



SHIMAO PROPERTY HOLDINGS LIMITED

世茂房地產控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 813



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**Excellence**

Annual Report 2012



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# Established Nationwide Footprint

**Attributable Land Bank:**  
Approximately 36.2 million sq.m.  
Covering 39 cities across China

## Project held by Shimao Property

### Northeastern District

- 01 Harbin Shimao Riviera New City
- 02 Mudanjiang Shimao Holiday Landscape
- 03 Mudanjiang Shimao South Bund
- 04 Shenyang Shimao Notting Hill
- 05 Shenyang Shimao Wulihe
- 06 Dalian Shimao Glory City

### Bohai Rim District

- 07 Yantai Shimao No. 1 The Harbour
- 08 Beijing Dachang Project
- 09 Tianjin Shimao Wetland Century
- 10 Qingdao Shimao Century Land
- 11 Jinan Whitehorse Hill Project

### Western District

- 12 Xianyang Shimao The Centre
- 13 Chengdu Shimao City
- 14 Chengdu Shimao Royal Bay

### Jiangsu and Shanghai

- 15 Xuzhou Shimao Dongdu
- 16 Taizhou Shimao Riverside Garden
- 17 Wuhu Shimao Riviera Garden
- 18 Changzhou Shimao Champagne Lake
- 19 Wuxi Shimao The Capital
- 20 Suzhou Shimao Canal Scene
- 21 Kunshan Shimao Butterfly Bay
- 22 Kunshan Shimao East No. 1
- 23 Kunshan Bund Project
- 24 Shanghai Shimao Riviera Garden
- 25 Shanghai Shimao Emme County
- 26 Shanghai Sheshan Royal Palace
- 27 Nanjing Shimao Bund New City
- 28 Nanjing Baixia Project
- 29 Nantong Project

### Hangzhou District

- 30 Hangzhou Shimao Imperial Landscape
- 31 Hangzhou Shimao U World
- 32 Hangzhou Shimao Riviera Garden
- 33 Hangzhou Shimao New West Lake
- 34 Hangzhou Zhijiang Project
- 35 Hangzhou Niutian Project
- 36 Jiaxing Shimao Century Park

### Ningbo District

- 37 Shaoxing Shimao Dear Town
- 38 Ningbo Shimao World Gulf
- 39 Ningbo Shimao Sea Dawn
- 40 Ningbo Xiangshan Project
- 41 Ningbo Yuyao Project
- 42 Ningbo Majia Project
- 43 Ningbo Baoqingsi Project

### South Central District

- 44 Changsha Shimao Brilliantate Bay
- 45 Nanchang Shimao Sky City
- 46 Nanchang Shimao Water City
- 47 Wuhan Shimao Splendid River
- 48 Wuhan Shimao Dragon Bay
- 49 Wuhan Shimao Carnival

### Tourism Property

- 50 Hainan Wenchang Moonriver
- 51 Dalian Shimao Dragon Bay
- 52 Xiamen Shimao Lakeside Garden
- 53 Shanghai Shimao Nano Magic City
- 54 Fuzhou Shimao Skyscrapers
- 55 Fuzhou Guling Project
- 56 Fuzhou Minhou Shimao Dragon Bay
- 57 Fuzhou Minhou New Project
- 58 Fujian Jinjiang Shimao Dragon Bay

## Project held by Shanghai Shimao

- 01 Shenyang Shimao Wulihe (Commercial)
- 02 Tianjin Wuqing Project
- 03 Jinan Jiefangge Project
- 04 Changshu Shimao The Centre
- 05 Suzhou Shimao Canal Scene (Commercial)
- 06 Hangzhou Shimao Riviera COSMO
- 07 Wuhu Shimao Riviera Garden (Commercial)
- 08 Xuzhou Shimao Dongdu (Commercial)
- 09 Changzhou Shimao Champagne Lake (Commercial)
- 10 Jiaxing Shimao Century Park (Commercial)
- 11 Wuxi Shimao The Capital (Commercial)
- 12 Qingdao Shimao International Plaza
- 13 Qingdao Jiaonan Project
- 14 Qingdao Shi'ao Tower
- 15 Nanjing Shimao Bund New City
- 16 Shanghai Shimao Wonderland
- 17 Wuhan Shimao Carnival
- 18 Xiamen Shimao MO Sky Mansion
- 19 Changsha Shimao Brilliantate Bay (Commercial)
- 20 Kunshan Shimao International City

