of the Company, COPM is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the entering into the Framework Agreement constitutes a continuing connected transaction of the Company.

* *English or Chinese translation, as the case may be, is for identification only.*

## REVIEW BY AUDIT COMMITTEE MEMBERS AND AUDITOR

The independent non-executive Directors have reviewed the above continuing connected transactions during the year and confirmed that the transactions were entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms and no less favourable than those available to or from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 37 to 38 of the annual report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The Company has complied with the requirements set out in Chapter 14A of the Listing Rules.

## INTEREST IN CONTRACTS OF SIGNIFICANCE

The transactions set out in paragraphs (b) (1), (2) and (4) of the section "Connected Transactions Entered Into By The Group" above are considered contracts of significance under paragraph 16 of Appendix 16 of the Listing Rules.

## DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

On 15 March 2012, the Company entered into the Letter of Credit Facility Agreement in relation to the standby letter of credit issued to the trustee in an amount up to HK$2,235,000,000 as part of the credit-enhancement or guarantee arrangement for the Convertible Bonds. Subject to certain exceptions, the standby letter of credit shall expire on the date falling three years and thirty days after 21 March 2012.

The Letter of Credit Facility Agreement includes, inter alia, covenants to the effect that COLI shall beneficially own not less than 30% of the issued share capital of the Company. A breach of such covenants will constitute an event of default under the Letter of Credit Facility Agreement.

As at the date of this annual report, COLI owns approximately 37.98% of the entire issued share capital of the Company.

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

## MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2012, sales to the Group's five largest customers together represented less than 30% of the Group's total turnover and purchases from the Group's five largest suppliers together represented less than 30% of the Group's total purchases.

## SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, based on public information available to the Company and to the best knowledge of the Directors, the Company maintained sufficient public float, being no less than 25% of the issued share capital of the Company as required under the Listing Rules.

## AUDITOR

The financial statements for the year ended 31 December 2009 were audited by Grant Thornton Hong Kong ("GTHK"), now known as JBPB & Co. Due to a merger of the businesses of GTHK and BDO Limited ("BDO") to practise in the name of BDO, GTHK resigned and BDO was appointed as auditor of the Company effective from 29 November 2010. The financial statements for the years ended 31 December 2010, 2011 and 2012 were audited by BDO.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditor of the Company.

On behalf of the Board

**Hao Jian Min**
*Chairman and Non-executive Director*

Hong Kong, 1 March 2013

# Independent Auditor's Report

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**To the shareholders of China Overseas Grand Oceans Group Limited**
**中國海外宏洋集團有限公司**
*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of China Overseas Grand Oceans Group Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 42 to 119, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## 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 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. This report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, 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.

## 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 2012 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 Hong Kong Companies Ordinance.

**BDO Limited**
*Certified Public Accountants*
**Chiu Wing Cheung Ringo**
Practising Certificate no. P04434

Hong Kong, 1 March 2013

# Consolidated Income Statement

For the year ended 31 December 2012

| | Notes | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **9,716,902** | 5,165,720 |
| Cost of sales and services provided | | **(5,778,733)** | (2,170,138) |
| Gross profit | | **3,938,169** | 2,995,582 |
| Other income | 7 | **54,478** | 29,918 |
| Distribution and selling expenses | | **(213,194)** | (131,272) |
| Administrative expenses | | **(351,258)** | (201,944) |
| Other operating expenses | | **(1,209)** | (61,576) |
| Other gains/(losses) | | | |
| Fair value gain on reclassification of inventories of properties to investment properties | 15(b) | **–** | 238,188 |
| Fair value gain on investment properties | 15 | **364,280** | 116,915 |
| (Impairment loss)/Reversal of impairment on assets, net | | **(26,906)** | 18,168 |
| Gain on disposal of subsidiaries and a jointly controlled entity | 38(a) | **45,607** | – |
| Gain on disposal of a subsidiary | 38(b) | **–** | 213,340 |
| Gain on disposal of investment properties | | **–** | 37,584 |
| Gain arising from acquisitions of subsidiaries | 37 | **–** | 135,700 |
| Others | | **–** | 16,068 |
| **Operating profit** | | **3,809,967** | 3,406,671 |
| Finance costs | 9 | **(8,590)** | (33,497) |
| Share of results of jointly controlled entities | | **8,884** | 7,579 |
| **Profit before income tax** | 8 | **3,810,261** | 3,380,753 |
| Income tax expense | 10 | **(1,324,622)** | (1,575,935) |
| **Profit for the year** | | **2,485,639** | 1,804,818 |
| **Profit/(Loss) for the year attributable to:** | | | |
| Owners of the Company | 11 | **2,400,718** | 1,815,418 |
| Non-controlling interests | | **84,921** | (10,600) |
| | | **2,485,639** | 1,804,818 |

| | | **HK Cents** | HK Cents<br>(Restated) |
|---|---|---|---|
| **Earnings per share** | 13 | | |
| Basic | | **105.2** | 83.4 |
| Diluted | | **97.2** | 79.9 |

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

| | Notes | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **Profit for the year** | | **2,485,639** | 1,804,818 |
| **Other comprehensive income** | | | |
| Exchange difference arising from translation of overseas operations | | | |
| — subsidiaries | | **55,553** | 202,157 |
| — jointly controlled entities | | **23** | 3,343 |
| | | **55,576** | 205,500 |
| Reclassification from assets revaluation reserve to profit or loss upon sales of inventories of properties | | **(62,505)** | (23,981) |
| Tax effect | | **27,180** | 8,161 |
| | | **(35,325)** | (15,820) |
| Fair value adjustment upon transfer of owner-occupied properties to investment properties | 15(c) | **–** | 38,934 |
| Tax effect | 15(c) | **9,549** | (19,442) |
| | | **9,549** | 19,492 |
| **Other comprehensive income for the year, net of tax** | | **29,800** | 209,172 |
| **Total comprehensive income for the year** | | **2,515,439** | 2,013,990 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **2,429,241** | 2,014,578 |
| Non-controlling interests | | **86,198** | (588) |
| | | **2,515,439** | 2,013,990 |

# Consolidated Statement of Financial Position

As at 31 December 2012

| | Notes | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 15 | 2,248,932 | 1,883,563 |
| Property, plant and equipment | 16 | 47,177 | 27,847 |
| Prepaid lease rental on land | 17 | 5,479 | 1,970 |
| Goodwill | 18 | – | 70,475 |
| Other intangible assets | 19 | 32,277 | 37,065 |
| Interests in jointly controlled entities | 21 | 79,238 | 73,292 |
| Deferred tax assets | 35 | 271,314 | 294,656 |
| | | 2,684,417 | 2,388,868 |
| **Current assets** | | | |
| Inventories of properties | 22 | 17,522,426 | 12,392,881 |
| Other inventories | 23 | 963 | 879 |
| Trade and other receivables, prepayments and deposits | 24 | 2,792,833 | 1,903,391 |
| Prepaid lease rental on land | 17 | 174 | 52 |
| Amounts due from jointly controlled entities | 26 | 45,632 | 49,340 |
| Amounts due from non-controlling interests | 26 | 20,538 | 11,965 |
| Tax prepaid | | 74,343 | 108,290 |
| Restricted cash and deposits | 27 | 1,821,131 | 805,204 |
| Cash and cash equivalents | 27 | 5,982,086 | 2,021,223 |
| | | 28,260,126 | 17,293,225 |
| **Current liabilities** | | | |
| Trade and other payables | 28 | 4,034,650 | 2,172,589 |
| Sales deposits received | | 7,060,789 | 3,786,608 |
| Amount due to a jointly controlled entity | 29 | – | 246 |
| Amounts due to non-controlling interests | 29 | 799,119 | 573,172 |
| Consideration payable for acquisition of a subsidiary | 30 | – | 78,327 |
| Taxation liabilities | | 1,841,868 | 2,193,409 |
| Borrowings | 31 | 2,052,536 | 1,387,066 |
| | | 15,788,962 | 10,191,417 |
| **Net current assets** | | 12,471,164 | 7,101,808 |
| **Total assets less current liabilities** | | 15,155,581 | 9,490,676 |

# Consolidated Statement of Financial Position *(continued)*

As at 31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Borrowings | 31 | **3,454,443** | 2,615,641 |
| Convertible bonds | 32 | **1,650,543** | – |
| Deferred tax liabilities | 35 | **1,441,497** | 1,443,005 |
| | | **6,546,483** | 4,058,646 |
| **Net assets** | | **8,609,098** | 5,432,030 |
| **Capital and reserves** | | | |
| Share capital | 33 | **22,822** | 15,215 |
| Other reserves | 34 | **3,478,853** | 2,836,230 |
| Retained profits | 34 | **4,327,616** | 2,218,487 |
| Proposed dividend | 12 | **136,934** | 76,075 |
| Equity attributable to owners of the Company | | **7,966,225** | 5,146,007 |
| Non-controlling interests | | **642,873** | 286,023 |
| **Total equity** | | **8,609,098** | 5,432,030 |

**Chen Bin**
*Director*

**Wang Man Kwan, Paul**
*Director*

# Statement of Financial Position

As at 31 December 2012

| | Notes | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | 3,969 | 1,219 |
| Interests in subsidiaries | 20 | 1,944,077 | 1,944,077 |
| | | 1,948,046 | 1,945,296 |
| **Current assets** | | | |
| Other receivables, prepayments and deposits | 24 | 1,304 | 2,333 |
| Amounts due from subsidiaries | 25 | 5,989,418 | 1,303,050 |
| Cash and cash equivalents | 27 | 336,906 | 39,805 |
| | | 6,327,628 | 1,345,188 |
| **Current liabilities** | | | |
| Other payables and accruals | 28 | 11,167 | 5,621 |
| Amounts due to subsidiaries | 25 | 2,354,635 | – |
| Borrowings | 31 | 425,000 | 75,000 |
| | | 2,790,802 | 80,621 |
| **Net current assets** | | 3,536,826 | 1,264,567 |
| **Total assets less current liabilities** | | 5,484,872 | 3,209,863 |
| **Non-current liabilities** | | | |
| Borrowings | 31 | 2,208,437 | 675,000 |
| **Net assets** | | 3,276,435 | 2,534,863 |
| **Capital and reserves** | | | |
| Share capital | 33 | 22,822 | 15,215 |
| Other reserves | 34 | 2,121,196 | 2,128,835 |
| Retained profits | 34 | 995,483 | 314,738 |
| Proposed dividend | 12 | 136,934 | 76,075 |
| **Total equity** | | 3,276,435 | 2,534,863 |

**Chen Bin**
*Director*

**Wang Man Kwan, Paul**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium* HK$'000 | Capital redemption reserve* HK$'000 | Convertible bonds equity reserve* HK$'000 | Translation reserve* HK$'000 | Assets revaluation reserve* HK$'000 | Statutory reserve* HK$'000 | Other reserve* HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January 2011 | 7,675 | 682,584 | 44,822 | – | 160,924 | 55,997 | 70,609 | 835,865 | 816,938 | 2,675,414 | 122,865 | 2,798,279 |
| Net profit/(loss) for the year | – | – | – | – | – | – | – | – | 1,815,418 | 1,815,418 | (10,600) | 1,804,818 |
| Exchange difference arising from translation of overseas operations | | | | | | | | | | | | |
| — subsidiaries | – | – | – | – | 192,145 | – | – | – | – | 192,145 | 10,012 | 202,157 |
| — jointly controlled entities | – | – | – | – | 3,343 | – | – | – | – | 3,343 | – | 3,343 |
| Reclassification from assets revaluation reserve to profit or loss upon sales of inventories of properties | – | – | – | – | – | (15,820) | – | – | – | (15,820) | – | (15,820) |
| Fair value adjustment upon transfer of owner-occupied properties to investment properties | – | – | – | – | – | 19,492 | – | – | – | 19,492 | – | 19,492 |
| **Total comprehensive income for the year** | – | – | – | – | 195,488 | 3,672 | – | – | 1,815,418 | 2,014,578 | (588) | 2,013,990 |
| Transfer to PRC statutory reserve | – | – | – | – | – | – | 236,361 | – | (236,361) | – | – | – |
| 2010 Final dividend paid *(note 12(b))* | – | – | – | – | – | – | – | – | (101,433) | (101,433) | – | (101,433) |
| Issue of new shares to settle consideration for acquisition of non-controlling interests *(note 33(a))* | 2,468 | 1,236,721 | – | – | – | – | – | (681,520) | – | 557,669 | – | 557,669 |
| Bonus Share Issue 2011 *(note 33(b))* | 5,072 | (5,072) | – | – | – | – | – | – | – | – | – | – |
| Share issue expenses *(notes 33(a) & (b))* | – | (221) | – | – | – | – | – | – | – | (221) | – | (221) |
| Acquisition of a subsidiary *(note 37(a))* | – | – | – | – | – | – | – | – | – | – | 98,263 | 98,263 |
| Capital injection from non-controlling interests | – | – | – | – | – | – | – | – | – | – | 65,483 | 65,483 |
| **Transactions with owners** | 7,540 | 1,231,428 | – | – | – | – | – | (681,520) | (101,433) | 456,015 | 163,746 | 619,761 |
| **At 31 December 2011** | 15,215 | 1,914,012 | 44,822 | – | 356,412 | 59,669 | 306,970 | 154,345 | 2,294,562 | 5,146,007 | 286,023 | 5,432,030 |

# Consolidated Statement of Changes in Equity *(continued)*

For the year ended 31 December 2012

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium* HK$'000 | Capital redemption reserve* HK$'000 | Convertible bonds equity reserve* HK$'000 | Translation reserve* HK$'000 | Assets revaluation reserve* HK$'000 | Statutory reserve* HK$'000 | Other reserve* HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| **At 1 January 2012** | 15,215 | 1,914,012 | 44,822 | – | 356,412 | 59,669 | 306,970 | 154,345 | 2,294,562 | 5,146,007 | 286,023 | 5,432,030 |
| Net profit for the year | – | – | – | – | – | – | – | – | 2,400,718 | 2,400,718 | 84,921 | 2,485,639 |
| Exchange difference arising from translation of overseas operations | | | | | | | | | | | | |
| — subsidiaries | – | – | – | – | 54,276 | – | – | – | – | 54,276 | 1,277 | 55,553 |
| — jointly controlled entities | – | – | – | – | 23 | – | – | – | – | 23 | – | 23 |
| Reclassification from assets revaluation reserve to profit or loss upon sales of inventories of properties | – | – | – | – | – | (35,325) | – | – | – | (35,325) | – | (35,325) |
| Adjustment of tax effect on fair value adjustment arising from transfer of owner-occupied properties to investment properties *(note 35)* | – | – | – | – | – | 9,549 | – | – | – | 9,549 | – | 9,549 |
| **Total comprehensive income for the year** | – | – | – | – | 54,299 | (25,776) | – | – | 2,400,718 | 2,429,241 | 86,198 | 2,515,439 |
| Transfer to PRC statutory reserve | – | – | – | – | – | – | 40,543 | – | (40,543) | – | – | – |
| 2011 Final dividend paid *(note 12(b))* | – | – | – | – | – | – | – | – | (76,075) | (76,075) | – | (76,075) |
| 2012 Interim dividend declared *(note 12(a))* | – | – | – | – | – | – | – | – | (114,112) | (114,112) | – | (114,112) |
| Issue of Convertible Bonds *(note 32)* | – | – | – | 581,196 | – | – | – | – | – | 581,196 | – | 581,196 |
| Bonus Share Issue 2012 *(note 33(c))* | 7,607 | (7,607) | – | – | – | – | – | – | – | – | – | – |
| Share issue expenses *(note 33(c))* | – | (32) | – | – | – | – | – | – | – | (32) | – | (32) |
| Disposal of subsidiaries and a jointly controlled entity *(note 38(a))* | – | – | – | – | – | – | – | – | – | – | (2,010) | (2,010) |
| Capital injection from non-controlling interests | – | – | – | – | – | – | – | – | – | – | 272,662 | 272,662 |
| **Transactions with owners** | 7,607 | (7,639) | – | 581,196 | – | – | – | – | (190,187) | 390,977 | 270,652 | 661,629 |
| **At 31 December 2012** | 22,822 | 1,906,373 | 44,822 | 581,196 | 410,711 | 33,893 | 347,513 | 154,345 | 4,464,550 | 7,966,225 | 642,873 | 8,609,098 |

* *The total of these equity accounts as at the reporting date represents "other reserves" in the consolidated statement of financial position*

# Consolidated Statement of Cash Flows

For the year ended 31 December 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before income tax | | 3,810,261 | 3,380,753 |
| Adjustments for: | | | |
| Share of results of jointly controlled entities | | (8,884) | (7,579) |
| Fair value gain on reclassification of inventories of properties to investment properties | | – | (238,188) |
| Fair value gain on investment properties | | (364,280) | (116,915) |
| Gain on disposal of subsidiaries and a jointly controlled entity | | (45,607) | – |
| Gain on disposal of a subsidiary | | – | (213,340) |
| Gain on disposal of investment properties | | – | (37,584) |
| Gain on disposal of property, plant and equipment | | – | (16,127) |
| Gain arising from acquisitions of subsidiaries | | – | (135,700) |
| Depreciation and amortization | | 11,807 | 8,942 |
| Impairment loss/(Reversal of impairment) on assets, net | | 26,906 | (18,168) |
| Write-off of property, plant and equipment | | 901 | 201 |
| Interest income | | (48,902) | (27,701) |
| Finance costs | | 8,590 | 33,497 |
| Exchange difference | | (6,507) | 2,401 |
| Operating cash flows before movements in working capital | | 3,384,285 | 2,614,492 |
| Increase in inventories of properties | | (4,874,348) | (4,204,755) |
| (Increase)/Decrease in other inventories | | (84) | 3 |
| Increase in trade and other receivables, prepayments and deposits | | (842,460) | (66,556) |
| Decrease in amounts due from jointly controlled entities | | 3,686 | 1,767 |
| Increase/(Decrease) in trade and other payables | | 1,944,052 | (345,533) |
| Increase in amounts due from non-controlling interests | | (13,088) | – |
| Increase in sales deposits received | | 3,262,315 | 1,598,595 |
| **Cash generated from/(used in) operations** | | 2,864,358 | (401,987) |
| Income taxes paid | | (1,596,999) | (829,629) |
| **Net cash generated from/(used in) operating activities** | | 1,267,359 | (1,231,616) |
| **Investing activities** | | | |
| Proceeds from disposal of subsidiaries and a jointly controlled entity | 38(a) | 39,998 | – |
| Proceeds from disposal of a subsidiary | 38(b) | – | 213,340 |
| Proceeds from disposal of investment properties | | – | 76,209 |
| Proceeds from disposal of property, plant and equipment | | – | 24,014 |
| Interest received | | 48,435 | 27,737 |
| Purchase of property, plant and equipment | | (17,613) | (9,348) |
| Settlement of outstanding consideration for acquisition of a subsidiary | 30 | (78,327) | (69,461) |
| Payments in relation to acquisitions of subsidiaries, net | 37 | - | (217,591) |
| Increase in restricted cash and deposits | | (1,012,185) | (412,230) |
| **Net cash used in investing activities** | | (1,019,692) | (367,330) |
| **Financing activities** | | | |
| New bank borrowings | | 2,417,934 | 2,943,792 |
| Repayment of bank borrowings and other loan | | (912,328) | (1,311,366) |
| Issue of Convertible Bonds | 32 | 2,139,614 | – |
| Dividends paid | | (190,187) | (101,433) |
| Interest paid | | (252,998) | (166,732) |
| Share issue expenses | 33 | (32) | (221) |
| Capital injection from non-controlling interests | | 272,662 | 65,483 |
| Increase in amounts due to non-controlling interests | | 225,179 | 211,071 |
| **Net cash generated from financing activities** | | 3,699,844 | 1,640,594 |
| **Net increase in cash and cash equivalents** | | 3,947,511 | 41,648 |
| **Cash and cash equivalents at 1 January** | | 2,021,223 | 1,890,555 |
| **Effect of foreign exchange rate changes on cash and cash equivalents** | | 13,352 | 89,020 |
| **Cash and cash equivalents at 31 December** | | 5,982,086 | 2,021,223 |

## 1. GENERAL INFORMATION

China Overseas Grand Oceans Group Limited (the "Company") is a limited liability company incorporated in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the Company's registered office and principal place of business is Unit 6703, Level 67, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

The principal activities of the Company and its subsidiaries (collectively, the "Group") mainly comprise property investment and development, property leasing and investment holding. The Group's business activities are principally carried out in certain regions in the PRC such as Beijing, Guangzhou, Ganzhou, Hohhot-Inner Mongolia, Jilin, Nantong and Yinchuan.

As at 31 December 2012 and 2011, the Company is an associated company of China Overseas Land & Investment Limited ("COLI"). COLI is a company incorporated in Hong Kong with limited liability and its shares are listed on the Stock Exchange and its ultimate holding company is China State Construction Engineering Corporation ("CSCEC"), an entity established in the PRC.