## Joint Venture Project

- 01 Nanjing Straits City
- 02 Fuzhou Pingtan Future City
- 03 Guangzhou Asian Game City
- 04 Tianjin Jinnan New City



# Corporate Information

Wuhan Shimao Splendid River



## Board of Directors

### Executive Directors

Hui Wing Mau (*Chairman*)  
Hui Sai Tan, Jason (*Vice Chairman*)  
Liu Sai Fei  
Xu Younong  
Tang Fei  
Liao Lujiang

### Independent Non-executive Directors

Kan Lai Kuen, Alice  
Lu Hong Bing  
Lam Ching Kam

### Audit Committee

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

### Remuneration Committee

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

## Nomination Committee

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

## Company Secretary

Lam Yee Mei, Katherine

## Auditor

PricewaterhouseCoopers

## Principal Bankers

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

## Corporate Information

Fujian Jinjiang Shimao Dragon Bay



### Hong Kong Branch Share Registrar and Transfer Office

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

### Principal Place of Business in Hong Kong

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

### Principal Share Registrar and Transfer Office

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

### Place of Listing

The Stock Exchange of Hong Kong Limited  
Stock code: 813

### Investor and Media Relations

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

### Registered Office

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

# Five Years Financial Summary

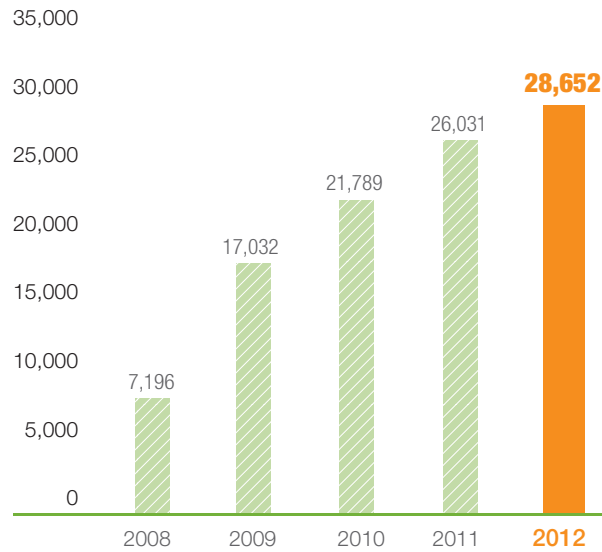
	2008 RMB'000	2009 RMB'000 (Restated)	2010 RMB'000	2011 RMB'000	2012 RMB'000
<b>Revenue</b>	7,196,277	17,032,063	21,789,433	26,031,426	<b>28,652,243</b>
Cost of sales	(3,964,242)	(11,149,395)	(13,812,137)	(16,031,376)	<b>(19,046,444)</b>
<b>Gross profit</b>	3,232,035	5,882,668	7,977,296	10,000,050	<b>9,605,799</b>
Gain on deemed disposal to non-controlling interests	–	1,501,093	–	–	–
Fair value gains/(losses) on investment properties	(122,749)	213,834	2,339,562	2,527,013	<b>2,362,880</b>
Other income/other gains – net	442,118	158,609	796,826	794,320	<b>1,196,104</b>
Selling and marketing costs	(281,756)	(470,427)	(563,900)	(769,889)	<b>(1,046,841)</b>
Administrative expenses	(1,065,837)	(1,107,286)	(1,083,122)	(1,349,272)	<b>(1,815,871)</b>
Other operating expenses	(75,053)	(179,961)	(176,703)	(192,173)	<b>(266,706)</b>
<b>Operating profit</b>	2,128,758	5,998,530	9,289,959	11,010,049	<b>10,035,365</b>
Finance costs – net	(349,630)	(307,187)	(671,553)	(380,346)	<b>(22,115)</b>
Share of results of:					
– Associated companies	(3,132)	19,925	(48,110)	97,653	<b>(210,938)</b>
– Jointly controlled entities	9,498	(1,072)	14	24,213	<b>363,125</b>
	6,366	18,853	(48,096)	121,866	<b>152,187</b>
<b>Profit before income tax</b>	1,785,494	5,710,196	8,570,310	10,751,569	<b>10,165,437</b>
Income tax expense	(925,226)	(2,107,212)	(3,079,368)	(4,302,640)	<b>(3,580,949)</b>
<b>Profit for the year</b>	860,268	3,602,984	5,490,942	6,448,929	<b>6,584,488</b>
<b>Profit for the year attributable to equity holders of the company</b>	841,159	3,511,201	4,671,536	5,722,775	<b>5,764,632</b>
Non-current assets	24,782,435	31,640,613	40,874,204	44,034,957	<b>52,221,579</b>
Current assets	21,698,906	34,886,970	54,795,111	73,207,584	<b>78,606,216</b>
<b>Total assets</b>	46,481,341	66,527,583	95,669,315	117,242,541	<b>130,827,795</b>
Non-current liabilities	12,500,198	16,728,449	27,065,716	30,750,649	<b>32,388,875</b>
Current liabilities	14,943,724	24,282,049	38,649,615	51,473,815	<b>57,511,688</b>
<b>Total liabilities</b>	27,443,922	41,010,498	65,715,331	82,224,464	<b>89,900,563</b>
<b>Net assets</b>	19,037,419	25,517,085	29,953,984	35,018,077	<b>40,927,232</b>
Equity attributable to equity holders of the Company	18,695,819	23,347,874	26,698,834	30,591,680	<b>35,907,150</b>
Non-controlling interests	341,600	2,169,211	3,255,150	4,426,397	<b>5,020,082</b>
<b>Total Equity</b>	19,037,419	25,517,085	29,953,984	35,018,077	<b>40,927,232</b>