The consolidated financial statements on pages 42 to 119 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (including all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance. In addition, the financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The financial statements for the year ended 31 December 2012 were approved for issue by the board of directors (the "Board") on 1 March 2013.

## 2. ADOPTION OF NEW AND REVISED HKFRSs

### 2.1 Adoption of new/revised HKFRSs — effective 1 January 2012

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2012:

| | |
|---|---|
| Amendments to HKFRS 7 | Disclosures — Transfers of Financial Assets |
| Amendments to HKAS 12 | Deferred Tax — Recovery of Underlying Assets |

*Amendments to HKFRS 7 Disclosures — Transfers of Financial Assets*

The Group has applied the amendments to HKFRS 7 *Disclosures — Transfer of Financial Assets* in the current year. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with their associated liabilities. In addition, the amendment requires disclosures about the entity´s continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, such involvement. The amendments did not have an impact on the Group's financial position, performance or its disclosures.

*Amendments to HKAS 12 Deferred Tax — Recovery of Underlying Assets*

The Group has applied the amendments to HKAS 12 *Deferred Tax — Recovery of Underlying Assets* in the current year. The amendments to HKAS 12 introduced a rebuttable presumption that an investment property is recovered entirely through sale. The presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

## 2. ADOPTION OF NEW AND REVISED HKFRSs (CONTINUED)

### 2.1 Adoption of new/revised HKFRSs — effective 1 January 2012 (Continued)

*Amendments to HKAS 12 Deferred Tax — Recovery of Underlying Assets (Continued)*

The Group measures its investment properties using the fair value model. Previously, deferred taxation on investment properties is measured to reflect the tax consequences of recovering the carrying amounts of investment properties through sale. During the year, the directors reviewed the Group's investment property portfolios and concluded that certain of the Group's investment properties located in other region of the PRC which are depreciable are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. There is a change in management's expectation on the manner to recover the value of those investment properties during the year and following the amendments to HKAS 12, the Group has adjusted the amount of deferred tax provided for those investment properties in order to reflect the tax consequences of recovering those investment properties through consumption during its economic life. Such adjustments amounting to HK$228,136,000 and HK$9,549,000 are credited to profit or loss and other comprehensive income for the year ended 31 December 2012 respectively.

### 2.2 New/Revised HKFRSs that have been issued but not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

| | |
|---|---|
| Amendments to HKAS 1 (Revised) | Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income [1] |
| Amendments to HKAS 32 | Presentation — Offsetting Financial Assets and Financial Liabilities [3] |
| Amendments to HKFRS 7 | Disclosures — Offsetting Financial Assets and Financial Liabilities [2] |
| HKAS 19 (2011) | Employee Benefits [2] |
| HKAS 27 (2011) | Separate Financial Statements [2] |
| HKAS 28 (2011) | Investments in Associates and Joint Ventures [2] |
| HKFRS 9 | Financial Instruments [4] |
| HKFRS 10 | Consolidated Financial Statements [2] |
| HKFRS 11 | Joint Arrangements [2] |
| HKFRS 12 | Disclosure of Interests in Other Entities [2] |
| HKFRS 13 | Fair Value Measurements [2] |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance [2] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) | Investment Entities [3] |
| Annual improvements | Annual improvements to HKFRSs — 2009-2011 Cycle [2] |

1 *Effective for annual periods beginning on or after 1 July 2012*
2 *Effective for annual periods beginning on or after 1 January 2013*
3 *Effective for annual periods beginning on or after 1 January 2014*
4 *Effective for annual periods beginning on or after 1 January 2015*

*Amendments to HKAS 1 (Revised) Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit or loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

## 2. ADOPTION OF NEW AND REVISED HKFRSs (CONTINUED)

### 2.2 New/Revised HKFRSs that have been issued but not yet effective (Continued)

*Amendments to HKAS 32 Presentation — Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities*

The amendments to HKAS 32 clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalent to net settlements. The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The directors anticipate that the application of the amendments to HKAS 32 and HKFRS 7 may affect the Group's disclosure regarding offsetting financial assets and financial liabilities in the future. The amendments will be applied retrospectively.

*HKFRS 9 Financial Instruments*

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement* . This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortized cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains and losses will be recognized in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognize the gains and losses in other comprehensive income. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option. For these fair value option liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the fair value option are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

## 2. ADOPTION OF NEW AND REVISED HKFRSs (CONTINUED)

### 2.2 New/Revised HKFRSs that have been issued but not yet effective (Continued)

*HKFRS 10 Consolidated Financial Statements*

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions. This new standard is not expected to have a material impact on the results and financial position of the Group.

*HKFRS 11 Joint Arrangements*

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC) — Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. Joint arrangements under HKFRS 11 have the same basic characteristics as joint ventures under HKAS 31. Joint arrangements are classified as either joint operations or joint ventures. Where the Group has rights to the assets and obligations for the liabilities of the joint arrangement, it is regarded as a joint operator and will recognize its interests in the assets, liabilities, income and expenses arising from the joint arrangement. Where the Group has rights to the net assets of the joint arrangement as a whole, it is regarded as having an interest in a joint venture and will apply the equity method of accounting. HKFRS 11 does not allow proportionate consolidation. In an arrangement structured through a separate vehicle, all relevant facts and circumstances should be considered to determine whether the parties to the arrangement have rights to the net assets of the arrangement. Previously, the existence of a separate legal entity was the key factor in determining the existence of a jointly controlled entity under HKAS 31. HKFRS 11 will be applied retrospectively with specific restatement requirements for a joint venture which changes from proportionate consolidation to the equity method and a joint operation which changes from equity method to accounting for assets and liabilities.

*HKFRS 12 Disclosure of Interests in Other Entities*

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

*HKFRS 13 Fair Value Measurements*

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 *Financial Instruments: Disclosures*. HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

## 2. ADOPTION OF NEW AND REVISED HKFRSs (CONTINUED)

### 2.2 New/Revised HKFRSs that have been issued but not yet effective (Continued)

*Annual improvements to HKFRSs — 2009-2011 Cycle*

*The Annual Improvements to HKFRSs — 2009 - 2011 Cycle* include a number of amendments to various HKFRSs, which include:

*HKAS 1 Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

*HKAS 16 Property Plant and Equipment*

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

*HKAS 32 Financial Instruments: Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*.

*HKAS 34 Interim Financial Reporting*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

Except for the above said, the Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented unless otherwise stated.

### 3.1 Basis of preparation

These financial statements have been prepared under the historical cost basis except for investment properties, which are measured at fair values. The measurement bases are fully described in the accounting policies below.

Accounting estimates and assumptions have been used in preparing these financial statements. Although these estimates and assumptions are based on management's best knowledge and judgement of current events and conditions, actual results may ultimately differ from those estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Group's financial statements, are disclosed in note 4.

### 3.2 Business combination and basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see note 3.3 below) made up to 31 December each year. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intercompany transactions, balances and unrealized gains and losses on transactions within the Group are eliminated on consolidation. Unrealized losses resulting from intercompany transaction are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.2 Business combination and basis of consolidation (Continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group in exchange for control of the acquiree. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. If the business combination is achieved in stage, the Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognized in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by another HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments, in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognized at acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration are recognized against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent changes to contingent consideration classified as an asset or a liability are recognized in accordance with HKAS 39 either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

Goodwill arising on business combination is measured according to the policies in note 3.5.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest, and also the cumulative translation differences recorded in equity. Amounts previously recognized in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

### 3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. 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 results of the subsidiaries are included in the Company's income statement to the extent of dividend received and receivable.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.4 Jointly controlled entities

A jointly controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

Interests in jointly controlled entities are accounted for in the financial statements under the equity method of accounting. Under equity method of accounting, investments are initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the jointly controlled entities' net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entities for the year, less any identified impairment loss. Where the profit sharing ratio is different to the Group's equity interest in a jointly controlled entity, the share of post-acquisition results of the jointly controlled entity is determined based on the agreed profit sharing ratio. The Group's share of the post-acquisition post-tax items of statement of other comprehensive income of the jointly controlled entities is included in the statement of other comprehensive income.

Unrealized profit on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

### 3.5 Goodwill

Goodwill arising from the acquisition of subsidiaries and jointly controlled entities represents the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree, over the Group's interest in the fair value of the identifiable assets acquired and liabilities assumed including contingent liabilities as at the date of acquisition.

Goodwill arising on acquisition is initially recognized in the consolidated statement of financial position as an asset at cost and subsequently measured at cost less any accumulated impairment losses. In case of jointly controlled entities, goodwill is included in the carrying amount of the interests in jointly controlled entities rather than recognized as a separate asset in the consolidated statement of financial position.

Goodwill is reviewed for impairment annually at the end of the reporting period or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired (note 3.11). Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

### 3.6 Bargain purchases in business combinations

Any excess of the Group's interest in the fair value of the acquirees' net identifiable assets, liabilities and contingent liabilities over the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree is recognized immediately in profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.7 Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purpose.

Investment property is initially stated at cost, including directly attributable costs, and subsequently stated at fair value as determined by external professional valuers to reflect the prevailing market conditions at the end of each reporting period. Any gain or loss resulting from either a change in the fair value or disposal of an investment property is immediately recognized in profit or loss. Rental income from investment properties is accounted for as described in note 3.28(iii).

For a transfer from investment property carried at fair value to owner-occupied property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use. For property occupied by the Group as an owner-occupied property which becomes an investment property, the Group accounts for such property in accordance with the policy of property, plant and equipment (note 3.8) up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with in assets revaluation reserve. On disposal of the property, the assets revaluation reserve is transferred to retained profits as a movement in reserves.

For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognized in profit or loss.

### 3.8 Property, plant and equipment

Freehold land is stated at cost and is not depreciated. Other property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (note 3.11).

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Depreciation is provided to write off the cost of each item of property, plant and equipment less its residual value, if applicable, over its estimated useful lives on a straight-line basis at the following rates per annum:

| *Category of property, plant and equipment* | *Annual rates* |
|---|---|
| Land and buildings *(note 3.10)* | 2% to 5% |
| Leasehold improvements | Over the shorter of the lease terms and 20% |
| Furniture, fixtures and office equipment | 10% to 33.33% |
| Motor vehicles | 20% to 25% |

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the item and is recognized in profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.9 Intangible assets (Other than goodwill)

Intangible assets are recognized initially at cost. After initial recognition, intangible assets with finite useful lives are amortized over the useful economic life and assessed for impairment (note 3.11) whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortized but reviewed for impairment at least annually (note 3.11) either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

*Shopping mall operating right*

Shopping mall operating right represents the right of operating a shopping mall. Cost incurred in the acquisition of the right is carried at cost less any impairment losses and is amortized over the period of operation of 30 years.

### 3.10 Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rental receivable under the operating leases are credited to profit or loss on a straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received or receivable, are charged to profit or loss on a straight-line basis over the lease terms.

Prepaid lease rental on land are up-front prepayments made for the leasehold land and land use rights which are stated at cost less accumulated amortization and any impairment losses. Amortization is calculated on a straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in cost of land and buildings as a finance lease in property, plant and equipment (note 3.8).

When the Group's interests in leasehold land and buildings are in the course of development for sale in ordinary course of business, the leasehold land component is included in properties under development and properties held for sale. During the development period of such properties, the amortization charge of the prepaid land lease is capitalized as part of the building costs but charged to profit or loss on completion of development of such properties.

### 3.11 Impairment of non-financial assets

Goodwill, other intangible assets, property, plant and equipment, prepaid lease rental on land and investments in subsidiaries and jointly controlled entities are subject to impairment testing. Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the assets' carrying amount may not be recoverable.

An impairment loss is recognized as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined from the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.11 Impairment of non-financial assets (Continued)

Impairment losses recognized for cash-generating units to which goodwill has been allocated are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods including impairment losses recognized in an interim period. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized.

A reversal of such impairment is credited to profit or loss in the period in which it arises unless that asset is carried at revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for the revalued amount.

### 3.12 Investments and other financial assets

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and, where allowed and appropriate, re-evaluates this designation at the end of each reporting period.

All financial assets are recognized when, and only when, the Group becomes a party to the contractual provisions of the instrument. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract when the analysis shows that the economic characteristics and the risks of the embedded derivatives are not closely related to those of the host contract.

All regular way purchases and sales of financial assets are recognized on trade date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

When financial assets are recognized initially, they are measured at fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

*Loans and receivables*

Financial assets of the Group are classified into loans and receivables. Loans and receivables including amounts due from related parties are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired as well as through the amortization process.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.13 Impairment of financial assets

At the end of each reporting period, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that come to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and

— significant changes in the financial market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data include but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, 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 (i.e. the effective interest rate computed at initial recognition). The amount of impairment loss is recognized in profit or loss of the period in which the impairment occurs. The carrying amount of loans and receivables is reduced through the use of an allowance account. Loan and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss of the period in which the reversal occurs.

### 3.14 Inventory of properties

Inventory of properties comprises properties under development and properties held for sale. Properties under development are investments in land and buildings on which construction work has not been completed and which, upon completion, management intends to hold for sale purposes. Inventory of properties is stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated cost to completion and estimated selling expenses. The costs of inventory of properties consist of land held under operating lease (see note 3.10), development expenditures including construction costs, borrowing costs and other direct costs attributable to the development of such properties.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.15 Other inventories

Other inventories are stated at the lower of cost, computed using weighted average method, and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

### 3.16 Foreign currencies

The financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined.

The functional currencies of certain entities of the Group are currencies other than HK$. For the purpose of the consolidated financial statements, assets and liabilities of those entities at the end of each reporting period are translated into HK$ at exchange rate prevailing on the end of each reporting period. Income and expense items are translated into HK$ at the average exchange rate for the period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the Group's translation reserve. Such translation differences are recognized in profit or loss in the period in which the foreign entity is disposed of.

Goodwill and fair value adjustments arising on acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in the translation reserve.

### 3.17 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the presentation purpose of the consolidated statement of cash flows, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

### 3.18 Income tax

Income tax comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.18 Income tax (Continued)

Deferred tax is calculated using the liability method on temporary differences at the end of each reporting period between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognized for taxable temporary differences arising on interests in subsidiaries and jointly-controlled entities, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realized, provided they are enacted or substantively enacted at the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 3.19 Borrowing costs

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 be ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when 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 capitalized. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

### 3.20 Financial liabilities

Financial liabilities, comprising borrowings and trade and other payables including amounts due to related parties, are recognized when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognized in accordance with the Group's accounting policy for borrowing costs (note 3.19). A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in profit or loss.

*Financial liabilities at amortized costs*

Borrowings and trade and other payables including amounts due to related parties are financial liabilities at amortized cost which are recognized initially at fair value (net of transaction costs incurred for borrowings) and subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in profit or loss when the liabilities are derecognized as well as through amortization process.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.21 Convertible bonds

The convertible bonds of HK$2,200 million issued by the Group that can be converted to equity share capital at the option of the bondholders, where the number of shares that would be issued on conversion and the value of consideration would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

Convertible bonds issued by the Group that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond containing derivative features where applicable. The equity component of the convertible bonds is then the residual after deducting the fair value of the liability component from the proceeds from the issue of the convertible bonds.

The liability component is subsequently carried as a non-current liability at amortized cost using the effective interest method until extinguished on conversion or redemption. Interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (see note 3.19). The equity component is recognized in convertible bonds equity reserve until either the convertible bonds are converted or redeemed.

If the convertible bonds are converted, the convertible bonds equity reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the convertible bonds are redeemed, the convertible bonds equity reserve is released directly to retained profits.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortized over the period of the convertible bonds using the effective interest method.

### 3.22 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognized as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognized in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in profit or loss on initial recognition of any deferred income. The amount of the guarantee initially recognized as deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with note 3.25 if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognized less accumulated amortization, where appropriate.

### 3.23 Employee benefits

Salaries, allowance, paid annual leave and other benefits are accrued in the period in which the associated services are rendered by the employee. Payments to the Mandatory Provident Fund Scheme and other retirement benefit schemes as set out in note 39 are charged as an expense when employees have rendered services entitling them to the contributions.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.24 Share-based payment transactions

The Group operates equity-settled share-based compensation plans as part of the remuneration of its employees. All employee services received in exchange for the grant of financial instruments, for example, share options are measured at their fair values. The cost of equity-settled share-based compensation is measured by reference to the fair value at the date on which they are granted. In determining the fair value, no account is taken of any non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based compensation is ultimately recognized as an expense in profit or loss unless it qualifies for recognition as asset with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

In respect of share options, the fair value of the share options granted by the Group to its employees is recognized in profit or loss with a corresponding increase in share-based payment reserve. Upon exercise of the share options, the amount in the share-based payment reserve is transferred to the share premium account. In case the share options lapsed, the amount in the share-based payment reserve is released directly to retained profits.

### 3.25 Provisions and contingent liabilities

Provision is recognized when the Group has a present obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. When the effect of discounting is material, provision is stated at the present value of the expenditure expected to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss. All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### 3.26 Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### 3.27 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within equity, until they have been approved by the shareholders in a general meeting. When these dividends are approved and declared, they are recognized as a liability. Interim dividends are simultaneously proposed and declared and consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.28 Revenue and other income recognition

Revenue and other income are recognized when it is probable that the economic benefits will flow to the Group and when the income can be measured reliably on the following bases:

(i) Sale of properties is recognized as revenue when all of the following criteria are met:

— the significant risks and rewards of ownership of the properties are transferred to buyers;

— neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;

— it is probable that the economic benefits associated with the transaction will flow to the Group; and

— the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sale of properties is usually taken as the time when the construction of the respective properties has been completed and the properties have been delivered to the buyers.

Deposits received on properties sold prior to the date of revenue recognition are included in the statement of financial position as sales deposits received under current liabilities.

(ii) Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable.

(iii) Rental income is recognized on a straight-line basis over the periods of the respective tenancies.

(iv) Building management and service fee income are recognized on an appropriate basis over the relevant period in which the services are rendered.

### 3.29 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(a) The party is a person or a close member of that person's family and that person,

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3.29 Related parties (Continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third party and the other party is an associate of the third party;

(v) the entity is a post-employment benefit plan for the benefit of employees of the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependents of that person or that person's spouse or domestic partner.

### 3.30 Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the chief operating decision-maker i.e. the most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing 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 have a significant effect on the carrying amounts of assets and liabilities within the next financial period are discussed below:

*Fair value of investment properties*

As disclosed in note 15, the investment properties were revalued at the end of each reporting period by independent professional valuers. Such valuations were based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

*Impairment of assets*

The Group reviews at least annually and assesses whether goodwill and other intangible assets with indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit has been determined based on a value in use calculation which requires the use of estimates including expected future cash flows of the asset/cash-generating unit and discount rate adopted to calculate the present value of those cash flows. Details about the estimates used in assessing impairment for goodwill are set out in note 18.

*Allowance for loans and receivables*

The policy on allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of loans and receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including current creditworthiness and the past collection history of each customer. If the financial conditions of the customers or debtors of the Group deteriorate thus resulting in impairment as to their ability to make payments, additional allowances may be required.

*Net realisable value of inventories of properties*

Include in the consolidated statement of financial position at 31 December 2012 is inventories of properties with an aggregate carrying amount of approximately HK$17,522,426,000 (2011: HK$12,392,881,000) which have to be stated at lower of cost and net realisable value. Management determines the net realisable value of the underlying properties which involves, inter-alia, considerable analyses of current market price of properties of a comparable standard and location, construction costs to be incurred to complete the development based on existing asset structure and construction material price lists and a forecast of future sales taking into account economic factors and new government measures. If the actual net realisable values of the underlying inventories of properties are more or less than expected as a result of change in market condition and/or significant variation in the budgeted development cost, material reversal of or provision for impairment losses may result.

*Estimates of current tax and deferred tax*

The Group is subject to taxation in various jurisdictions. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation, particularly for PRC land appreciation tax ("LAT"), and implementation of these taxes varies amongst various PRC cities. The Group has not finalized its LAT calculation and payments with certain local tax authorities in the PRC. Accordingly, significant estimation is required in determining the amount of the land appreciation and its related LAT. The Group recognized the income tax and LAT 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 tax expense in the period in which the tax calculations are finalized with the local tax authorities.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### 4.1 Critical accounting estimates and assumptions (Continued)

*Fair value of the liability component of the convertible bonds*

On initial recognition, the fair value of the liability component of the convertible bonds is determined using a market rate for an equivalent non-convertible bond based on binomial pricing model. The valuation was based on certain assumptions and involves significant estimates and judgement, hence, the fair value of the liability component of the convertible bonds is subject to uncertainty.

### 4.2 Critical judgements in applying accounting policies

*Revenue recognition*

The Group has recognized revenue from the sale of properties held for sale as disclosed in note 3.28(i). The assessment of when an entity has transferred the significant risks and rewards of ownership to buyers requires the examination of the circumstances of the transactions.

*Distinction between investment properties and owner-occupied properties*

Some properties of the Group 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 can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

*Determination of deferred tax on investment properties*

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties, the directors reviewed the Group's investment property portfolio and determined whether the investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale and accordingly, whether the presumption set out in the amendments to HKAS 12 is to be rebutted. The directors of the Company exercise judgement to determine the expected manner of recovering the carrying amount of the Group's investment properties based on the Group's business plans.

## 5. REVENUE

The principal activities of the Group are disclosed in note 1. Turnover of the Group is the revenue from these activities. Revenue from the Group's principal activities recognized during the year is as follows:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Sales of properties | **9,530,749** | 4,995,936 |
| Property rental income | **119,869** | 109,676 |
| Property management fee income | **66,284** | 60,108 |
| Total revenue | **9,716,902** | 5,165,720 |

## 6. SEGMENT INFORMATION

The operating segments are reported in a manner consistent with the way in which information is reported internally to the Group's most senior management for the purposes of resource allocation and assessment of segment performance. The Group has identified the following reportable segments for its operating segments:

| | | |
|---|---|---|
| Property investment and development | — | This segment constructs residential and commercial properties in the PRC. Part of the business is carried out through jointly controlled entities. |
| Property leasing | — | This segment leases commercial units located in the PRC to generate rental income and gain from appreciation in the properties' values in the long term. Part of the business is carried out through a jointly controlled entity. |
| Other segment | — | This segment provides management services to certain housing estate in the PRC and generates management fee income. |

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. Segment revenue represents sales from external customer and there were no inter-segment sales between different operating segments for the years ended 31 December 2012 and 2011. Segment profit/loss includes the Group's share of profit/loss arising from the activities of the Group's jointly controlled entities. Reportable segment profit/loss excludes corporate income and expenses from the Group's profit/loss before income tax. Corporate income and expenses are income and expenses incurred by corporate headquarters which are not allocated to the operating segments. Each of the operating segments is managed separately as the resources requirement of each of them is different.

Segment assets include all assets with the exception of tax assets and corporate assets, including certain bank balances and cash and other assets which are not directly attributable to the business activities of operating segments as these assets are managed on a group basis.

Segment liabilities include trade and other payables, accrued liabilities, amounts due to related parties and other liabilities directly attributable to the business activities of operating segments and exclude tax liabilities, corporate liabilities and liabilities such as borrowings and convertible bonds that are managed on a group basis.

## 6. SEGMENT INFORMATION (CONTINUED)

### Segment results, segment assets and segment liabilities

Information regarding the Group's reportable segments including the reportable segment revenue, the reconciliations of reportable segment profit/(loss) to profit before income tax, total assets, total liabilities and other segment information are as follows:

| | Property investment and development HK$'000 | Property leasing HK$'000 | Other segment HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| **Year ended 31 December 2012** | | | | |
| Reportable segment revenue | **9,530,749** | **119,869** | **66,284** | **9,716,902** |
| Reportable segment profit/(loss) | **3,434,753** | **434,974** | **(1,365)** | **3,868,362** |
| Corporate income | | | | **9,606** |
| Corporate expenses | | | | **(67,707)** |
| Profit before income tax | | | | **3,810,261** |
| **As at 31 December 2012** | | | | |
| Reportable segment assets | **27,450,280** | **2,649,640** | **79,733** | **30,179,653** |
| Tax assets | | | | **345,657** |
| Corporate assets | | | | **419,233** |
| Total consolidated assets | | | | **30,944,543** |
| **As at 31 December 2012** | | | | |
| Reportable segment liabilities | **11,767,361** | **64,691** | **48,694** | **11,880,746** |
| Tax liabilities | | | | **3,283,365** |
| Corporate liabilities | | | | **7,171,334** |
| Total consolidated liabilities | | | | **22,335,445** |
| Year ended 31 December 2011 | | | | |
| Reportable segment revenue | 4,995,936 | 109,676 | 60,108 | 5,165,720 |
| Reportable segment profit | 2,989,940 | 445,299 | 5,138 | 3,440,377 |
| Corporate income | | | | 614 |
| Corporate expenses | | | | (60,238) |
| Profit before income tax | | | | 3,380,753 |
| As at 31 December 2011 | | | | |
| Reportable segment assets | 16,939,871 | 2,232,440 | 64,169 | 19,236,480 |
| Tax assets | | | | 402,946 |
| Corporate assets | | | | 42,667 |
| Total consolidated assets | | | | 19,682,093 |
| As at 31 December 2011 | | | | |
| Reportable segment liabilities | 6,732,545 | 83,505 | 44,855 | 6,860,905 |
| Tax liabilities | | | | 3,636,414 |
| Corporate liabilities | | | | 3,752,744 |
| Total consolidated liabilities | | | | 14,250,063 |

## 6. SEGMENT INFORMATION (CONTINUED)

### Segment results, segment assets and segment liabilities (Continued)

| | Property investment and development HK$'000 | Property leasing HK$'000 | Other segment HK$'000 | Corporate HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **Other information** | | | | | |
| **Year ended 31 December 2012** | | | | | |
| Interest income | 34,174 | 4,691 | 431 | 9,606 | 48,902 |
| Depreciation and amortization | (5,119) | (5,909) | (314) | (465) | (11,807) |
| Fair value gain on investment properties | – | 364,280 | – | – | 364,280 |
| Impairment loss recognized in profit or loss, net | (916) | (25,990) | – | – | (26,906) |
| Share of results of a jointly controlled entity | – | 8,884 | – | – | 8,884 |
| Additions to specified non-current assets # | 12,514 | - | 513 | 4,586 | 17,613 |
| Write-off of property, plant and equipment | (29) | – | (16) | (856) | (901) |
| **As at 31 December 2012** | | | | | |
| Interests in a jointly controlled entity | – | 79,238 | – | – | 79,238 |

| | Property investment and development HK$'000 | Property leasing HK$'000 | Other segment HK$'000 | Corporate HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **Other information** | | | | | |
| **Year ended 31 December 2011** | | | | | |
| Interest income | 23,538 | 3,517 | 322 | 324 | 27,701 |
| Depreciation and amortization | (2,650) | (5,588) | (457) | (247) | (8,942) |
| Fair value gain on reclassification of inventories of properties to investment properties | – | 238,188 | – | – | 238,188 |
| Fair value gain on investment properties | – | 116,915 | – | – | 116,915 |
| Reversal of impairment recognized in profit or loss, net | 18,168 | – | – | – | 18,168 |
| Share of results of jointly controlled entities | 1,428 | 6,151 | – | – | 7,579 |
| Additions to specified non-current assets # | 10,584 | 626 | 389 | 582 | 12,181 |
| Write-off of property, plant and equipment | (149) | – | (52) | – | (201) |
| **As at 31 December 2011** | | | | | |
| Interests in jointly controlled entities | 2,960 | 70,332 | – | – | 73,292 |

# *Including additions to the Group's investment properties, other properties, plant and equipment, prepaid lease rental on land, intangible assets including goodwill and interests in jointly controlled entities but exclude transfer from inventories of properties*

## 6. SEGMENT INFORMATION (CONTINUED)

### Geographical information

All of the Group's revenue is derived from activities in the PRC (other than Hong Kong). Accordingly, no analysis of the Group's revenue by geographical locations is presented.

An analysis of the Group's investment properties, other properties, plant and equipment, prepaid lease rental on land, intangible assets including goodwill and interests in jointly controlled entities (i.e. "specified non-current assets") by geographical locations, determined based on physical location of the assets or location of operations in case of goodwill and interests in jointly controlled entities, is as follows:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Hong Kong | **4,389** | 1,219 |
| Other regions of the PRC | **2,408,714** | 2,092,993 |
| | **2,413,103** | 2,094,212 |

## 7. OTHER INCOME

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Interest income on: | | |
| Bank deposits | **45,844** | 24,694 |
| Amount due from a jointly controlled entity | **3,058** | 3,007 |
| Total interest income on financial assets not at fair value through profit or loss | **48,902** | 27,701 |
| Sundry income | **5,576** | 2,217 |
| | **54,478** | 29,918 |

## 8. PROFIT BEFORE INCOME TAX

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Profit before income tax is arrived at after charging/(crediting): | | |
| Amortization: | | |
| Prepaid lease rental on land | 36 | 58 |
| Other intangible assets# | 4,764 | 4,673 |
| Depreciation of property, plant and equipment | 7,007 | 4,211 |
| Total amortization and depreciation | 11,807 | 8,942 |
| Remuneration to auditor for audit services**: | | |
| — Current year | 1,380 | 1,000 |
| Cost of sales and services provided comprise: | | |
| — Amount of inventories recognized as expense | 5,707,376 | 2,109,190 |
| Gain on disposal of property, plant and equipment^ | – | (16,127) |
| Impairment on goodwill *(note 18)* | 70,388 | 17,289 |
| Reversal of impairment on loans and receivables | (43,482) | (35,457) |
| Compensation for a property development project* *(note 37(b))* | – | 60,265 |
| Net foreign exchange loss | 21,276 | 8,470 |
| Operating lease charge on land and buildings | 10,420 | 5,522 |
| Outgoings in respect of investment properties | 16,880 | 16,115 |
| Net rental income | (102,989) | (93,561) |
| Staff costs *(note)* | 189,742 | 141,208 |
| Write-off of property, plant and equipment | 901 | 201 |
| Business tax and other levies | 596,844 | 306,685 |

# *included in "Cost of sales and services provided" in the consolidated income statement*
^ *included in "Other gains/(losses) — Others" in the consolidated income statement*
* *included in "Other operating expenses" in the consolidated income statement*
** *Fees for non-audit services rendered by the auditor amounted to HK$130,000 (2011: HK$458,000)*

*Note:*

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

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Salaries, allowances and other benefits | 182,944 | 135,791 |
| Retirement fund contributions *(note 39)* | 6,798 | 5,417 |
| | 189,742 | 141,208 |

## 9. FINANCE COSTS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Interest charges on: | | |
| Bank borrowings and overdrafts | | |
| — wholly repayable within five years | **222,531** | 136,174 |
| — not wholly repayable within five years | **7,797** | 10,312 |
| Other loan wholly repayable within five years | **6,075** | 23,310 |
| Imputed interest expense on consideration payable for acquisition of non-controlling interests *(note 33(a))* | **–** | 51,866 |
| Imputed interest expense on convertible bonds *(note 32)* | **114,125** | – |
| Total interest expense on financial liabilities not at fair value through profit or loss | **350,528** | 221,662 |
| Less: Amount capitalized in properties under development | **(341,938)** | (188,165) |
| | **8,590** | 33,497 |

The analysis shows the finance costs of bank and other borrowings in accordance with the agreed scheduled repayments dates set out in the loan agreements. For the years ended 31 December 2012 and 2011, the Group did not incur any finance costs on bank and other borrowings that contain a repayable on demand clause as there was no such borrowing throughout the years.

Borrowing costs capitalized during the year are calculated by applying an average capitalization rate of 5.53% (2011: 9.41%) per annum to expenditure on qualifying assets.

## 10. INCOME TAX EXPENSE

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Income tax expense comprises: | | |
| Current tax for the year | | |
| Hong Kong profits tax | **–** | – |
| Other regions of the PRC | | |
| — Enterprise income tax ("EIT") | **784,223** | 664,738 |
| — LAT | **505,289** | 866,423 |
| | **1,289,512** | 1,531,161 |
| (Over)/Under provision in prior years | | |
| Other regions of the PRC | | |
| — EIT | **(14,489)** | 1,633 |
| Deferred tax *(note 35)* | **49,599** | 43,141 |
| | **1,324,622** | 1,575,935 |

For the year ended 31 December 2012, no Hong Kong profits tax has been provided as the Group did not derived any estimated assessable profit in Hong Kong for the year (2011: nil).

EIT arising from other regions of the PRC is calculated at 25% (2011: 25%) on the estimated assessable profits.

PRC LAT is levied at progressive rates from 30% to 60% (2011: 30% to 60%) on the estimated appreciation of land value, being the proceeds of sales of properties less deductible expenditure including cost of land use rights and development and construction expenditure.

## 10. INCOME TAX EXPENSE (CONTINUED)

The income tax expense can be reconciled to the profit before income tax at applicable tax rates as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Profit before income tax | **3,810,261** | 3,380,753 |
| Tax on profit at the rates applicable to profits in the jurisdictions concerned | **961,046** | 782,295 |
| Expenses not deductible for tax purpose | **41,436** | 32,163 |
| Income not taxable for tax purpose | **(23,592)** | (94,692) |
| Share of results of jointly controlled entities | **(2,221)** | (1,895) |
| Utilization of tax losses previously not recognized | **(14,802)** | (423) |
| LAT deductible for calculation of income tax | **(123,963)** | (259,937) |
| Tax losses not recognized | **25,741** | 33,871 |
| (Over)/Under provision in prior years | **(14,489)** | 1,633 |
| Deferred tax provided for withholding tax on distributable profits of the Group's PRC subsidiaries | **317,458** | 56,080 |
| Others | **10,606** | 4,382 |
| | **1,177,220** | 553,477 |
| LAT | **147,402** | 1,022,458 |
| Income tax expense | **1,324,622** | 1,575,935 |

## 11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Among the consolidated profit attributable to owners of the Company of HK$2,400,718,000 (2011: HK$1,815,418,000), a profit of HK$931,791,000 (2011: a loss of HK$110,028,000) has been dealt with in the financial statements of the Company.

## 12. DIVIDENDS

(a) Dividends payable to owners of the Company attributable to the year:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Interim dividend — HK$0.05 (2011: nil) per ordinary share | **114,112** | – |
| Proposed final dividend — HK$0.06 (2011: HK$0.05) per ordinary share *(note)* | **136,934** | 76,075 |
| | **251,046** | 76,075 |

*Note:*

*The final dividend of HK$0.06 (2011: HK$0.05) per ordinary share, amounting to approximately HK$136,934,000 (2011: HK$76,075,000), has been proposed by the directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.*

(b) Dividends payable to owners of the Company attributable to the previous financial year:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Final dividend in respect of previous financial year, approved and paid during the year of HK$0.05 (2011: HK$0.10) per ordinary share | **76,075** | 101,433 |

## 13. EARNINGS PER SHARE

The calculations of basic earnings per share and diluted earnings per share attributable to owners of the Company are based on the following data:

| Earnings | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Earnings used in calculating basic earnings per share | **2,400,718** | 1,815,418 |
| Adjustment to the profit of the Group | | |
| — interest on consideration payable for acquisition of non-controlling interests *(note 33(a))* | **–** | 9,005 |
| — imputed interest on convertible bonds | **16,884** | – |
| | **16,884** | 9,005 |
| Earnings used in calculating diluted earnings per share | **2,417,602** | 1,824,423 |

| Weighted average number of ordinary shares (note) | 2012 '000 | 2011 '000 (Restated) |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | **2,282,240** | 2,177,705 |
| Effect of dilutive potential ordinary shares | | |
| — issuance of shares for acquisition of non-controlling interests *(note 33(a))* | **–** | 104,535 |
| — issuance of shares for conversion of convertible bonds *(note 32)* | **205,785** | – |
| | **205,785** | 104,535 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | **2,488,025** | 2,282,240 |

*Note:*

*The weighted average number of ordinary shares used in calculating the basic earnings per share and diluted earnings per share is adjusted for the Bonus Share Issue 2011 (as defined and disclosed in note 33(b) and the Bonus Share Issue 2012 (as defined and disclosed in note 33(c)) as if the two bonus share issues had occurred on 1 January 2011.*

## 14. DIRECTORS' EMOLUMENTS AND SENIOR MANAGEMENT'S EMOLUMENTS

### Directors' emoluments

| | Fees HK$'000 | Salaries, allowances and other benefits HK$'000 | Discretionary bonus HK$'000 | Retirement fund contribution HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2012** | | | | | |
| *Executive directors* | | | | | |
| Mr. Chen Bin | – | 1,800 | 3,500 | – | 5,300 |
| Mr. Xiang Hong | – | 735 | 2,800 | – | 3,535 |
| Mr. Wang Man Kwan, Paul | – | 2,296 | 1,660 | 14 | 3,970 |
| Mr. Yang Hai Song *(note (b))* | 125 | – | – | – | 125 |
| Mr. Yu Shangyou *(note (c))* | 918 | – | – | – | 918 |
| *Non-executive directors* | | | | | |
| Mr. Hao Jian Min | 1,200 | – | – | – | 1,200 |
| Mr. Yung Kwok Kee, Billy | 100 | – | – | – | 100 |
| *Independent non-executive directors* | | | | | |
| Dr. Chung Shui Ming, Timpson | 250 | 110 | – | – | 360 |
| Mr. Lam Kin Fung, Jeffrey | 250 | 92 | – | – | 342 |
| Mr. Lo Yiu Ching, Dantes | 250 | – | – | – | 250 |
| | 3,093 | 5,033 | 7,960 | 14 | 16,100 |
| **Year ended 31 December 2011** | | | | | |
| *Executive directors* | | | | | |
| Mr. Chen Bin | 1,700 | – | – | – | 1,700 |
| Mr. Yu Shangyou | 1,100 | – | – | – | 1,100 |
| Mr. Xiang Hong | 700 | – | 2,240 | – | 2,940 |
| Mr. Wang Man Kwan, Paul *(note (a))* | 1,046 | – | 1,183 | 6 | 2,235 |
| Mr. Zhu Bing Kun *(note (d))* | 288 | – | – | – | 288 |
| *Non-executive directors* | | | | | |
| Mr. Hao Jian Min | 1,200 | – | – | – | 1,200 |
| Mr. Yung Kwok Kee, Billy | 100 | – | – | – | 100 |
| *Independent non-executive directors* | | | | | |
| Dr. Chung Shui Ming, Timpson | 250 | 110 | – | – | 360 |
| Mr. Lam Kin Fung, Jeffrey | 250 | – | – | – | 250 |
| Mr. Lo Yiu Ching, Dantes | 250 | – | – | – | 250 |
| | 6,884 | 110 | 3,423 | 6 | 10,423 |

## 14. DIRECTORS' EMOLUMENTS AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

### Directors' emoluments (Continued)

*Notes:*

(a) *Mr. Wang Man Kwan, Paul was appointed as executive director with effect from 11 July 2011.*

(b) *Mr. Yang Hai Song was appointed as executive director with effect from 16 October 2012.*

(c) *Mr. Yu Shangyou resigned as executive director with effect from 16 October 2012.*

(d) *Mr. Zhu Bing Kun resigned as executive director with effect from 11 July 2011.*

There is no arrangement under which a director waived or agreed to waive any emoluments during year (2011: nil).

### Five highest paid individuals

The five individuals with the highest emoluments in the Group include 3 (2011: 2) directors, whose emoluments are included in the disclosures above. The emoluments of the remaining 2 (2011: 3) highest paid individuals for the years ended 31 December 2012 and 2011 were as follows:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Salaries, allowances and other benefits | **936** | 1,002 |
| Discretionary bonus | **4,800** | 5,990 |
| Retirement fund contributions | **–** | 652 |
| | **5,736** | 7,644 |

Their emoluments were within the following bands:

| | **Number of employees** | |
|---|---|---|
| | **2012** | 2011 |
| HK$1,000,000–HK$1,500,000 | **–** | – |
| HK$2,000,001–HK$2,500,000 | **–** | 2 |
| HK$2,500,001–HK$3,000,000 | **2*** | 1 |

* *included one senior management staff*

No emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2011: nil).

In respect of the emoluments of senior management, save as disclosed above under directors' emoluments, all the others' emoluments are showed in the salary bands under the five highest paid individuals.

## 15. INVESTMENT PROPERTIES

| | THE GROUP | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Carrying amount at 1 January | **1,883,563** | 1,309,549 |
| Translation adjustment | **1,089** | 75,341 |
| Disposal | **–** | (38,625) |
| Transfer from inventories of properties *(note (b))* | **–** | 365,871 |
| Transfer from property, plant and equipment and prepaid lease rental on land *(note (c))* | **–** | 54,512 |
| Increase in fair value | **364,280** | 116,915 |
| Carrying amount at 31 December | **2,248,932** | 1,883,563 |

The carrying amount of the Group's interests in investment properties are analyzed as follows:

| | THE GROUP | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| In other regions of the PRC, held under medium-term leases | **2,248,932** | 1,883,563 |

*Notes:*

*(a) Investment properties which are situated in other regions of the PRC were revalued as at 31 December 2012 by CBRE HK Limited on an open market basis. The valuations were arrived at by reference to comparable market transactions and where appropriate, on the basis of capitalization of net income. CBRE HK Limited is an independent firm of professionally qualified valuers and has appropriate qualifications and recent experiences in the valuation of similar properties in nearby locations.*

*(b) During the year ended 31 December 2011, the Group reclassified certain inventories of properties with carrying value of HK$127,683,000 as investment properties and recognized fair value gain of HK$238,188,000 in profit or loss on the date of reclassification.*

*(c) During the year ended 31 December 2011, the Group leased out a formerly self-occupied commercial unit and reclassified it as an investment property. The property was previously occupied by the Group for administrative purpose, of which the building portion was classified as property, plant and equipment with carrying value of HK$13,939,000 (note 16) and the land portion was included in prepaid lease rental on land with carrying value of HK$1,639,000 (note 17). The Group recognized an aggregate fair value gain of HK$38,934,000 on the date of reclassification. The fair value gain net of tax was approximately HK$19,492,000 and was recognized in assets revaluation reserve in equity. During the year, due to the change in expected manner of recovery for certain investment properties including this property as detailed in note 35, a tax adjustment amounting to HK$9,549,000 is resulted and is dealt with in the assets revaluation reserve.*

The investment properties are leased to third parties and related companies under operating leases to earn rental income, further details of which are included in note 41.