## Five Years Financial Summary

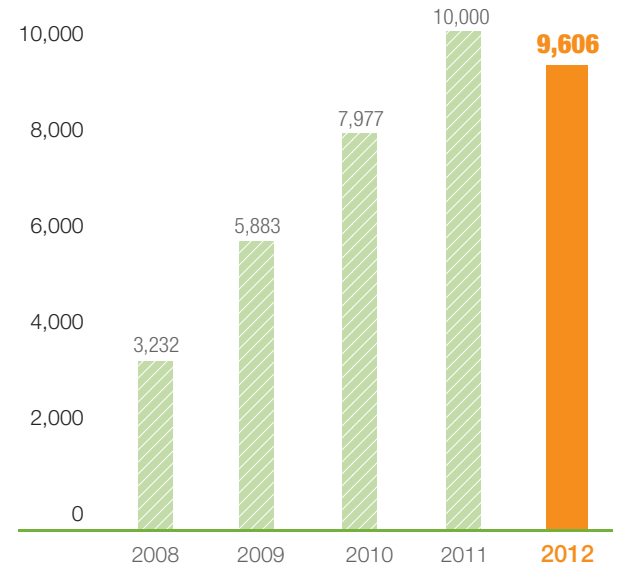
### REVENUE

RMB million



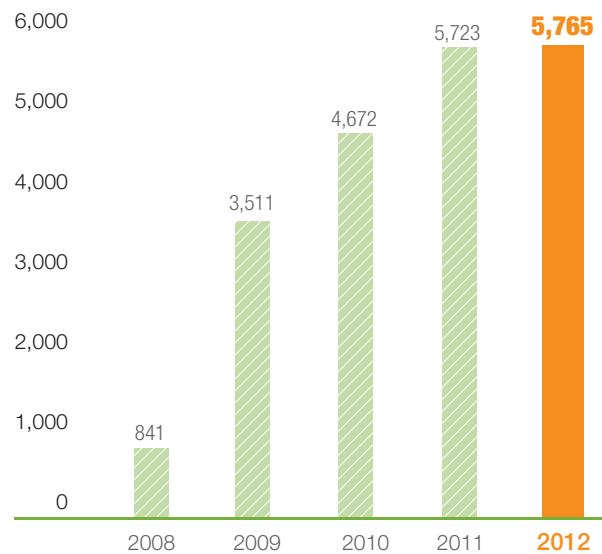
### GROSS PROFIT

RMB million



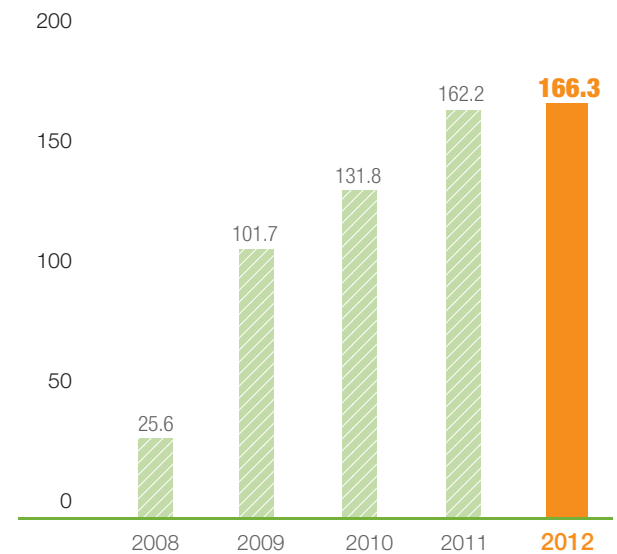
### PROFIT ATTRIBUTABLE TO SHAREHOLDERS

RMB million



### BASIC EARNINGS PER SHARE

RMB cents



# Chairman's Statement

Fujian Jinjiang Shimao Dragon Bay



## Chairman's Statement

Shanghai Shimao Nano Magic City



Chengdu Shimao Royal Bay



Dear shareholders,

I am pleased to present the results of Shimao Property Holdings Limited ("Shimao Property" or the "Company", together with its subsidiaries, the "Group") for the year ended 31 December 2012.

### RESULTS FOR THE YEAR 2012

China's economic growth witnessed a noticeable slowdown during the year. It was impacted by uncertainties in the global economy triggered by the European debt crisis, together with domestic austerity policies to combat inflation. In pursuit of its key goal of stabilizing economic growth, the central government eased certain monetary policies, for instance lowering the deposit reserve requirement ratio twice in 2012, and cutting the benchmark loan interest rate by 0.25% during the year, thus fostering a more favourable environment for monetary liquidity.

Without imposing any further stringent regulatory policies, the central government reaffirmed its position on the regulation of the real estate market. Its fundamental focus remained on the uncompromising implementation of tight measures in the industry by enforcing existing policies that impose restrictions on property purchases, mortgages and prices.

China's real estate market has exhibited a stronger momentum towards recovery since the second half of the year, with property transaction volumes in many cities more than doubled as compared to the previous

year, especially during Chinese New Year 2013. With both property prices and trading volumes surging in many cities since the second half of the year, concern was again triggered about the central government's enforcement of regulatory measures on the sizzling real estate market. Mr. Wen Jiabao, the then Premier of the State Council, while chairing the State Council Standing Committee meeting on 20 February 2013, proposed that the central government should continue to optimize its regulation of the real estate market. It was also pointed out in the meeting that, despite the fact that real estate market growth has returned to a steady pace after the implementation of regulatory measures in recent years, curbs on property speculation remains a fundamental policy of the central government. As such, its focus is on the stringent enforcement of a differentiated credit policy, and the wider trial implementation of the residential property tax reform as resulted from the rigid demand catalyzed by China's rapid urbanization, which has already resulted in a housing shortage in some cities.