Certain investment properties of the Group are pledged as further detailed in note 40.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | THE GROUP | | | | |
|---|---|---|---|---|---|
| | Land and buildings HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
| **COST** | | | | | |
| At 1 January 2011 | 39,468 | 860 | 4,131 | 5,710 | 50,169 |
| Translation adjustment | 1,643 | – | 390 | 529 | 2,562 |
| Additions | – | 542 | 4,308 | 4,498 | 9,348 |
| Disposals | (10,066) | – | – | – | (10,066) |
| Write-off | – | – | (2,307) | (4,134) | (6,441) |
| Acquisition of subsidiaries *(note 37)* | 1,731 | – | 242 | 860 | 2,833 |
| Transfer to investment properties *(note 15(c))* | (16,125) | – | – | – | (16,125) |
| At 31 December 2011 and 1 January 2012 | 16,651 | 1,402 | 6,764 | 7,463 | 32,280 |
| Translation adjustment | – | – | 9 | 35 | 44 |
| Additions | – | 3,874 | 4,100 | 9,639 | 17,613 |
| Write-off | – | (1,402) | (1,484) | (558) | (3,444) |
| Disposal of subsidiaries *(note 38(a))* | – | – | (195) | (682) | (877) |
| Transfer from inventories of properties *(note 17)* | 9,658 | – | – | – | 9,658 |
| **At 31 December 2012** | 26,309 | 3,874 | 9,194 | 15,897 | 55,274 |
| **DEPRECIATION** | | | | | |
| At 1 January 2011 | 5,775 | 43 | 779 | 3,358 | 9,955 |
| Translation adjustment | 260 | – | 221 | 391 | 872 |
| Depreciation provided | 328 | 223 | 1,896 | 1,764 | 4,211 |
| Disposals | (2,179) | – | – | – | (2,179) |
| Write-off | – | – | (2,106) | (4,134) | (6,240) |
| Transfer to investment properties *(note 15(c))* | (2,186) | – | – | – | (2,186) |
| At 31 December 2011 and 1 January 2012 | 1,998 | 266 | 790 | 1,379 | 4,433 |
| Translation adjustment | 4 | – | 6 | 11 | 21 |
| Depreciation provided | 611 | 280 | 2,887 | 3,229 | 7,007 |
| Write off | – | (546) | (1,439) | (558) | (2,543) |
| Disposal of subsidiaries *(note 38(a))* | – | – | (139) | (682) | (821) |
| **At 31 December 2012** | 2,613 | – | 2,105 | 3,379 | 8,097 |
| **NET CARRYING AMOUNT** | | | | | |
| **At 31 December 2012** | 23,696 | 3,874 | 7,089 | 12,518 | 47,177 |
| At 31 December 2011 | 14,653 | 1,136 | 5,974 | 6,084 | 27,847 |

## 16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | THE COMPANY | | |
|---|---|---|---|
| | Leasehold improvements HK$'000 | Furniture, fixtures and office equipment HK$'000 | Total HK$'000 |
| **COST** | | | |
| At 1 January 2011 | 860 | 68 | 928 |
| Additions | 542 | 40 | 582 |
| At 31 December 2011 and 1 January 2012 | **1,402** | **108** | **1,510** |
| Additions | **3,874** | **40** | **3,914** |
| Write-off | **(1,402)** | **–** | **(1,402)** |
| **At 31 December 2012** | **3,874** | **148** | **4,022** |
| **DEPRECIATION** | | | |
| At 1 January 2011 | 43 | 1 | 44 |
| Depreciation provided | 223 | 24 | 247 |
| At 31 December 2011 and 1 January 2012 | **266** | **25** | **291** |
| Depreciation provided | **280** | **28** | **308** |
| Write-off | **(546)** | **–** | **(546)** |
| **At 31 December 2012** | **–** | **53** | **53** |
| **NET CARRYING AMOUNT** | | | |
| **At 31 December 2012** | **3,874** | **95** | **3,969** |
| At 31 December 2011 | 1,136 | 83 | 1,219 |

The carrying amounts of land and buildings and prepaid lease rental on land held by the Group are analyzed as follows:

| | THE GROUP | |
|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 |
| In other regions of the PRC, held under medium-term leases | **29,349** | 16,675 |

| | THE GROUP | |
|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 |
| Land and buildings included in property, plant and equipment | **23,696** | 14,653 |
| Prepaid lease rental on land *(note 17)* | **5,653** | 2,022 |
| | **29,349** | 16,675 |

Certain land and buildings of the Group are pledged as further detailed in note 40.

## 17. PREPAID LEASE RENTAL ON LAND

| | THE GROUP 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **2,022** | 3,543 |
| Translation adjustment | **–** | 176 |
| Amortization charged | **(36)** | (58) |
| Reclassification to investment properties *(note 15(c))* | **–** | (1,639) |
| Reclassification from inventories of properties *(note)* | **3,667** | – |
| Carrying amount at 31 December | **5,653** | 2,022 |

| | THE GROUP 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Analyzed into: | | |
| Non-current portion included in non-current assets | **5,479** | 1,970 |
| Current portion included in current assets | **174** | 52 |
| | **5,653** | 2,022 |

*Note:*

*During the year ended 31 December 2012, the Group occupied certain residential units of a property development project and reclassified the land and building portion of HK$3,667,000 and HK$9,658,000 (note 16) as prepaid lease rental on land and property, plant and equipment respectively. These units were previously classified as property held for sale under inventories with carrying value of HK$13,325,000.*

## 18. GOODWILL

| | THE GROUP 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **70,475** | 86,258 |
| Translation adjustment | **(87)** | 1,506 |
| Impairment losses recognized in profit or loss *(note 8)* | **(70,388)** | (17,289) |
| Carrying amount at 31 December | **–** | 70,475 |

## 18. GOODWILL (CONTINUED)

*Note:*

*The amount of goodwill as at 31 December 2011 was allocated as to HK$44,485,000 and HK$25,990,000 to certain cash-generating units within the property investment and development segment as well as property leasing segment respectively. Goodwill is tested for impairment by the management by estimating the recoverable amount of these cash-generating units based on value in use calculations.*

*In respect of the property investment and development segment, as at 31 December 2012, due to the properties of the relevant project companies are nearly sold out and the management has no future plan on these project companies, the recoverable amounts of these project companies as separate cash-generating units are estimated to be lower than their carrying amounts and impairment loss of HK$44,398,000 (2011: HK$17,289,000) was recognized for these project companies.*

*In respect of the cash-generating unit within the property leasing segment, its recoverable amount is determined based on cash flow projections covering a period of five years and growth rate by reference to the Gross Domestic Products Index in the PRC. The pre-tax discount rate used reflect the specific risks relating to the cash-generating unit within property leasing segment, and applied to the cash flow projections was 10% (2011: 10%). Based on these calculations, the recoverable amount of this cash-generating unit within property leasing segment fell below its carrying amount, resulting in impairment provision for the entire amount of goodwill of HK$25,990,000.*

*The assumptions used in deriving recoverable amounts for cash-generating units have been determined based on past performance and the management's expectations in respect of the market development in the property market in the PRC.*

*Apart from the considerations described above in determining the value in use of the cash-generating units of the property investment and development segment as well as property leasing segment, the management is not currently aware of any other probable changes that would necessitate changes in its key estimates.*

## 19. OTHER INTANGIBLE ASSETS

| | **THE GROUP<br>Shopping mall<br>operating right**<br>HK$'000 |
|---|---|
| **COST** | |
| At 1 January 2011 | 70,250 |
| Translation adjustment | 4,047 |
| At 31 December 2011 and 1 January 2012 | 74,297 |
| Translation adjustment | (14) |
| **At 31 December 2012** | 74,283 |
| **AMORTIZATION AND IMPAIRMENT** | |
| At 1 January 2011 | 30,380 |
| Translation adjustment | 2,179 |
| Amortization charged | 4,673 |
| At 31 December 2011 and 1 January 2012 | 37,232 |
| Translation adjustment | 10 |
| Amortization charged | 4,764 |
| **At 31 December 2012** | 42,006 |
| **NET CARRYING AMOUNT** | |
| **At 31 December 2012** | 32,277 |
| At 31 December 2011 | 37,065 |

## 20. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | 2012 | 2011 |
| | HK$'000 | HK$'000 |
| Investment in unlisted shares, at cost | 1,944,077 | 1,944,077 |

Details of the Group's subsidiaries as at 31 December 2012 are set out in note 47.

## 21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

| | THE GROUP | |
|---|---|---|
| | 2012 | 2011 |
| | HK$'000 | HK$'000 |
| Share of net assets | 79,238 | 73,292 |
| Less: Impairment | – | – |
| | 79,238 | 73,292 |

Details of the Group's jointly controlled entity as at 31 December 2012 are set out in note 48. The following illustrates the summarized financial information of the Group's jointly controlled entities for the years ended 31 December 2012 and 2011 extracted from their management accounts which have been adjusted to ensure consistency in accounting policies adopted by the Group:

| | THE GROUP | |
|---|---|---|
| | 2012 | 2011 |
| | HK$'000 | HK$'000 |
| **Share of results for the year** | | |
| Revenue | 6,769 | 5,602 |
| Profit after income tax expense | 8,884 | 7,579 |
| **Share of assets and liabilities** | | |
| Total non-current assets | 149,116 | 141,796 |
| Total current assets | 3,357 | 3,919 |
| Total current liabilities | (31,727) | (34,063) |
| Total non-current liabilities | (41,508) | (38,360) |
| | 79,238 | 73,292 |

## 22. INVENTORIES OF PROPERTIES

| | THE GROUP | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Properties under development, at cost | **15,705,660** | 11,791,853 |
| Properties held for sale, at cost | **1,816,766** | 601,028 |
| | **17,522,426** | 12,392,881 |

As at 31 December 2012, properties under development amounting to HK$8,324,714,000 (2011: HK$3,807,945,000) are not expected to be recovered within twelve months from the end of the reporting period.

The Group's properties under development and properties held for sale are located in other regions of the PRC. As at 31 December 2012, leasehold interests in land included in inventories of properties amounted to HK$10,145,918,000 (2011: HK$5,881,161,000) which are held under long-term or medium-term leases, depending the development plans of the respective lands.

## 23. OTHER INVENTORIES

| | THE GROUP | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Raw materials | **963** | 879 |

## 24. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade receivables | **169,664** | 15,953 | **–** | – |
| Less: Impairment of trade receivables | **(9)** | (8,777) | **–** | – |
| Trade receivables, net *(note (a))* | **169,655** | 7,176 | **–** | – |
| Other receivables | **106,408** | 94,456 | **495** | 33 |
| Prepayments and deposits *(note (b))* | **2,516,770** | 1,801,759 | **809** | 2,300 |
| | **2,792,833** | 1,903,391 | **1,304** | 2,333 |

## 24. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

*Notes:*

*(a)* *The credit terms in connection with sales of properties granted to the buyers are set out in the sale and purchase agreements and vary for different agreements. In general, trade receivables are due on presentation of invoices.*

*Overdue receivables are reviewed regularly by senior management and impairment provision would be considered for those balances.*

*The ageing analysis of the Group's trade receivables (based on invoice date) net of impairment allowance is as follows:*

| | THE GROUP | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| 30 days or below | **169,539** | 4,348 |
| 91–180 days | **–** | 2,828 |
| 181–360 days | **26** | – |
| Over 360 days | **90** | – |
| | **169,655** | 7,176 |

*The movement in the allowance for trade receivables is as follows:*

| | THE GROUP | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Carrying amount at 1 January | **8,777** | 8,427 |
| Translation adjustment | **(34)** | 350 |
| Amount written off during the year | **(280)** | – |
| Impairment losses reversed | **(8,454)** | – |
| Carrying amount at 31 December | **9** | 8,777 |

*At the end of each reporting period, management reviews receivables for evidence of impairment on both an individual and collective basis. As of 31 December 2012, the Group's trade receivables of HK$9,000 (2011: HK$8,777,000) were impaired and accordingly allowances were made in respect of these balances. The individually impaired receivables mainly relate to customers that were in financial difficulties and management assessed that the entire amount of the respective receivable balances is unlikely to be recovered.*

*The ageing analysis of trade receivables (based on invoice date) which were impaired and for which allowance has been made for at the end of the reporting period is as follows:*

| | THE GROUP | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| 91–180 days | **–** | 637 |
| Over 360 days | **9** | 8,140 |
| | **9** | 8,777 |

## 24. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

*Notes: (Continued)*

*(a)* *(Continued)*

*The ageing analysis of trade receivables that are past due but are not considered impaired at the end of the reporting period is as follows:*

| | THE GROUP | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| 91–180 days | **–** | 2,828 |
| 181–360 days | **26** | – |
| Over 360 days | **90** | – |
| | **116** | 2,828 |

*Trade receivables that are neither past due nor impaired at the end of the reporting period relate to a large number of unrelated customers and based on historical information, default risk of these trade receivables is insignificant. Accordingly, no impairment provision is necessary in respect of these receivables.*

*Trade receivables that are past due but not impaired at the end of the reporting period are insignificant.*

*The Group does not hold any collateral over trade receivables balances other than rental and building management deposits from tenants of the Group's investment properties.*

*Certain amount of trade receivables were pledged as further detailed in note 40.*

*(b)* *The balance of prepayments and deposits as at 31 December 2012 mainly comprise the followings:*

*(i)* *an amount of HK$282,223,000 (2011: HK$253,899,000) paid by the Group for the primary development on certain areas in Hohhot-Inner Mongolia (the "Primary Development Land"). In prior years, the Group successfully acquired land use right for certain area of the Primary Development Land through public tender. According to the approval document issued by the relevant land authority in Hohhot, the cost of these lands was offset against the payment made by the Group for the Primary Development Land. It is the assessment as well as intention of the directors that the amount of prepayment made for the Primary Development Land as at the end of the reporting period can be fully recovered through similar land auction exercise in future or by cash payment.*

*(ii)* *deposits amounted to HK$1,916,956,000 (2011: HK$1,337,102,000) in aggregate paid by the Group for the acquisition of certain lands in the PRC. The legal titles of those lands are not yet transferred to the Group mainly due to the dismantling and smoothing work on those lands are still in progress. Accordingly, the amounts of deposits paid in respect of those lands as at the end of the reporting period were classified as prepayment and deposits. As assessed by the directors, the legal titles of those lands will be issued to the Group by the local authority in due course upon handover of the lands.*

Trade and other receivables are of short maturity periods and hence the directors consider the carrying amount of trade and other receivables approximate their fair values.

## 25. AMOUNTS DUE FROM/TO SUBSIDIARIES

Among the balances due from subsidiaries as at 31 December 2012, HK$4,696,432,000 (2011: HK$750,000,000) is unsecured, interest bearing at 2.506% (2011: 1.880% to 3.080%) per annum and repayable on demand. The remaining balances of amounts due from subsidiaries of HK$1,292,986,000 (2011: HK$553,050,000) and the amount due to a subsidiary as at 31 December 2012 are unsecured, interest-free and repayable on demand.

The directors consider that the carrying amounts of the balances approximate their fair values.

## 26. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES/NON-CONTROLLING INTERESTS

As at 31 December 2012, the amounts due from a jointly controlled entity and non-controlling interests are unsecured, interest-free and repayable on demand.

As at 31 December 2011, the entire amount due from a jointly controlled entity was unsecured, interest-bearing at fixed rate of 7.2% per annum and repayable by 25 November 2012 and the amounts due from non-controlling interests were unsecured, interest-free and repayable on demand.

The directors consider that the carrying amounts of the above balances approximate their fair values.

## 27. RESTRICTED CASH AND DEPOSITS/CASH AND CASH EQUIVALENTS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash at bank and in hand | **7,803,217** | 2,826,427 | **336,906** | 39,805 |
| Less: Restricted cash and deposits classified under current assets *(note (a))* | **(1,821,131)** | (805,204) | **–** | – |
| Cash and cash equivalents | **5,982,086** | 2,021,223 | **336,906** | 39,805 |

*Notes:*

(a) *In accordance with the relevant documents issued by the PRC State-Owned Land and Resources Bureau, certain subsidiaries of the Group engaging in property development are required to place in designated bank accounts certain amount of pre-sale proceeds of properties as guarantee deposits for the construction of the related properties. The deposits can only be used for purchases of construction materials and payments of construction fees of the relevant property projects when approval from the PRC State-Owned Land and Resources Bureau is obtained. Such guarantee deposits will only be released after the completion of development of the related pre-sold properties or issuance of the real estate ownership certificates, whichever is the earlier. The amount of cash restricted for such purpose as at 31 December 2012 was HK$1,821,131,000 (2011: HK$805,204,000).*

(b) *Cash balance denominated in Renminbi ("RMB") amounted to approximately HK$6,811,692,000 (2011: HK$2,258,924,000) as at 31 December 2012. The RMB is not freely convertible into other currencies.*

(c) *Cash at bank earns interest at floating rates based on daily bank deposits rates. Short-term time deposits are made for periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The directors consider that the fair values of the short-term deposits are not materially different from their carrying amounts because of the short maturity period.*

## 28. TRADE AND OTHER PAYABLES/OTHER PAYABLES AND ACCRUALS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade payables | **3,281,810** | 1,772,625 | **–** | – |
| Other payables and accruals | **684,489** | 345,191 | **11,167** | 5,621 |
| Deposits received | **68,351** | 54,773 | **–** | – |
| | **4,034,650** | 2,172,589 | **11,167** | 5,621 |

The ageing analysis of trade payables (based on invoice date) is as follows:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| 30 days or below | **1,885,481** | 819,554 | **–** | – |
| 31–60 days | **165,129** | 118,503 | **–** | – |
| 61–90 days | **117,299** | 21,141 | **–** | – |
| 91–180 days | **283,095** | 241,500 | **–** | – |
| 181–360 days | **559,869** | 243,528 | **–** | – |
| Over 360 days | **270,937** | 328,399 | **–** | – |
| | **3,281,810** | 1,772,625 | **–** | – |

Trade and other payables are of short maturity periods and hence the directors consider that the carrying amounts of trade and other payables approximate their fair values.

## 29. AMOUNT(S) DUE TO A JOINTLY CONTROLLED ENTITY/NON-CONTROLLING INTERESTS

The amounts due are unsecured, interest-free and repayable on demand. The directors consider that the carrying amounts of the balances approximate their fair values.

## 30. CONSIDERATION PAYABLE FOR ACQUISITION OF A SUBSIDIARY

Balance as at 31 December 2011 represented the consideration payable in relation to the acquisition of 55.5% equity interest of 北京通惠房地產開發有限責任公司 ("Beijing Tonghui") in October 2011. Details of the transaction are set out in note 37(b). The Group has fully settled the outstanding balance of consideration during the year.

## 31. BORROWINGS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| *Current liabilities* | | | | |
| Bank borrowings | **2,052,536** | 1,066,356 | **425,000** | 75,000 |
| Other loan | **–** | 320,710 | **–** | – |
| | **2,052,536** | 1,387,066 | **425,000** | 75,000 |
| *Non-current liabilities* | | | | |
| Bank borrowings | **3,454,443** | 2,615,641 | **2,208,437** | 675,000 |
| | **5,506,979** | 4,002,707 | **2,633,437** | 750,000 |

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Analysis into: | | | | |
| Bank borrowings *(note (a))* | | | | |
| Secured *(note 40)* | **425,488** | 431,725 | **–** | – |
| Unsecured | **5,081,491** | 3,250,272 | **2,633,437** | 750,000 |
| | **5,506,979** | 3,681,997 | **2,633,437** | 750,000 |
| Other loan *(note (b))* | | | | |
| Unsecured | **–** | 320,710 | **–** | – |
| | **5,506,979** | 4,002,707 | **2,633,437** | 750,000 |

The movement of bank borrowings and other loan during the year is as follows:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Carrying amount at 1 January | **4,002,707** | 2,247,500 | **750,000** | – |
| Translation adjustment | **(1,334)** | 122,781 | **–** | – |
| New bank borrowings raised | **2,417,934** | 2,943,792 | **1,958,437** | 750,000 |
| Repayment of bank borrowings and other loan | **(912,328)** | (1,311,366) | **(75,000)** | – |
| Carrying amount at 31 December | **5,506,979** | 4,002,707 | **2,633,437** | 750,000 |

## 31. BORROWINGS (CONTINUED)

*Notes:*

(a) *The analysis of the carrying amounts of the bank borrowings is as follow:*

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| *Current liabilities* | | | | |
| Term loans due for repayment within one year | **2,052,536** | 1,066,356 | **425,000** | 75,000 |
| *Non-current liabilities* | | | | |
| Term loans due for repayment after one year | | | | |
| After one year but within two years | **1,079,150** | 1,429,861 | **250,000** | 425,000 |
| After two years but within five years | **2,270,462** | 1,019,258 | **1,958,437** | 250,000 |
| After five years | **104,831** | 166,522 | **–** | – |
| | **3,454,443** | 2,615,641 | **2,208,437** | 675,000 |
| | **5,506,979** | 3,681,997 | **2,633,437** | 750,000 |

*Note:*

*The above analysis is based on the scheduled repayment dates set out in the loan agreements or the repayment schedules agreed with the banks. As at 31 December 2012 and 2011, none of the Group's and the Company's bank borrowings contain a repayable on demand clause.*

(b) *Other loan as at 31 December 2011 represented a loan obtained from a financial institution in the PRC, which was arranged at floating rate of 6.40% per annum and repayable in 2012 in accordance with the repayment schedules agreed with the financial institution. During the year ended 31 December 2012, the Group has fully settled the other loan.*

(c) *The carrying amounts of the bank borrowings and other loan are denominated in the following currencies:*

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| HK$ | **2,225,000** | 1,150,000 | **1,975,000** | 750,000 |
| RMB | **2,931,879** | 2,852,707 | **308,337** | – |
| USD | **350,100** | – | **350,100** | – |
| | **5,506,979** | 4,002,707 | **2,633,437** | 750,000 |

*As at 31 December 2012, bank borrowings denominated in HK$ and USD have been arranged at floating rates of 1.900% to 4.700% (2011: 1.880% to 3.080%) and 3.390% (2011: nil) per annum respectively while bank borrowings and the other loan denominated in RMB have been arranged at floating rates of 5.850% to 7.315% (2011: 6.400% to 7.755%) per annum.*

*In the opinion of the directors, the carrying amounts of the Group's and the Company's current and non-current borrowings approximate their fair values. The fair values of the non-current borrowings are calculated by discounting their expected future cash flows at market rates for instruments of similar terms.*

(d) *The Group is required to place the rental income generated by an investment property into an designated account maintained by a bank for a term loan granted by a bank to the Group. The bank has priority to claim repayment for the term loan from the designated account.*

## 32. CONVERTIBLE BONDS

On 13 March 2012, the Company and China Overseas Grand Oceans Finance (Cayman) Limited, a wholly-owned subsidiary of the Company incorporated in the Cayman Islands (the "Issuer"), entered into a subscription agreement (the "Subscription Agreement") regarding the issue of convertible bonds in an aggregate principal amount of HK$2,200,000,000 (the "Convertible Bonds"). The completion of the Subscription Agreement took place and the Convertible Bonds were issued on 21 March 2012. The Convertible Bonds were issued at 100% of the principal amount.

The Convertible Bonds will have the benefit of an irrevocable standby letter of credit issued in favour of the trustee, on behalf of the bondholders, by a bank. The Company, as a guarantor with reference to the letter of credit facility agreement, irrevocably and unconditionally undertakes with the bank for any amount incurred in relation to the standby letter of credit (note 43). Subject to certain exceptions, the irrevocable standby letter of credit shall expire on the date falling three years and thirty days after 21 March 2012.

The Convertible Bonds bear interest from and including 21 March 2012 up to but excluding 21 March 2015 (the "Interest Period") at the rate of 2.00% per annum of the principal amount of the Convertible Bonds. Interest is payable semi-annually in arrear on 21 March and 21 September in each year. After 21 March 2015 or after the conversion rights of the Convertible Bonds have been exercised, the Convertible Bonds will not bear any interest.

The Convertible Bonds are convertible in the circumstances set out in the terms and conditions at any time on or after 21 March 2014 up to the close of business on the seventh day prior to 21 March 2017 (the "Maturity Date") by the bondholders into ordinary shares of HK$0.01 each in the issued share capital in the Company at an initial conversion price of HK$12.532 per share (subject to adjustments as set out in the Subscription Agreement, including consolidation, subdivision or reclassification, capitalization of profit or reserves, capital distributions, right issues of shares or options over shares, rights issues of other securities, issues at less than 92% of the current market price; other issues at less than 92% of the current market price; modification of rights of conversion and other offers to the shareholders).

On or at any time after 21 March 2015 but not less than seven business days prior to the Maturity Date, the Issuer may, having given not less than ten nor more than fifteen days' notice to the bondholders which notice shall be irrevocable, mandatorily convert the Convertible Bonds in whole, but not in part, into shares at the then prevailing conversion price provided that no such conversion may be made unless the closing price for each of twenty consecutive trading days ending on a date which is no more than three business days immediately prior to the date upon which notice of such conversion is given was at least 130% of the applicable conversion price.

The Issuer will, at the option of any bondholder, redeem all or only some of such bondholder's Convertible Bonds on 21 March 2015 at 100% of their principal amount.

The Convertible Bonds are subject to redemption in whole but not in part at 100% of their principal amount together with accrued interest (calculated up to but excluding the date of redemption) (i) upon the occurrence of an LC Redemption Event as defined in the Subscription Agreement, (ii) at the option of the Issuer at any time in the event of certain changes affecting taxation in the Cayman Islands or Hong Kong or (iii) at the option of the Issuer at any time if prior to the date on which notice of such redemption is given at least 90% in aggregate principal amount of the Convertible Bonds originally issued have already been converted, redeemed or purchased and cancelled.

Upon the occurrence of events of default as set out in the Subscription Agreement, or in the event that (i) the Company's shares cease to be listed or admitted to trading or the trading of which is suspended for a period of more than thirty consecutive trading days on the Stock Exchange or (ii) there is a change of control with respect of the Company as defined in the Subscription Agreement, the bondholders will have the rights to require the Issuer to redeem the Convertible Bonds at 100% of their principal amount together with accrued interest (calculated up to but excluding the date of redemption).

Unless previously redeemed, converted or purchased and cancelled, the Issuer will redeem each Convertible Bonds at 100% of its principal amount on the Maturity Date.

Further details regarding the issue of the Convertible Bonds have been set out in the announcements of the Company dated 14 March 2012 and 21 March 2012.

## 32. CONVERTIBLE BONDS (CONTINUED)

The Convertible Bonds contain liability and equity components. On initial recognition, the fair value of the liability component of the Convertible Bonds is determined using the prevailing market interest of similar non-convertible bond with redemption options. The difference between the fair value of the Convertible Bonds and the fair value assigned to the liability component, representing the option for conversion of the Convertible Bonds into equity, is included in equity as convertible bonds equity reserve (note (34)).

The movement of the liability and equity components of the Convertible Bonds is set out as below:

| | THE GROUP | |
|---|---|---|
| | **Liability component** HK$'000 | **Equity component** HK$'000 |
| Carrying amount on initial recognition | **1,610,103** | 589,897 |
| Direct transaction costs | **(51,685)** | (8,701) |
| | **1,558,418** | 581,196 |
| Imputed interest expense *(note 9)* | **114,125** | – |
| Interest paid | **(22,000)** | – |
| Carrying amount as at 31 December 2012 | **1,650,543** | 581,196 |

The net proceed from the issue of the Convertible Bonds after the direct transaction costs of HK$60,386,000 is HK$2,139,614,000. The liability component is subsequently measured at amortized cost using effective interest rate of 9.30% per annum and imputed interest of HK$114,125,000 was incurred in the current year. The Convertible Bonds are listed in the Singapore Exchange Securities Trading Limited. As at 31 December 2012, with reference to the average quotation of the Convertible Bonds published by a leading global financial market data provider, the estimated fair value of the Convertible Bonds was HK$2,593,433,000.

The initial conversion price has been adjusted from HK$12.532 per share to HK$8.354 per share for the Bonus Share Issue 2012 (as defined and disclosed in note 33(c)), which was approved by the shareholders of the Company at the annual general meeting on 30 May 2012.

As at 31 December 2012, assuming full conversion of the Convertible Bonds at the adjusted conversion price of HK$8.354 per share, the Convertible Bonds will be convertible into approximately 263,346,900 ordinary shares of the Company. Those shares shall rank pari passu in all respects with all other existing shares outstanding at the date of the conversion.

## 33. SHARE CAPITAL

| | **Par value per share** HK$ | **Number of ordinary shares** '000 | **Nominal value** HK$'000 |
|---|---|---|---|
| **Authorized** | | | |
| **Balance at 1 January 2011, 31 December 2011, 1 January 2012 and 31 December 2012** | **0.01** | **45,000,000** | **450,000** |
| **Issued and fully paid** | | | |
| Balance at 1 January 2011 | 0.01 | 767,543 | 7,675 |
| Issue of new shares to settle consideration for acquisition of non-controlling interests *(note (a))* | 0.01 | 246,786 | 2,468 |
| Bonus Share Issue 2011 *(note (b))* | 0.01 | 507,164 | 5,072 |
| **Balance at 31 December 2011 and 1 January 2012** | 0.01 | 1,521,493 | 15,215 |
| Bonus Share Issue 2012 *(note (c))* | 0.01 | 760,747 | 7,607 |
| **Balance at 31 December 2012** | **0.01** | **2,282,240** | **22,822** |

## 33. SHARE CAPITAL (CONTINUED)

*Notes:*

*(a)* *On 2 November 2010, the Company entered into the an agreement ("Acquisition Agreement") in relation to the acquisition of 30% equity interest in Pan China Land (Holdings) Corporation ("Pan China Land"), which was an indirect non-wholly owned subsidiary of the Company, at a consideration of HK$1,233,927,985, which shall be satisfied by the issue of 246,785,579 ordinary shares of the Company (the "Consideration Shares") or in cash in accordance to the terms of the Acquisition Agreement.*

*The acquisition was completed on 20 December 2010. The fair value of the consideration at the date of acquisition as assessed by an independent professional valuer was HK$1,187,323,000, which comprised a liability component of HK$505,803,000 and an equity component of HK$681,520,000.*

*On 10 February 2011, the condition stipulated in the Acquisition Agreement for issuing ordinary shares to settle the consideration was satisfied. As a result, the Company issued an aggregate of 189,493,224 Consideration Shares and 57,292,355 Consideration Shares on 22 February 2011 and 5 May 2011 respectively. Correspondingly, the liability component with carrying amount of HK$557,669,000 as of 10 February 2011 was derecognized and the equity component with carrying amount of HK$681,520,000 was released to share premium account. The issue of 246,785,579 Consideration Shares in aggregate resulted in an increase in the share capital and share premium account of the Company by HK$2,468,000 and HK$1,236,721,000 respectively. The related share issue expenses amounted to HK$63,000. The imputed interest in respect of the liability component during the period from 1 January 2011 to 10 February 2011 amounted to HK$51,866,000.*

*(b)* *On 2 August 2011, the directors of the Company recommended a bonus issue to the shareholders of the Company on the basis of one bonus share for every two existing shares of the Company in issue (the "Bonus Share Issue 2011"). The proposed Bonus Share Issue 2011 was approved by the shareholders of the Company at the extraordinary general meeting on 26 August 2011. Immediately after the Bonus Share Issue 2011, the issued share capital of the Company became approximately HK$15,215,000 divided into approximately 1,521,493,000 ordinary shares of HK$0.01 each by the creation of additional approximately 507,164,000 ordinary shares. The bonus shares had been credited as fully paid by way of capitalization of an amount of approximately HK$5,072,000 in the share premium account of the Company. The related share issue expenses amounted to HK$158,000. The bonus shares rank pari passu in all respects with the existing shares of the Company.*

*(c)* *On 28 February 2012, the directors of the Company recommended a bonus issue to the shareholders of the Company on the basis of one bonus share for every two existing shares of the Company in issue (the "Bonus Share Issue 2012"). The proposed Bonus Share Issue 2012 was approved by the shareholders of the Company at the annual general meeting on 30 May 2012. Immediately after the Bonus Share Issue 2012, the issued share capital of the Company becomes approximately HK$22,822,000 divided into approximately 2,282,240,000 ordinary shares of HK$0.01 each by the creation of additional 760,747,000 ordinary shares in approximation. The bonus shares had been credited as fully paid by way of capitalization of an amount of approximately HK$7,607,000 in the share premium account of the Company. The related share issue expenses amounted to HK$32,000. The bonus shares rank pari passu in all respects with the existing shares of the Company except that they are not entitled to the final dividend for the year ended 31 December 2011.*

The share capital of the Company at the end of reporting period comprises only of fully paid ordinary shares with a par value of HK$22,822,000 (2011: HK$15,215,000). All shares are equally eligible to receive dividends and to the repayment of capital and each share is entitled to one vote at shareholders' meeting of the Company.

## 34. RESERVES

### THE GROUP

Details of the movements on the Group's reserves are set out in the consolidated statement of changes in equity on pages 47 and 48. The nature and purpose of the reserves are as follows:

*Share premium and capital redemption reserve*

The application of the share premium and capital redemption reserve is governed by the relevant provisions of the Hong Kong Companies Ordinance.

*Convertible bonds equity reserve*

The convertible bonds equity reserve comprises (i) the fair value of the equity component of the Convertible Bonds issued by the Group on initial recognition; and (ii) direct transaction costs attributable to the equity component of the Convertible Bonds as recognized in accordance with the accounting policy adopted for convertible bonds as disclosed in note 3.21. Further details of the Convertible Bonds are set out in note 32.

*Translation reserve*

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy adopted in note 3.16.

*Assets revaluation reserve*

Assets revaluation reserve arises from revaluation of assets such as properties (excluding investment properties).

*Statutory reserves*

In accordance with the relevant PRC rules and regulations, certain subsidiaries of the Company are required to appropriate certain percentage of their profits after tax to the respective statutory reserves. Subject to certain restrictions as set out in the relevant PRC regulations, these statutory reserves may be used to make good previous years' losses, if any, or to increase the paid-up capital of the respective subsidiaries, and may be used for capital expenditure on staff welfare facilities, as appropriate.

*Other reserve*

Other reserve was arising from the acquisitions of equity interest in subsidiaries by the Group by issuance of the Company's shares and the settlement of subsidiaries' options. Other reserve as at 1 January 2011 comprised (i) an amount of HK$681,520,000 which represented the equity component of the consideration given by the Group for acquiring 30% equity interest in Pan China Land as mentioned in note 33(a), and (ii) an amount of HK$154,345,000 transferred from share-based payment reserve of subsidiaries upon settlement of vested options, which is accounted for as a deduction from equity. The options entitled the grantees to acquire shares of Pan China Land which were vested on 10 February 2010 (the "Vested Options") and the Company entered into various cancellation deeds in February and March 2010 to settle the Vested Options by way of issuing new shares of the Company. The amount of HK$154,345,000 represented the difference between the fair value of the Company's shares issued on the settlement date of the options and the nominal value of the shares issued at nil consideration, adjusted for the effect of the non-controlling interests of Pan China Land.

During the year ended 31 December 2011, as a result of the issue of an aggregate of 246,785,579 ordinary shares of the Company to settle the consideration for the acquisition of 30% equity interest in Pan China Land (note 33(a)), the equity component of the consideration of HK$681,520,000 as mentioned above was released from other reserve to share premium account.

## 34. RESERVES (CONTINUED)

### THE GROUP (Continued)

*Retained profits*

Retained profits of the Group comprise:

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Final dividend proposed for the year *(note 12(a))* | 136,934 | 76,075 |
| Retained profits after proposed dividend | 4,327,616 | 2,218,487 |
| Total retained profits for the year | 4,464,550 | 2,294,562 |

### THE COMPANY

Details of the movements on the Company's reserves are as follows:

| | Share premium* HK$'000 | Capital redemption reserve* HK$'000 | Other reserve* HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2011 | 682,584 | 44,822 | 851,521 | 602,274 | 2,181,201 |
| Loss and total comprehensive income for the year | – | – | – | (110,028) | (110,028) |
| 2010 final dividend paid *(note 12(b))* | – | – | – | (101,433) | (101,433) |
| Issue of new shares to settle consideration for acquisition of non-controlling interests *(note 33(a))* | 1,236,721 | – | (681,520) | – | 555,201 |
| Bonus Share Issue 2011 *(note 33(b))* | (5,072) | – | – | – | (5,072) |
| Share issue expenses *(notes 33(a) & (b))* | (221) | – | – | – | (221) |
| **At 31 December 2011 and 1 January 2012** | **1,914,012** | **44,822** | **170,001** | **390,813** | **2,519,648** |
| Profit and total comprehensive income for the year | – | – | – | 931,791 | 931,791 |
| 2011 final dividend paid *(note 12(b))* | – | – | – | (76,075) | (76,075) |
| 2012 interim dividend declared *(note 12(a))* | – | – | – | (114,112) | (114,112) |
| Bonus Share Issue 2012 *(note 33(c))* | (7,607) | – | – | – | (7,607) |
| Share issue expenses *(note 33(c))* | (32) | – | – | – | (32) |
| **At 31 December 2012** | **1,906,373** | **44,822** | **170,001** | **1,132,417** | **3,253,613** |

* *the total of these equity accounts as at the reporting date represents "other reserves" in the Company's statement of financial position*

## 34. RESERVES (CONTINUED)

### THE COMPANY (Continued)

*Other reserve*

Other reserve was arising from the acquisition of equity interest in subsidiaries by the Group by issuance of the Company's shares and the settlement of subsidiaries' options. Other reserve as at 1 January 2011 comprised (i) an amount of HK$681,520,000 which represented the equity component of the consideration given by the Group for acquiring 30% equity interest in Pan China Land as mentioned in note 33(a), and (ii) an amount of HK$170,001,000 which represented the difference between the fair value of the Company's shares issued on the settlement date of the Vested Options and the consideration received of HK$33,600,000, adjusted for the nominal value of the ordinary shares issued at nil consideration.

During the year ended 31 December 2011, as a result of the issue of an aggregate of 246,785,579 ordinary shares of the Company to settle the consideration for the acquisition of 30% equity interest in Pan China Land (note 33(a)), the equity component of the consideration of HK$681,520,000 as mentioned above was released from other reserve to share premium account.

*Retained profits*

Retained profits of the Company comprise:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Final dividend proposed for the year *(note 12(a))* | **136,934** | 76,075 |
| Retained profits after proposed dividend | **995,483** | 314,738 |
| Total retained profits for the year | **1,132,417** | 390,813 |

## 35. DEFERRED TAX

### THE GROUP

The following are the major deferred tax liabilities and assets recognized by the Group and movements thereon during the current and prior reporting periods:

| | **Inventories of properties**<br>HK$'000 | **Revaluation of properties**<br>HK$'000 | **Provision for LAT**<br>HK$'000 | **Withholding tax**<br>HK$'000 | **Total**<br>HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2011 | 309,384 | 371,755 | (217,502) | – | 463,637 |
| Translation adjustment | 30,192 | 22,308 | (15,858) | 1,312 | 37,954 |
| Acquisition of subsidiaries | 584,175 | – | – | – | 584,175 |
| Charged/(Credited) to profit or loss *(note 10)* | 24,297 | 123,703 | (160,939) | 56,080 | 43,141 |
| Recognized in assets revaluation reserve | – | 19,442 | – | – | 19,442 |
| Reclassification | (11,232) | 11,232 | – | – | – |
| At 31 December 2011 and 1 January 2012 | **936,816** | **548,440** | **(394,299)** | **57,392** | **1,148,349** |
| Translation adjustment | **(1,918)** | **(12,307)** | **1,932** | **1,001** | **(11,292)** |
| Disposal of subsidiaries and a jointly controlling entity *(note 38(a))* | **(6,924)** | **–** | **–** | **–** | **(6,924)** |
| (Credited)/Charged to profit or loss *(note 10)* | **(198,406)** | **(137,066)** | **121,053** | **264,018** | **49,599** |
| Credited to assets revaluation reserve *(note)* | **–** | **(9,549)** | **–** | **–** | **(9,549)** |
| **At 31 December 2012** | **729,568** | **389,518** | **(271,314)** | **322,411** | **1,170,183** |

## 35. DEFERRED TAX (CONTINUED)

### THE GROUP (Continued)

Represented by:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Deferred tax liabilities | **1,441,497** | 1,443,005 |
| Deferred tax assets | **(271,314)** | (294,656) |
| | **1,170,183** | 1,148,349 |

*Note:*

*During the year, the directors reviewed the Group's investment property portfolios and concluded that certain of the Group's investment properties located in other region of the PRC which are depreciable are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. There is a change in management's expectation on the manner to recover the value of these investment properties during the year. Accordingly, the Group has applied the amendments to HKAS 12 (note 2.1) to adjust the amount of deferred tax provided for those investment properties in order to reflect the tax consequences of recovering those investment properties through consumption during its economic life. Accordingly, adjustment amounting to HK$228,136,000 is credited to profit or loss for the year ended 31 December 2012 whereas an amount of HK$9,549,000 relating to those investment properties which were previously classified as owner-occupied properties (note 15(c)) is credited to other comprehensive income.*

At the end of the reporting period, the expiry dates of the Group's unused tax losses available for offset against future profits, not recognized as deferred tax assets, are analyzed as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| 2012 | **–** | 14,912 |
| 2013 | **2,587** | 12,054 |
| 2014 | **2,435** | 8,661 |
| 2015 | **4,614** | 22,253 |
| 2016 | **47,379** | 137,552 |
| 2017 | **111,598** | – |
| | **168,613** | 195,432 |

As at 31 December 2012 and 2011, no deferred tax asset was recognized in respect of these tax losses due to the unpredictability of future profit streams. The tax losses incurred by the relevant subsidiaries may be carried forward for five years from the financial year when the corresponding loss was incurred.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008 and the applicable tax rates are 5% or 10%.

## 35. DEFERRED TAX (CONTINUED)

### THE GROUP (Continued)

As at 31 December 2012, deferred tax liabilities of approximately HK$322,411,000 (2011: HK$57,392,000) have been recognized in respect of the undistributed earnings of certain PRC subsidiaries amounted to approximately HK$3,463,002,000 (2011: HK$1,147,846,000). Deferred tax liabilities of approximately HK$94,603,000 as at 31 December 2012 (2011: HK$113,329,000) have not been established for the withholding and other taxation that would be payable on the unremitted earnings of other relevant PRC subsidiaries as at 31 December 2012, as in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. Such unremitted earnings amounted to approximately HK$971,626,000 as at 31 December 2012 (2011: HK$1,254,905,000).

### THE COMPANY

No deferred tax has been provided in the financial statements of the Company as there are no material temporary differences (2011: nil).

## 36. SHARE OPTION SCHEME

At the annual general meeting of the Company held on 11 May 2005, the shareholders of the Company approved the adoption of a new share option scheme (the "Option Scheme") for a period of 10 years commencing on 11 May 2005 and after which no further options will be granted but the provisions of the Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto.

The Board may, at its absolute discretion, offer any eligible person options to subscribe for shares in the Company subject to the terms and conditions as stipulate in the Option Scheme. Upon acceptance of the offer of an option, the grantee shall pay HK$1.00 to the Company as a consideration for option granted. No options has been granted since 11 May 2005.

## 37. ACQUISITIONS OF SUBSIDIARIES

(a) On 22 August 2011, the Group entered into a co-operation agreement in relation to the acquisition of 70% of equity interest in 吉林市怡恒偉業房地產開發有限公司 ("Jilin Yihen Weiye") through injection of a cash amount of RMB140 million (equivalent to approximately HK$168,742,000) into Jilin Yihen Weiye. Jilin Yihen Weiye is a limited liability company incorporated in the PRC and is principally engaged in property development in Jilin, the PRC. The acquisition will enhance the Group's interest in a portfolio of property development projects in the PRC. The acquisition was completed in August 2011.

The Group has elected to measure the non-controlling interests in Jilin Yihen Weiye at the non-controlling interests' proportionate share of Jilin Yihen Weiye's identifiable net assets.

The following table summarizes the consideration payable for Jilin Yihen Weiye, the fair value of assets acquired, liabilities assumed and the non-controlling interests at the acquisition date.

| | 2011<br>HK$'000 |
|---|---|
| **Consideration:** | |
| Cash | 168,742 |

## 37. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(a) *(Continued)*

| | 2011<br>Fair value on<br>acquisition<br>HK$'000 |
|---|---|
| **Recognized amounts of identifiable assets acquired and liabilities assumed:** | |
| Property, plant and equipment | 2,463 |
| Inventories of properties | 1,139,037 |
| Trade and other receivables, prepayments and deposits *(note (i))* | 20,284 |
| Tax prepaid | 9,190 |
| Restricted cash and deposits | 9,751 |
| Cash and cash equivalents | 214,156 |
| Trade and other payables | (313,742) |
| Sales deposits received | (176,692) |
| Amounts due to non-controlling interests | (348,997) |
| Deferred tax liabilities | (227,906) |
| **Total identifiable net assets at fair value** | 327,544 |
| Non-controlling interests (30%) | (98,263) |
| **Total identifiable net assets acquired** | 229,281 |
| **Gain on bargain purchase** *(note (ii))* | (60,539) |
| **Consideration** | 168,742 |

*Notes:*

*(i) The fair value of trade and other receivables as at the date of acquisition amounted to HK$20,284,000. The gross amount of these receivables was HK$20,284,000. None of these receivables had been impaired and it was expected that the full contractual amounts could be collected.*

*(ii) The gain on bargain purchase arising from acquisition of Jilin Yihen Weiye was recognized in "Other gains — Gain arising from acquisitions of subsidiaries" in the consolidated income statement for the year ended 31 December 2011.*

*The gain on bargain purchase was attributable to the Group's strong bargaining power and ability in negotiating the agreed terms of the transaction with the vendors, as well as the expectation of the vendors, who become the non-controlling shareholders holding 30% equity interest of Jilin Yihen Weiye, for the future enhancement of Jilin Yihen Weiye's property development business and operating effectiveness that will be brought by the Group's brand name and expertise in the industry.*

## 37. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(a) *(Continued)*

An analysis of the cash flows in respect of acquisition of Jilin Yihen Weiye is as follows:

| | 2011<br>HK$'000 |
|---|---|
| Cash consideration paid | 168,742 |
| Cash and bank balances acquired | (214,156) |
| Net inflow of cash and cash equivalents included in cash flows from investing activities | (45,414) |
| Transaction costs of the acquisition included in cash flows from operating activities | 268 |
| | (45,146) |

Since the acquisition date to 31 December 2011, Jilin Yihen Weiye had contributed HK$185,723,000 and HK$3,054,000 to the Group's revenue and profit after income tax respectively. If the acquisition had occurred on 1 January 2011, the Group's revenue and profit after income tax for the year ended 31 December 2011 would have been HK$5,413,062,000 and HK$1,964,193,000 respectively.

The acquisition-related costs of approximately HK$268,000 have been expensed and are included in administrative expenses in the consolidated income statement.

(b) On 19 October 2011, the Group entered into a compensation and share transfer agreement (the "Compensation and Share Transfer Agreement") for the acquisition of 55.5% of the equity interest in Beijing Tonghui at a purchase price of RMB710 million (equivalent to approximately HK$855,763,000). Before the acquisition, the Group held 44.5% equity interest in Beijing Tonghui and Beijing Tonghui was accounted for as a jointly controlled entity. The Group's equity interest in Beijing Tonghui has increased from 44.5% to 100% and the Group has obtained control of Beijing Tonghui after the acquisition. Beijing Tonghui is a limited liability company incorporated in the PRC and is principally engaged in property development in Beijing. The acquisition would allow the Group to exercise effective control over Beijing Tonghui and to expedite the progress of the property development project held by Beijing Tonghui. The acquisition was completed in October 2011.

The purchase price comprises balances for settlement of shareholders' loan and other costs incurred by Beijing Tonghui for property development amounting to approximately HK$494,460,000 in aggregate and consideration for obtaining control over Beijing Tonghui amounting to approximately HK$361,303,000.

As part of the Compensation and Share Transfer Agreement, the vendors shall co-operate with the Group to continue with the preliminary application processes for approval in relation to a primary land development under the name of Beijing Tonghui for a property development project, namely Pushang Mansion Project. If the development approval is granted by the PRC government, the Group and the vendors shall jointly develop and make contribution to the Pushang Mansion Project. If Beijing Tonghui fails to obtain the land use right certificate for Pushang Mansion Project before 1 March 2012, the Group shall pay a cash amount of RMB50 million (equivalent to HK$60,265,000) (the "Contingent Payment") to the vendors as compensation.

## 37. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(b) *(Continued)*

The following table summarizes the consideration payable for Beijing Tonghui, the fair value of assets acquired, liabilities assumed at the acquisition date and gain on acquisition of Beijing Tonghui.

| | 2011 HK$'000 |
|---|---|
| **Aggregate of consideration transferred and fair value of previously held equity interest:** | |
| Purchase price pursuant to the Compensation and Share Transfer Agreement | 855,763 |
| Less: Amounts for settlement of shareholders' loans and other payables | (494,460) |
| Consideration | 361,303 |
| Fair value of previously held 44.5% equity interest *(note (iii))* | 231,754 |
| | 593,057 |

| | 2011 Fair value on acquisition HK$'000 |
|---|---|
| **Recognized amounts of identifiable assets acquired and liabilities assumed:** | |
| Property, plant and equipment | 370 |
| Inventories of properties | 1,527,475 |
| Trade and other receivables, prepayments and deposits *(note (i))* | 17,224 |
| Restricted cash and deposits | 18,758 |
| Cash and cash equivalents | 21,761 |
| Trade and other payables | (504,319) |
| Balances with group companies | (117,248) |
| Deferred tax liabilities | (356,269) |
| **Total identifiable net assets acquired** | 607,752 |
| **Gain on bargain purchase** | (14,695) |
| | 593,057 |

| | 2011 HK$'000 |
|---|---|
| **Gain arising from acquisition of a subsidiary** | |
| Gain on bargain purchase arising from acquisition of further 55.5% equity interest *(note (ii))* | 14,695 |
| Gain on re-measuring the fair value of previously held 44.5% equity interest *(note (iii))* | 60,466 |
| Total gain *(note (iv))* | 75,161 |

## 37. ACQUISITIONS OF SUBSIDIARIES (CONTINUED)

(b) *(Continued)*

*Notes:*

(i) *The fair values of trade and other receivables as at the date of acquisition amounted to HK$17,224,000. The gross amounts of these receivables are HK$17,224,000. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.*

(ii) *The Group recognized a gain on bargain purchase on acquisition of further 55.5% equity interest of Beijing Tonghui amounted to approximately HK$14,695,000. The gain on bargain purchase is attributable to the Group's strong bargaining power and ability in negotiating the agreed terms of the transaction with the vendors.*

(iii) *The acquisition-date fair value of the Group's 44.5% equity interest held in Beijing Tonghui before the acquisition amounted to HK$231,754,000. The Group recognized a gain of HK$60,466,000 as a result of re-measuring the 44.5% equity interest in Beijing Tonghui to fair value.*

(iv) *The total gain arising from acquisition of Beijing Tonghui of approximately HK$75,161,000 is recognized in "Other gains — Gain arising from acquisitions of subsidiaries" in the consolidated income statement for the year ended 31 December 2011.*

(v) *The Contingent Payment relates to a property development project in future which was accounted for separately from the acquisition. As assessed by the management, it was unlikely that the Group would be able to obtain the relevant approval from the PRC government and accordingly, the Group had recognized a provision for the Contingent Payment of HK$60,265,000 with the corresponding amount being recognized in "Other operating expenses" in the consolidated income statement for the year ended 31 December 2011. As the Group is not able to obtain the land use right certificate for Pushang Mansion Project before 1 March 2012, it is obliged to pay cash of RMB50 million to the vendors as compensation, which is not yet settled and is recognized as a liability as of 31 December 2012.*

An analysis of the cash flows in respect of acquisition of Beijing Tonghui is as follows:

| | 2011<br>HK$'000 |
|---|---|
| Cash paid | 284,766 |
| Cash and bank balances acquired | (21,761) |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | 263,005 |
| Transaction costs of acquisition included in cash flows from operating activities | 30 |
| | 263,035 |

As the project of Beijing Tonghui is still at early stage of development, Beijing Tonghui had insignificant contribution to the Group's revenue and profit after income tax since acquisition.

The acquisition-related costs of HK$30,000 have been expensed and are included in administrative expenses in the consolidated income statement.

During the year ended 31 December 2012, the outstanding consideration payable of HK$78,327,000 for Beijing Tonghui has been fully settled.

## 38. DISPOSAL OF SUBSIDIARIES AND A JOINTLY CONTROLLED ENTITY

(a) On 30 June 2012, the Group entered into an agreement (the "Agreement") in relation to disposal of its equity interests in 廣西光大旅遊投資有限公司 ("廣西光大旅遊"), 桂林中海宏洋地產有限公司 ("桂林中海宏洋") and 桂林中海國富房地產開發有限公司 ("桂林中海國富"), which collectively referred to as "Guilin Companies", at a selling price of RMB102,000,000 (equivalent to approximately HK$125,317,000).

Before the disposal, 廣西光大旅遊 and 桂林中海宏洋 were subsidiaries of the Group in which the Group held 94% and 65.8% of their respective registered capital respectively while 桂林中海國富 was a jointly controlled entity of the Group in which the Group held 40% of its registered capital. The disposal effectively resulted in the Group disposing of its entire interest in a property development project in Guilin, the PRC.

The selling price of RMB102,000,000 comprises of consideration for transferring the equity interests in Guilin Companies amounting to approximately RMB32,641,000 (equivalent to approximately HK$40,103,000) and consideration for assigning the amounts due from Guilin Companies to the buyer ("Debt Assignment") amounting to approximately RMB69,359,000 (equivalent to approximately HK$85,214,000). The disposal was completed in November 2012. The gain arising from the disposal was included in "Other gains — Gain on disposal of subsidiaries and a jointly controlled entity" and is calculated as follows:

| | 2012<br>HK$'000 |
|---|---|
| Selling price pursuant to the Agreement | 125,317 |
| Less: Consideration for Debt Assignment | (85,214) |
| Consideration for transferring equity interest in Guilin Companies | 40,103 |
| Net liabilities disposed of *(note)* | 3,494 |
| Non-controlling interests | 2,010 |
| Gain on disposal | 45,607 |

*Note:*

*Net liabilities disposed of:*

| | 2012<br>HK$'000 |
|---|---|
| Interest in a jointly controlled entity | 2,961 |
| Property, plant and equipment | 56 |
| Inventories of properties | 90,316 |
| Trade and other receivables, prepayments and deposits | 49 |
| Amounts due from non-controlling interests | 4,546 |
| Cash and cash equivalents | 105 |
| Trade and other payables | (9,144) |
| Balances due to group companies | (85,214) |
| Balances due to a jointly controlled entity | (245) |
| Deferred tax liabilities | (6,924) |
| | (3,494) |

## 38. DISPOSAL OF SUBSIDIARIES AND A JOINTLY CONTROLLED ENTITY (CONTINUED)

(a) *(Continued)*

*Note: (Continued)*

*An analysis of the net inflow of cash and cash equivalents in respect of the disposal of Guilin Companies is as follows:*

| | **2012 HK$'000** |
|---|---|
| Consideration settled by: | |
| Cash | **40,103** |
| Net cash inflow arising from the disposal: | |
| Cash consideration received | **40,103** |
| Cash and bank balances disposed of | **(105)** |
| | **39,998** |

*Guilin Companies had insignificant contribution to the Group's revenue and profit for the year ended 31 December 2012.*

(b) During 2009, the Group entered into a co-operation termination agreement and a settlement agreement in respect of the property development project conducted by 青島頤景房地產開發有限公司 ("青島頤景"), a non-wholly owned subsidiary of the Group. Pursuant to the co-operation termination agreement and the settlement agreement, the Group and all the non-controlling shareholders of 青島頤景 agreed to terminate the co-operation agreement signed among them in 2007 and the non-controlling shareholders of 青島頤景 agreed to pay certain amount to the Group in return for the transfer of the Group's entire 70% equity interest in 青島頤景 to one of the non-controlling shareholders of 青島頤景. The said amount comprised capital injected to 青島頤景 by the Group, which was arranged and recorded as such in the book of 青島頤景 as shareholder's loan, fund appropriation fees and penalty, as well as an amount of RMB7 million which represented the original purchase price of 70% registered capital in 青島頤景 by the Group in 2007. The disposal was suspended in 2009.

During the year ended 31 December 2011, the disposal of 青島頤景 was completed upon the payment of RMB179,367,000 (equivalent to approximately HK$213,340,000) by the non-controlling shareholders of 青島頤景. The gain arising from the disposal of 青島頤景 amounted to approximately HK$213,340,000 and the disposal gain net of tax was approximately HK$196,136,000, which was included in "Other gains — Gain on disposal of a subsidiary" .

| | 2011 HK$'000 |
|---|---|
| Total amount received from the non-controlling interests | 213,340 |
| Net assets disposed of *(note)*: | |
| Other receivables | 5,947 |
| Other payables | (5,947) |
| Gain on disposal of a subsidiary | 213,340 |

Note: *The property development project held by 青島頤景 was fully written down by the Group in 2009 due to the changes in business environment and the local government policy which were assessed by the directors to have adverse impact on the commercial viability of the project.*

## 38. DISPOSAL OF SUBSIDIARIES AND A JOINTLY CONTROLLED ENTITY (CONTINUED)

(b) *(Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

| | 2011<br>HK$'000 |
|---|---|
| Cash received | 213,340 |
| Cash and bank balances disposed of | – |
| Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary | 213,340 |

The disposed subsidiary had insignificant contribution to the Group's revenue and net profit during the year ended 31 December 2011.

## 39. RETIREMENT BENEFITS SCHEMES

The Group operates the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme is a defined contribution retirement benefits scheme and contributions to the scheme are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the subsidiaries of the Group which operate in the PRC are required to participate in a central pension scheme operated by the local municipal governments. These PRC subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

The total expenses recognized in profit or loss of HK$6,798,000 (2011: HK$5,417,000) represent contributions paid/payable to these defined contribution retirement benefits schemes by the Group in the year. As at 31 December 2012, no forfeited contribution under these schemes is available to reduce the contribution payable in future (2011: nil).

## 40. PLEDGE OF ASSETS

As at 31 December 2012, the carrying amount of the assets pledged by the Group to secure general banking and other loan facilities (note 31) granted to the Group are analyzed as follows:

| | **THE GROUP** | |
|---|---|---|
| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
| Land and buildings in property, plant and equipment | **10,934** | 11,357 |
| Investment properties | **2,243,989** | 1,878,621 |
| Trade receivables | **–** | 989 |
| | **2,254,923** | 1,890,967 |

## 41. OPERATING LEASE ARRANGEMENTS

### As lessee

The Group leases certain of its office properties and quarters under operating leases arrangements. Leases of these properties are negotiated for periods ranging from one to thirty years (2011: one to thirty years) and rentals are fixed over the contracted period. As at 31 December 2012, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises payable as follows:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **10,179** | 7,860 | **4,505** | 2,552 |
| In the second to fifth year, inclusive | **32,457** | 16,639 | **18,020** | 1,063 |
| Over five years | **36,939** | 37,776 | **2,252** | – |
| | **79,575** | 62,275 | **24,777** | 3,615 |

### As lessor

The Group leases its investment properties (note 15) under operating lease arrangements with leases negotiated for period ranging from three months to twenty years (2011: two to twenty years). As at 31 December 2012, the Group had contracted with tenants for the following future minimum lease payments receivable:

| | THE GROUP | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Within one year | **124,197** | 116,503 |
| In the second to fifth year, inclusive | **157,604** | 217,336 |
| Over five years | **112** | 15,282 |
| | **281,913** | 349,121 |

## 42. OTHER COMMITMENTS

As at 31 December 2012, the Group had other significant commitments as follows:

| | THE GROUP | |
|---|---|---|
| | **2012** | 2011 |
| | **HK$'000** | HK$'000 |
| Contracted for but not provided for in the financial statements: | | |
| — Acquisition of land | **1,576,768** | 600,546 |
| — Property development | **2,708,446** | 2,667,121 |
| Authorized but not contracted for: | | |
| — Investment in equity interest | **577,170** | 179,598 |
| — Acquisition of land | **3,396,977** | 3,232,204 |

## 43. GUARANTEES

As at 31 December 2012, the Group and the Company had issued the following significant guarantees:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Guarantees given to: | | | | |
| Bank for term loan facility granted to a subsidiary | **–** | – | **250,000** | 400,000 |
| Bank for a standby letter of credit facility granted to a subsidiary *(note 32)* | **–** | – | **2,235,000** | – |
| Banks for mortgage loans granted to purchasers of certain subsidiaries' properties | **5,066,777** | 2,969,355 | **–** | – |
| | **5,066,777** | 2,969,355 | **2,485,000** | 400,000 |

In the opinion of the directors, the financial impact arising from providing the above financial guarantees is insignificant and accordingly, they are not accounted for in these financial statements.

## 44. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties:

(a) On 29 March 2011, the Company entered into an agreement (the "Contractor Agreement") with China State Construction Engineering Corporation Limited ("CSCECL") whereby the Group may engage CSCECL and its subsidiaries (the "CSCECL Group") as construction contractor in the PRC upon successful tender for a term of three years from 1 June 2011 to 31 May 2014. CSCECL is an intermediate holding company of COLI.

According to the Contractor Agreement, if any contract is granted in favour of the CSCECL Group as a result of the tender, the total contract sum to be awarded by the Group to CSCECL Group for the period between 1 June 2011 and 31 December 2011 shall not exceed HK$850,000,000, for each of the two years ending 31 December 2013 shall not exceed HK$850,000,000, and for the period between 1 January 2014 to 31 May 2014 shall not exceed HK$800,000,000.

During the year ended 31 December 2012, total contract sum granted by the Group to CSCECL Group under the Contractor Agreement amounted to approximately HK$628,236,000 (2011: HK$816,577,000).

(b) On 6 April 2011, the Company and COLI entered into a trademark licence agreement ("Trademark Licence Agreement") in relation to the grant of non-executive rights by COLI to the Group to use the trademark "中海地產" (the "Trademark") in the PRC in connection with the marketing and sale of its real estate developments for a period from 6 April 2011 to 31 March 2014. The Trademark is registered in the PRC and owned by 中海地產集團有限公司, a subsidiary of COLI.

Pursuant to the Trademark Licence Agreement, the Company agrees to pay one percent of its annual turnover for each financial year ended/ending 31 December 2011, 2012 and 2013 respectively as royalty. The royalty payable under the Trademark Licence Agreement for the period from 6 April 2011 to 31 March 2012 and for each of the twelve-month period between 1 April 2012 and 31 March 2014 shall not exceed HK$100,000,000.

For the year ended 31 December 2012, royalty incurred by the Group under the Trademark Licence Agreement amounted to approximately HK$96,841,000 (2011: HK$51,743,000). As at 31 December 2012, the royalty payable to COLI amounted to HK$96,841,000 (2011: HK$51,743,000) which was included in trade and other payables in the consolidated statement of financial position. The amount due to COLI is unsecured, interest-free and repayable on demand.

## 44. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) On 2 August 2011, a subsidiary of the Group entered into tenancy agreements (the "Tenancy Agreements") with 北京中海豪峰地產開發有限公司 and 北京嘉益德房地產開發有限公司 (the "Tenants"), subsidiaries of COLI, to lease out certain commercial units of China Overseas International Center held by the subsidiary to the Tenants.

Pursuant to the Tenancy Agreements, the lease term is from 1 August 2011 to 31 July 2014. The annual rent payable by 北京中海豪峰地產開發有限公司 and 北京嘉益德房地產開發有限公司 are RMB8,309,000 and RMB4,167,000 respectively. The total rental payable under the Tenancy Agreements for each of the twelve-month period between 1 August 2011 and 31 July 2014 shall not exceed RMB12,477,000.

For the year ended 31 December 2012, total rental income generated from the Tenancy Agreements is approximately RMB12,476,000 (2011: RMB5,199,000), equivalent to approximately HK$15,329,000 (2011: HK$6,266,000). As at 31 December 2012, rental income received in advance from the Tenants amounted to approximately HK$1,282,000 (2011: HK$1,282,000).

(d) On 3 August 2011, the Company entered into an agreement (the "Property Management Agreement") with 中海物業管理有限公司 ("COPM"), a subsidiary of COLI, whereby the Group may engage COPM and its subsidiaries (the "COPM Group") as property manager for its property development projects in the PRC upon successful tender for a term of three years from 3 August 2011 to 31 July 2014.

According to the Property Management Agreement, if any contract is granted in favour of the COPM Group as a result of the tender, the total property management fees payable by the Group to the COMP Group for the period from 3 August 2011 to 31 July 2012 and for each of the twelve-month period between 1 August 2012 and 31 July 2014 shall not exceed RMB25,200,000, RMB33,600,000 and RMB33,000,000 respectively.

For the year ended 31 December 2012, total property management fees paid/payable by the Group to the COMP Group under the Property Management Agreement amounted to approximately RMB8,494,000 (2011: RMB3,635,000), equivalent to approximately HK$10,436,000 (2011: HK$4,381,000).

(e) For the year ended 31 December 2012, the Group generated interest income of approximately HK$3,231,000 (2011: HK$3,007,000) from a jointly controlled entity.

(f) Key management personnel remuneration include the following expenses:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Short-term employee benefits | **19,084** | 10,417 |
| Post-employment benefits | **14** | 6 |
| | **19,098** | 10,423 |

## 44. RELATED PARTY TRANSACTIONS (CONTINUED)

(g) Transactions with other state-controlled entities in the PRC

The Group is not controlled by the PRC government. However, the Group is an associated company of COLI while the ultimate holding company of COLI is CSCEC, a company controlled by the PRC government, as such, the PRC government is regarded as a related party of the Group. Apart from the transactions already disclosed above, the Group also conducts business with other state-controlled entities. The directors consider the transactions with those state-controlled entities are conducted on an arms' length basis.

In connection with its property development activities, other than those disclosed in notes (a) and (d) above, the Group awards construction and other works contracts to PRC entities, some of which, to the best knowledge of management, are state-controlled entities. The Group has also entered into various transactions with the PRC government departments or agencies, mainly acquisition of land through tendering to those government departments or agencies. During the year ended 31 December 2012, the Group acquired certain parcels of land from the PRC government departments through public tender at an aggregate consideration of approximately HK$5,790,769,000 (2011: HK$3,127,200,000).

In addition, in the normal course of business, the Group entered into various deposits and lending transactions with banks and financial institutions which are state-controlled entities.

Other than those disclosed above, the directors consider that the other transactions with the state-controlled entities are not significant to the Group.

The Group is active in property sale, property leasing and provision of property management services in various provinces in the PRC. The directors are of the opinion that it is impracticable to ascertain the identity of all the counterparties and accordingly whether the transactions are with state-controlled entities. However, the directors are of the opinion that the transactions with state-controlled entities are not significant to the Group's operations.

In addition to the above transactions, details of the Group's balances with related parties are disclosed in consolidated statement of financial position and notes 26 and 29. The details of the Company's balances with related parties are disclosed in the Company's statement of financial position and note 25.

The related party transactions in respect of items (a) to (d) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 45. CAPITAL 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 shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital and to support the Group's financial stability and growth.

The Group monitors its capital structure on the basis of net gearing ratio i.e. net debt to equity. Net debt includes borrowings less restricted cash and deposits and cash and cash equivalents. Equity represents equity attributable to owners of the Company. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

## 45. CAPITAL MANAGEMENT (CONTINUED)

The net gearing ratios of the Group as at 31 December 2012 and 2011 were as follows:

| | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|
| Borrowings | **5,506,979** | 4,002,707 |
| Convertible bonds | **1,650,543** | – |
| Less: restricted cash and deposits | **(1,821,131)** | (805,204) |
| Less: cash and cash equivalents | **(5,982,086)** | (2,021,223) |
| Net (cash)/debt | **(645,695)** | 1,176,280 |
| Capital represented by equity attributable to owners of the Company | **7,966,225** | 5,146,007 |
| Net gearing ratio | **N/A** | 22.9% |

The Group targets to maintain a net gearing ratio to be in line with the expected changes in economic and financial conditions. The Group's overall strategy on capital management remains unchanged throughout the year.

## 46. FINANCIAL INSTRUMENTS

### 46.1 Categories of financial instruments

| | **THE GROUP** | | **THE COMPANY** | |
|---|---|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 | **2012 HK$'000** | 2011 HK$'000 |
| **Financial assets** | | | | |
| Loans and receivables # | **8,145,459** | 2,989,364 | **6,326,819** | 1,342,888 |
| **Financial liabilities** | | | | |
| Financial liabilities at amortized cost ^ | **11,880,394** | 6,752,342 | **4,999,239** | 755,621 |

\# *including trade and other receivables, amounts due from subsidiaries, a jointly controlled entity and non-controlling interests and cash at bank and in hand.*

^ *including trade payables, other payables and accruals, amounts due to a jointly controlled entity and non-controlling interests, consideration payable, borrowings, convertible bonds and other liabilities.*

### 46.2 Financial results by financial instruments

| | **THE GROUP** | |
|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 |
| **Interest income or (expenses) on:** | | |
| Loans and receivables | **48,902** | 27,701 |
| Financial liabilities at amortized cost | **(350,528)** | (221,662) |
| **Reversal of impairment on:** | | |
| Loans and receivables | **43,482** | 35,457 |

# 46. FINANCIAL INSTRUMENTS (CONTINUED)

## 46.3 Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks which comprise market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the Board. The Group does not have written risk management policies. However, the directors and senior management of the Group meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

## 46.4 Financial risk management

*(a) Market risk*

*(i) Foreign currency risk*

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. For the years ended 31 December 2012 and 2011, the Group mainly operates in Hong Kong and the PRC. The functional currency of the Company and its subsidiaries are mainly HK$ and RMB. The Group is exposed to currency risk arising from fluctuations on foreign currencies against the functional currencies of the Company and the group entities. Currently the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group continued to conduct its sales mainly in RMB and make payments in RMB. In addition, the Group's borrowings were mainly denominated in HK$ and RMB. The directors consider that a natural hedge mechanism existed. The Group would, however, closely monitor the volatility of the RMB exchange rate. All in all, the Group's risk exposure to foreign exchange rate fluctuations remained minimal.

*(ii) Interest rate risk*

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk mainly arises from borrowings and its convertible bonds. Borrowings and convertible bonds arranged at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. All of the borrowings of the Group and the Company as at 31 December 2012 and 2011 bore interest at floating rates. The convertible bonds bear fixed interest rate during the Interest Period. The interest rate and repayment terms of the borrowings and convertible bonds outstanding at the end of the reporting period are disclosed in notes 31 and 32 respectively.

The Group's bank balances also expose it to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on the bank balances. The directors consider the Group's and the Company's exposure of the bank deposits is not significant as interest-bearing deposits are within short maturity periods in general.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

## 46. FINANCIAL INSTRUMENTS (CONTINUED)

### 46.4 Financial risk management (Continued)

*(a)* *Market risk (Continued)*

*(ii)* *Interest rate risk (Continued)*

The following sensitivity demonstrates the Group's and the Company's exposure to a reasonably possible change in interest rates on its floating rate borrowings with all other variables held constant at the end of the reporting period (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Increase/(Decrease) in profit after tax and retained profits** | | | | |
| + 50 bp (2011: 50 bp) | **(3,791)** | (3,535) | **(10,995)** | (2,812) |
| –10 bp (2011: 10 bp) | **758** | 707 | **2,199** | 563 |

The changes in interest rates do not affect the Group's and the Company's other components of equity. The above sensitivity analysis is prepared based on the assumption that the borrowing period of the loans outstanding at the end of the reporting period resembles that of the corresponding financial year.

*(b)* *Credit risk*

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities. The Group is also exposed to credit risk arising from the provision of financial guarantees and the amounts of which are as disclosed in note 43.

The Group limits its exposure to credit risk by rigorously selecting the counterparties and to deal only with credit worthy counterparties. Credit risk on restricted cash and deposits as well as cash and cash equivalents (note 27) is mitigated as cash is deposited in banks of high credit rating. The credit and investment policies have been consistently applied and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

For the year ended 31 December 2012, the Group has certain concentration of risk as 23% or HK$2,242,826,000 of the Group's total revenue for the year was contributed by one customer. As at 31 December 2012, none of the Group's trade and other receivables was due from this customer. For the year ended 31 December 2011, no customer had contributed 10% or more of the Group's total revenue for that year and the Group did not have significant concentration of credit risk as the trade receivables as at 31 December 2011 consist of a large number of customers. Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in note 24.

# 46. FINANCIAL INSTRUMENTS (CONTINUED)

## 46.4 Financial risk management (Continued)

*(b)* *Credit risk (Continued)*

For properties that are presold but development has not been completed, the Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of properties. If a purchaser defaults on the payment of its mortgage during the period of guarantee, the bank holding the mortgage may demand the Group to repay the outstanding loan and any interest accrued thereon. As the mortgage loans are secured by properties with current market price higher than the guaranteed amounts, the management considers it would recover any loss incurred arising from the guarantee provided by the Group.

*(c)* *Liquidity risk*

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain a prudent liquidity risk management which is to maintain sufficient cash and cash equivalents as well as to make available of fund through adequate amounts of committed credit facilities and the ability to close out market positions. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The liquidity policies have been consistently applied and are considered to have been effective in managing liquidity risk.

The following tables summarize the maturity of the Group's and the Company's financial liabilities based on agreed scheduled repayments set out in the agreements. The amounts include interest payments computed using contractual rates. As at 31 December 2012 and 2011, none of the Group's bank borrowings and other loan contains a repayable on demand clause. The directors believe that these bank borrowings and other loan will be repaid in accordance with the scheduled repayment dates set out in the loan agreements or the repayment schedules agreed with the banks and financial institution.

| | THE GROUP | | | |
|---|---|---|---|---|
| | **On demand or within 1 year** HK$'000 | **1 to 2 years** HK$'000 | **2 to 5 years** HK$'000 | **Over 5 years** HK$'000 |
| **As at 31 December 2012** | | | | |
| Bank borrowings | **2,250,364** | **1,204,613** | **2,391,862** | **110,991** |
| Convertible bonds | **44,000** | **44,000** | **2,222,000** | **–** |
| Trade payables | **3,281,810** | **–** | **–** | **–** |
| Other payables and accruals | **641,943** | **–** | **–** | **–** |
| Other liabilities | **799,119** | **–** | **–** | **–** |
| | **7,017,236** | **1,248,613** | **4,613,862** | **110,991** |
| **As at 31 December 2011** | | | | |
| Bank borrowings | 1,256,863 | 1,531,667 | 1,079,114 | 206,426 |
| Other loan | 341,235 | – | – | – |
| Trade payables | 1,772,625 | – | – | – |
| Other payables and accruals | 325,265 | – | – | – |
| Other liabilities | 651,745 | – | – | – |
| | 4,347,733 | 1,531,667 | 1,079,114 | 206,426 |

## 46. FINANCIAL INSTRUMENTS (CONTINUED)

### 46.4 Financial risk management (Continued)

*(c)* *Liquidity risk (Continued)*

| | THE COMPANY | | | |
|---|---|---|---|---|
| | **On demand or within 1 year** HK$'000 | **1 to 2 years** HK$'000 | **2 to 5 years** HK$'000 | **Over 5 years** HK$'000 |
| **As at 31 December 2012** | | | | |
| Bank borrowings | **511,060** | **326,294** | **2,029,635** | **–** |
| Other payables and accruals | **11,167** | **–** | **–** | **–** |
| | **522,227** | **326,294** | **2,029,635** | **–** |
| **As at 31 December 2011** | | | | |
| Bank borrowings | 90,147 | 437,100 | 251,471 | – |
| Other payables and accruals | 5,621 | – | – | – |
| | 95,768 | 437,100 | 251,471 | – |

*Note:*

*The contractual financial guarantees provided by the Group and the Company are disclosed in note 43. As assessed by the directors, it is not probable that the banks would claim the Group for losses in respect of the guarantee contracts due to security in place for the mortgage loans as mentioned in 46.4 above. In addition, it is not probable that the subsidiary of the Company would default repayment of bank loan. Accordingly, no provision for the Group's and the Company's obligations under the guarantees has been made. The contractual maturity of these financial guarantees is "on demand".*

### 46.5 Fair value estimation

*(a)* *Financial instruments carried at fair value*

As at 31 December 2012 and 2011, the Group did not have any financial instruments measured at fair value, accordingly, no analysis on fair value hierarchy is presented.

*(b)* *Fair values of financial instruments carried at other than fair value*

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortized cost and classified as current assets or current liabilities are not materially different from their fair values due to the short maturity period. For non-current borrowings, their fair values are calculated by discounting their expected future cash flows at market rate.

## 47. PARTICULARS OF SUBSIDIARIES

The particulars of the subsidiaries as at 31 December 2012 are as follows:

| Name of subsidiaries | Place of incorporation/ operation | Class of shares held | Paid up issued/ registered capital | Proportion of nominal value of issued/ registered capital held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|---|
| China Grand (H.K.) Limited | Hong Kong | Ordinary | 1 share of HK$1 | – | 100% | Investment holding |
| China Overseas Grand Oceans Finance (Cayman) Limited | Cayman Islands | Ordinary | 1 share of US$1 | 100% | – | Fund raising and on-lending |
| China Overseas Grand Oceans Investments Limited | Hong Kong | Ordinary | 1 share of HK$1 | 100% | – | Investment holding |
| China Overseas Grand Oceans Property Group Company Limited | PRC^ | Paid up capital | RMB133,000,000 | – | 100% | Investment holding and property development |
| China Overseas Yin Chuan Investments Limited | Hong Kong | Ordinary | 1 share of HK$1 | – | 100% | Investment holding |
| Grand Marine Investment Limited | British Virgin Islands | Ordinary | 1 share of US$1 | – | 100% | Investment holding |
| Greatbo (H.K.) Ltd. *(note (a))* | Hong Kong | Ordinary | 1 share of HK$1 | – | 100% | Investment holding |
| Han Yang Limited | British Virgin Islands | Ordinary | 1 share of US$1 | – | 100% | Investment holding |
| Hai Jian International Limited *(note (a))* | British Virgin Islands | Ordinary | 1 share of US$1 | – | 100% | Investment holding |
| Hong Bao Limited *(note (a))* | British Virgin Islands | Ordinary | 1 share of US$1 | – | 100% | Investment holding |
| Jet Pacific Investment Limited | Hong Kong | Ordinary | 1 share of HK$1 | – | 100% | Investment holding |
| Longwide Holdings Limited *(note (a))* | Hong Kong | Ordinary | 1 share of HK$1 | – | 100% | Investment holding |
| Marine Key Investments Limited *(note (a))* | British Virgin Islands | Ordinary | 1 share of US$1 | – | 100% | Investment holding |
| Main Lucky International Limited | Hong Kong | Ordinary | 1 share of HK$1 | – | 100% | Investment holding |
| Moonstar Development Limited | Hong Kong | Ordinary | 1 share of HK$1 | – | 100% | Investment holding |
| Ocean Ease Developments Limited *(note (a))* | British Virgin Islands | Ordinary | 1 share of US$1 | – | 100% | Investment holding |
| Ocean Empire Developments Limited *(note (a))* | British Virgin Islands | Ordinary | 1 share of US$1 | – | 100% | Investment holding |
| Pandue Investments Limited | British Virgin Islands | Ordinary | 100 shares of US$1 each | 100% | – | Investment holding |
| Qiangfa Holdings Limited | British Virgin Islands | Ordinary | 1 share of US$1 | – | 100% | Investment holding |
| Sharp China Limited | British Virgin Islands | Ordinary | 1 share of US$1 | – | 100% | Investment holding |

## 47. PARTICULARS OF SUBSIDIARIES (CONTINUED)

| Name of subsidiaries | Place of incorporation/ operation | Class of shares held | Paid up issued/ registered capital | Proportion of nominal value of issued/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Directly | Indirectly | |
| Top Wonder International Limited *(note (a))* | Hong Kong | Ordinary | 1 share of HK$1 | – | 100% | Investment holding |
| Unibo Holdings Limited *(note (a))* | Hong Kong | Ordinary | 1 share of HK$1 | – | 100% | Investment holding |
| Wan Chang International Limited | British Virgin Islands | Ordinary | 1 share of US$1 | – | 100% | Investment holding |
| World United International Limited *(note (a))* | Hong Kong | Ordinary | 1 share of HK$1 | – | 100% | Investment holding |
| 上海中海宏洋置業有限公司 | PRC# | Paid up capital | RMB15,000,000 | – | 100% | Investment holding |
| 中海宏洋地產（合肥）有限公司 | PRC^ | Paid up capital | RMB580,000,000 (2011: RMB300,000,000) | – | 100% | Property development |
| 中海宏洋地產（銀川）有限公司 | PRC* | Paid up capital | RMB840,000,000 (2011: RMB182,000,000) | – | 70% | Property development |
| 中海宏洋地產（贛州）有限公司 *(note (a))* | PRC* | Paid up capital | RMB600,000,000 | – | 88% | Property development |
| 中海宏洋地產（揚州）有限公司 *(note (a))* | PRC^ | Paid up capital | RMB600,000,000 | – | 100% | Property development |
| 中海宏洋地產（南通）投資開發有限公司 *(note (a))* | PRC^ | Paid up capital | RMB473,505,286 | – | 100% | Property development |
| 中海宏洋地產（常州）有限公司 *(note (a))* | PRC^ | Paid up capital | RMB583,381,711 | – | 100% | Property development |
| 北京中海宏洋地產有限公司 | PRC# | Paid up capital | RMB28,000,000 | – | 100% | Investment holding and property development |
| 北京中京藝苑房地產開發有限責任公司 | PRC# | Paid up capital | RMB30,000,000 | – | 100% | Property investment and property leasing |
| 北京中順超科房地產開發有限公司 | PRC# | Paid up capital | RMB10,000,000 | – | 100% | Property development |
| 北京華世柏利房地產開發有限公司 | PRC# | Paid up capital | RMB60,000,000 | – | 80% | Property development |
| 北京快樂城堡購物中心有限公司 | PRC# | Paid up capital | RMB10,000,000 | – | 100% | Property leasing |
| 北京通惠房地產開發有限責任公司 *(note (b))* | PRC# | Paid up capital | RMB100,000,000 | – | 100% | Property development |
| 中海宏洋物業管理有限公司 (formerly known as 光大物業管理有限公司) | PRC# | Paid up capital | RMB50,000,000 (2011: RMB5,000,000) | – | 100% | Property management |

## 47. PARTICULARS OF SUBSIDIARIES (CONTINUED)

| Name of subsidiaries | Place of incorporation/ operation | Class of shares held | Paid up issued/ registered capital | Proportion of nominal value of issued/ registered capital held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|---|
| 呼和浩特光大環城建設開發有限公司 | PRC# | Paid up capital | RMB120,000,000 | – | 80% | Property development |
| 呼和浩特市中海宏洋地產有限公司 | PRC# | Paid up capital | RMB50,000,000 | – | 100% | Property development |
| 呼和浩特市榮城房地產開發有限公司 | PRC# | Paid up capital | RMB15,000,000 | – | 100% | Property development |
| 呼和浩特市中海物業服務有限公司 | PRC# | Paid up capital | RMB800,000 | – | 100% | Property management |
| 南寧中海宏洋房地產有限公司 | PRC# | Paid up capital | RMB20,000,000 | – | 100% | Property development |
| 深圳市建地投資有限公司 | PRC# | Paid up capital | RMB10,000,000 | – | 100% | Investment holding |
| 深圳市建禹投資有限公司 | PRC# | Paid up capital | RMB10,000,000 | – | 100% | Investment holding |
| 廣州中海橡園房地產發展有限公司 | PRC# | Paid up capital | RMB10,000,000 | – | 100% | Property development |
| 廣州市光大花園房地產開發有限公司 | PRC* | Paid up capital | RMB800,000,000 | – | 100% | Property development |
| 廣州市光大花園物業管理有限公司 | PRC# | Paid up capital | RMB3,000,000 | – | 100% | Property management |
| 廣州新都房地產發展有限公司 | PRC# | Paid up capital | RMB10,000,000 | – | 90% | Property development |
| 蘭州中海宏洋房地產開發有限公司 | PRC# | Paid up capital | RMB20,000,000 | – | 100% | Property development |
| 吉林市中海宏洋房地產開發有限公司 | PRC# | Paid up capital | RMB10,000,000 | – | 100% | Property development |
| 吉林市怡恒偉業房地產開發有限公司 *(note (c))* | PRC# | Paid up capital | RMB200,000,000 | – | 70% | Property development |
| 吉林市中海海華房地產開發有限公司 *(note (a))* | PRC# | Paid up capital | RMB50,000,000 | – | 85% | Property development |
| 桂林建禹地產有限公司 | PRC# | Paid up capital | RMB10,000,000 | – | 100% | Property development |
| 合肥中海新華房地產開發有限公司 *(note (a))* | PRC# | Paid up capital | RMB20,000,000 | – | 60% | Property development |

## 47. PARTICULARS OF SUBSIDIARIES (CONTINUED)

*Notes:*

(a) *These subsidiaries were newly established during the year ended 31 December 2012.*

(b) *Previously, 北京通惠房地產開發有限責任公司 was a jointly controlled entity of the Group in which the Group held 44.5% equity interest. During the year ended 31 December 2011, the Group acquired the remaining 55.5% equity interest in 北京通惠房地產開發有限責任公司 and 北京通惠房地產開發有限責任公司 becomes a wholly-owned subsidiary of the Group. Details of the acquisition of the 55.5% equity interest in 北京通惠房地產開發有限責任公司 are set out in note 37(b).*

(c) *During the year ended 31 December 2011, the Group acquired 70% equity interest in 吉林市怡恒偉業房地產開發有限公司 through injection of consideration amounted to RMB140,000,000 (equivalent to approximately HK$168,742,000). Details of the acquisition of 吉林市怡恒偉業房地產開發有限公司 are set out in note 39(a).*

^ *The companies are incorporated in the PRC as wholly- foreign-owned enterprises.*
* *The companies are incorporated in the PRC as sino-foreign equity joint ventures.*
\# *The companies are incorporated in the PRC as limited liability companies.*

None of the subsidiaries had any debt securities outstanding during the year.

## 48. PARTICULARS OF A JOINTLY CONTROLLED ENTITY

The particulars of the jointly controlled entity as at 31 December 2012 are as follows:

| Name of jointly controlled entities | Place of incorporation/ operation | Class of shares held | Paid up issued/ registered capital | Proportion of nominal value of issued/registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Directly | Indirectly | |
| 上海金鶴數碼科技發展有限公司 | PRC* | Paid up capital | US$2,400,000 | – | 65% | Property investment and property leasing |

* *The company is incorporated in the PRC as sino-foreign equity joint venture.*

# Five Year Financial Summary

## CONSOLIDATED RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | 2009 | 2008 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **9,716,902** | 5,165,720 | 3,677,309 | 2,707,924 | 2,502,632 |
| Profit before income tax | **3,810,261** | 3,380,753 | 2,013,959 | 39,071 | 530,924 |
| Income tax expense | **(1,324,622)** | (1,575,935) | (871,042) | (421,221) | (456,518) |
| Profit/(Loss) for the year | **2,485,639** | 1,804,818 | 1,142,917 | (382,150) | 74,406 |
| Profit/(Loss) for the year attributable to: | | | | | |
| Owners of the Company | **2,400,718** | 1,815,418 | 1,001,120 | (279,713) | 23,563 |
| Non-controlling interests | **84,921** | (10,600) | 141,797 | (102,437) | 50,843 |
| | **2,485,639** | 1,804,818 | 1,142,917 | (382,150) | 74,406 |

## CONSOLIDATED ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | 2010 | 2009 | 2008 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **30,944,543** | 19,682,093 | 10,935,727 | 10,993,512 | 10,443,673 |
| Total liabilities | **(22,335,445)** | (14,250,063) | (8,137,448) | (7,662,317) | (6,813,106) |
| | **8,609,098** | 5,432,030 | 2,798,279 | 3,331,195 | 3,630,567 |
| Equity attributable to owners of the Company | **7,966,225** | 5,146,007 | 2,675,414 | 2,871,643 | 3,104,013 |
| Non-controlling interests | **642,873** | 286,023 | 122,865 | 459,552 | 526,554 |
| | **8,609,098** | 5,432,030 | 2,798,279 | 3,331,195 | 3,630,567 |

*Note: A group reorganization was carried out in 2010 with the result that certain businesses of the Group constituted discontinued operations. Such discontinued operations were distributed by way of distribution in specie. Details about the group reorganizat ion can be referred to the Group's 2010 annual report.*

# Particulars of Major Properties & Property Interests

## (A) PROPERTY HELD FOR OWN USE

| Name/Location | Category | Approximate GFA (sq.m.) | Attributable Interest | Lease Term |
|---|---|---|---|---|
| **Room 05–08, 23F, No. 1 building, China Overseas International Center** No. 28 Pinganlixi Avenue, Xicheng District, Beijing City, the PRC | Office | 1,128 | 100% | Medium |

## (B) PROPERTY HELD FOR INVESTMENT

| Name/Location | Category | Approximate GFA (sq.m.) | Attributable Interest | Lease Term |
|---|---|---|---|---|
| **Office units, No. 1 building, China Overseas International Center** No. 28 Pinganlixi Avenue, Xicheng District, Beijing City, the PRC | Office | 39,795 | 100% | Medium |

## (C) PROPERTY HELD AS INVENTORIES

### (I) Properties under Development

| Name/Location | Intended Usage | Approximate Total Site Area (sq.m.) | Approximate GFA (sq.m.) | Attributable Interest | Stage of Completion | Commencement Date | Estimated Completion Date |
|---|---|---|---|---|---|---|---|
| **Royal East (Phase D-D5 house)** No. 1 Bin Jiang East Road, Fengman District, Jilin City, Jilin Province, the PRC | Residential/ Commercial | 2,200 | 10,200 | 70% | Fitting out | 2008.04 | 1st half 2013 |
| **Royal East** East of Fengzhou Road, South of the Planning Road, Sai Han District, Hohhot City, Inner Mongolia Autonomous Region, the PRC | Residential | 33,000 | 87,600 | 100% | Superstructure in progress | 2010.10 | 2nd half 2013 |
| **The Arch** North of Binhe Road, East of Fengzhou Road, Sai Han District, Hohhot City, Inner Mongolia Autonomous Region, the PRC | Residential | 31,900 | 87,500 | 100% | Superstructure in progress | 2011.03 | 2nd half 2013 |
| **Lagoon Manor** Shahe Town, Changping District, Beijing, the PRC | Residential | 140,400 | 125,000 | 80% | Superstructure in progress | 2011.04 | 2nd half 2013 |
| **Royal Waterfront** No. 121, Jilin Street, Fengman District, Jilin City, Jilin Province, the PRC | Residential/ Commercial | 14,000 | 64,400 | 100% | Superstructure in progress | 2011.06 | 2nd half 2013 |

## (C) PROPERTY HELD AS INVENTORIES (CONTINUED)

### (I) Properties under Development (Continued)

| Name/Location | Intended Usage | Approximate Total Site Area (sq.m.) | Approximate GFA (sq.m.) | Attributable Interest | Stage of Completion | Commencement Date | Estimated Completion Date |
|---|---|---|---|---|---|---|---|
| **The Great Hill**<br>Jinggang Road, Shushan Economic Development Zone, Hefei City, the PRC | Residential | 134,900 | 372,200 | 100% | Superstructure in progress | 2011.07 | 2nd half 2014 |
| **International Community (#52&53-2 land)**<br>East of Jinfeng Sixth Street, North of Liu Pan Mountain Road, Jinfeng District, Yinchuan City, Autonomous Region, the PRC | Residential/ Commercial | 333,700 | 634,800 | 70% | Superstructure in progress | 2011.08 | 2nd half 2014 |
| **The Chief Palace**<br>No. 2 of Northern Ring City, Jiangan Road, Qixing District, Guilin City, GuangXi, the PRC | Residential/ Commercial | 55,800 | 141,500 | 100% | Superstructure in progress | 2011.10 | 2nd half 2014 |
| **The Green Peak**<br>No. 2, Dongzhou Road, Xingning District, Dong Gouling, Nanning, the PRC | Residential/ Commercial | 46,000 | 183,100 | 100% | Superstructure in progress | 2011.10 | 2nd half 2014 |
| **Dragon Cove**<br>West of Fengzhou Road, North of Bin He Road, Saihan District, Hohhot City, Inner Mongolia Autonomous Region, the PRC | Residential | 85,600 | 233,500 | 100% | Superstructure in progress | 2012.03 | 2nd half 2013 |
| **Maison du Lac**<br>West of Fushan Road, North of Xiyou Road, Hi-tech Zone, Hefei, the PRC | Residential/ Commercial | 93,500 | 150,800 | 60% | Superstructure in progress | 2012.03 | 2nd half 2013 |
| **The Arch**<br>South-west of the Planning Road No. T591, North of the Planning Road No. B752, East of Planning Road No. T560-1, Anning District, Lanzhou, the PRC | Residential/ Commercial | 92,700 | 385,700 | 100% | Superstructure in progress | 2012.04 | 2nd half 2014 |
| **The Bund**<br>North of Yinhe North Road, East of Fu Bilie Road, Saihan District, Hohhot City, Inner Mongolia Autonomous Region, the PRC | Residential/ Commercial | 72,900 | 214,000 | 100% | Superstructure in progress | 2012.06 | 2nd half 2013 |
| **International Community (#B18-1&2 land)**<br>Xingguo Road, Zhanggong District, Ganzhou, the PRC | Residential/ Commercial | 75,600 | 283,400 | 88% | Superstructure in progress | 2012.08 | 2nd half 2014 |

## (C) PROPERTY HELD AS INVENTORIES (CONTINUED)

### (II) Land held for Future Development

| Name/Location | Intended Usage | Approximate Total Site Area (sq.m.) | Approximate GFA (sq.m.) | Attributable Interest | Stage of Completion |
|---|---|---|---|---|---|
| **The reserved Land for Beijing Tonghui River Project** Jianwai Zhuanchang Hutong, Chaoyang District, Beijing City, the PRC | Residential/ Commercial | 10,100 | 91,900 | 100% | Land under development |
| **International Community** South of Jinfeng District, Yinchuan City, Autonomous Region, the PRC | Residential/ Commercial | 1,003,300 | 2,665,600 | 70% | Land under development |
| **International Community** No. 515, Yishan Road, Fengman District, Jilin, the PRC | Residential/ Commercial | 335,800 | 688,000 | 85% | Land under development |
| **The Reserved Land for Nanning New and Hi-Tech Industrial Development Zone Project** Xiangsi Lake District, New and Hi-Tech Industrial Development Zone, Nanning, the PRC | Residential | 60,000 | 326,600 | 100% | Land under development |
| **International Community** West of Wudu Road, North of Xingguo Road, East of Dengfeng Avenue, South of Zanxian Road, Zhanggong District, Ganzhou, the PRC | Residential/ Commercial | 275,500 | 1,118,600 | 88% | Land under development |
| **Jade Garden** Junction of Guanchao Road and Jiefang North Road, Guangliong District, Yangzhou City, the PRC | Residential/ Commercial | 103,600 | 233,300 | 100% | Land under development |
| **The R12032 block, Gangzha District** South of Xinhua Road, East of Changtai Road, Gangzha District, Nantong, the PRC | Residential/ Commercial | 199,700 | 762,400 | 100% | Land under development |
| **Reserved land at Dinosaurs Land Project** South of Huanghe East Road, Xinbei District, Changzhou City, the PRC | Residential/ Commercial | 138,600 | 266,700 | 100% | Land under development |

## (C) PROPERTY HELD AS INVENTORIES (CONTINUED)

### (III) Properties held for Sale

| Name/Location | Category | Approximate Saleable gross floor area (sq.m.) (excluding Car Park) | Attributable Interest |
|---|---|---|---|
| **Lagoon Manor**<br>Shahe Town, Changping District,<br>Beijing, the PRC | Residential | 11,957 | 80% |
| **The Oakwood**<br>Gongye Road North,<br>Haizhu District,<br>Guangzhou City,<br>Guangdong Province, the PRC | Residential/Commercial | 7,715 | 100% |
| **Royal East**<br>East of Fengzhou Road,<br>South of the Planning Road,<br>Sai Han District, Hohhot City,<br>Inner Mongolia Autonomous Region,<br>the PRC | Residential | 14,103 | 100% |
| **The Arch**<br>North of Binhe Road,<br>East of Fengzhou Road,<br>Sai Han District, Hohhot City,<br>Inner Mongolia Autonomous<br>Region, the PRC | Residential | 16,829 | 100% |
| **Glorious City**<br>South of the South Two Ring Road,<br>Feng Zhou Road East,<br>Sai Han District, Hohhot City,<br>Inner Mongolia Autonomous<br>Region, the PRC | Residential/Commercial | 3,009 | 100% |
| **International Community (Lianhua Garden (Phase 2))**<br>North of Liu Pan Mountain Road,<br>East of Jinfeng Sixth Street,<br>Jinfeng District, Yinchuan City,<br>Autonomous Region, the PRC | Residential/Commercial | 34,024 | 70% |
| **Royal East (Phase B, C and D-D1, D2, D3, D4 house)**<br>No. 1 Bin Jiang East Road,<br>Fengman District, Jilin City,<br>Jilin Province, the PRC | Residential/Commercial | 70,981 | 70% |

## (C) PROPERTY HELD AS INVENTORIES (CONTINUED)

### (III) Properties held for Sale (Continued)

| Name/Location | Category | Approximate Saleable gross floor area (sq.m.) (excluding Car Park) | Attributable Interest |
|---|---|---|---|
| **Royal Waterfront**<br>No. 121, Jilin Street,<br>Fengman District, Jilin City,<br>Jilin Province, the PRC | Residential/Commercial | 25,835 | 100% |
| **The Great Hill**<br>Jinggang Road, Shushan District,<br>Hefei City, the PRC | Residential | 3,653 | 100% |
| **The Chief Palace**<br>No 2 of Northern Ring City,<br>Jiangan Road, Qingxing District,<br>Guilin City, GuangXi, the PRC | Residential | 9,806 | 100% |
| **Banyan Bay**<br>Rongjing Road, Haizhu District,<br>Guangzhou City, Guangdong Province,<br>the PRC | Residential/Commercial | 1,086 | 100% |

## (D) PROPERTY HELD UNDER JOINT-CONTROLLED ENTITY

### Property held for investment

| Name/Location | Category | Approximate Total Site Area (sq.m.) | Attributable Interest | Lease term |
|---|---|---|---|---|
| **China Overseas Jinhe Information Technology Park**<br>No. 10, Lane 198,<br>Zhangheng Road,<br>Shanghai Zhangjiang<br>Hi-tech Park,<br>Pudong District,<br>Shanghai City, the PRC | Office/Car Park | 16,381 | 65% | Medium |

# Glossary

| | |
|---|---|
| Board | the board of Directors |
| CAGR | compound annual growth rate |
| CG Code | Corporate Governance Code in Appendix 14 to the Listing Rules |
| COHL | China Overseas Holdings Limited, a company incorporated in Hong Kong with limited liability and a controlling shareholder of COLI |
| COLI | China Overseas Land & Investment Limited, a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board of the Stock Exchange (stock code: 688), being a controlling shareholder of the Company |
| Companies Ordinance | Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended from time to time) |
| Company | China Overseas Grand Oceans Group Limited (stock code: 81), a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board of the Stock Exchange |
| Company Secretary | the company secretary of the Company |
| Convertible Bonds | means HK$2,200,000,000 2.00% guaranteed convertible bonds due 2017 (credit enhanced until 2015 with step down to zero coupon after 2015) issued by the Group and guaranteed by the Company |
| CPI | consumer price index |
| CSCEC | 中國建築工程總公司 (China State Construction Engineering Corporation), a state-owned corporation organised and existing under the laws of the PRC, which is the holding company of CSCECL |
| CSCECL | 中國建築股份有限公司 (China State Construction & Engineering Corporation Limited), a joint stock company incorporated in the PRC which is an intermediate holding company of COLI |
| CSCECL Group | CSCECL and its subsidiaries from time to time |
| Directors | the director(s) of the Company |
| GDP | gross domestic product |
| GFA | gross floor area |
| Group | the Company and its subsidiaries from time to time |
| HKFRSs | Hong Kong Financial Reporting Standards (including all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by HKICPA |
| HKICPA | Hong Kong Institute of Certified Public Accountants |
| Hong Kong | the Hong Kong Special Administrative Region of the PRC |

| | |
|---|---|
| Listing Rules | the Rules Governing the Listing of Securities on the Stock Exchange |
| Model Code | Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules |
| Option Scheme | a share option scheme which is approved by the shareholders of the Company at the annual general meeting held on 11 May 2005 and adopted by the Company for a period of 10 years commencing on the adoption date |
| PRC | the People's Republic of China |
| Saleable GFA | saleable gross floor area |
| Share(s) | share(s) of HK$0.01 each in the capital of the Company |
| SFO | Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong |
| sq. m. | square metre |
| Stock Exchange | The Stock Exchange of Hong Kong Limited |
| US | the United States of America, its territories and possessions, any state of the United States |
| % | per cent. |

*Note:* This section is not applicable to the section "Independent Auditor's Report" and the consolidated financial statements of the Group set out on pages 42 to 119 of this annual report.

# Formula of Financial Information

| | |
|---|---|
| Cash reserves | Cash and cash equivalents + Restricted cash and deposits |
| Gross margin | $\dfrac{\text{Gross profit}}{\text{Revenue}}$ |
| (Net cash)/Net debts | Total borrowings – Cash reserves |
| Total gearing | $\dfrac{\text{Total borrowings}}{\text{Equity attributable to owners of the Company}}$ |
| Net gearing | $\dfrac{\text{Net debts}}{\text{Equity attributable to owners of the Company}}$ |
| Net margin | $\dfrac{\text{Profit attributable to owners of the Company}}{\text{Revenue}}$ |
| Quick ratio | $\dfrac{\text{Total current assets – Inventories of properties}}{\text{Total current liabilities}}$ |
| Return on equity | $\dfrac{\text{Profit attributable to owners of the Company}}{\text{Average capital and reserves attributable to owners of the Company}}$ |

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