Ningbo Yuyao Project

## Chairman's Statement

Dalian Shimao Dragon Bay



Since the General Office of the State Council issued the Notice on the Further Effective Regulation on Real Estate Market on 4 March 2013, a set of new regulations has been issued by the last State Council Standing Committee meeting of the current-term government chaired by Wen Jiabao. These regulations introduced drastic measures for reining in high property prices and suppressing property speculation, and included a further upward adjustment of down-payment and mortgage loan interest rates for second-home buyers in cities with soaring property prices, the levy of a 20% capital gains tax on property transfers, and higher entry requirements for commercial housing presales. Existing policies have also been reaffirmed, including local government accountability for failure to stabilize property prices, and a stepping up of efforts to expand the property tax reform to more cities. The entire real estate market is expected to enter a new adjustment cycle in 2013. Shimao Property will modify its own sales strategy in light of market changes, restructuring its product mix to keep it in line with national policies and market demand.

Following a series of ongoing reforms carried out by Shimao Property in 2012, which involved optimizing its management structure, extending its production line, improving its brand positioning and establishing a more powerful corporate image, the Group reached a remarkable contracted sales of RMB46.1 billion for the year.

Revenue of RMB28.6 billion was recognized for the year ended 31 December 2012, representing a year-on-year increase of 10.1% over 2011. Operating profit decreased slightly by 8.8% to approximately RMB10.0 billion as we focused on clearing residual inventory. Profit attributable to shareholders amounted to RMB5.76 billion, approximate to that of 2011. Fair value gains of investment properties, net of income tax and non-controlling interests, amounted to RMB1.36 billion (2011: fair value gains of RMB1.42 billion), while net profit from core business attributable to shareholders amounted to approximately RMB4.39 billion (2011: RMB4.56 billion), a slight year-on-year decrease of 4.0%. As a token of gratitude for the support of our

## Chairman's Statement

shareholders, the board of directors of the Company (the "Board") has recommended payment of a final dividend of HK55 cents per share for the year ended 31 December 2012, representing an increase of 37.5% compared with the total dividends distributed last year (throughout 2011: HK40 cents).

### MARKET REVIEW AND OUTLOOK

At the beginning of 2012, the Group set a contracted sales target for 2012 of RMB30.7 billion, but actual contracted sales for the year amounted to RMB46.1 billion, exceeding the target by 50%. Total sales area amounted to 4.09 million sq.m., and average selling price was RMB11,277 per sq.m.. This excellent sales achievement bore witness to the success of the internal management enhancement programme.

The contracted sales of the Group for 2013 are targeted at RMB55 billion. As at 25 March 2013, the accumulative unrecognised contracted sales exceeded RMB40 billion, of which approximately 70% of 2013's recognised sales have already been locked in.

The Group has been making continuous efforts to

improve its internal management since the end of 2011 which included enhancing management practices and strengthening the management team. Other improvements have been implemented in the areas of product innovation, service upgrades, and enhancement of the Group's financial position.

### MANAGEMENT REFORM AND TEAM ENHANCEMENT

The starting-point for the reforms at Shimao Property was its management structure. The Group has redefined its business territories over the country, grouping them into seven main territories: the Jiangsu and Shanghai region, the Hangzhou region, the Ningbo region, the South Central region, the Western region, the Northeastern region and Bohai Rim region, together with its supplemental tourism properties business and Shanghai Shimao Co., Ltd. Regional headquarters are located in the central city of each territory to maximize management efficiency. Meanwhile, the original independent development and marketing teams have been combined, allowing the marketing team to participate at every stage of the regional company business, and to contribute to areas such as product research, business plan construction, customer service and sales.



Wuhan Shimao Carnival

## Chairman's Statement

Wuhan Shimao Carnival



Our integrated capacity has also been greatly strengthened by the implementation of strict management measures. We have started to formulate a series of quality control measures; for instance, its 3-tier correlation system links with the Group, regional offices and projects in the development of new vital projects, and we have established a committee to review the design of our regional developments. In addition, the Group has enforced regular inspections by five different parties during project construction in order to assess features such as progress, quality, and management. Any failure to fulfill inspection benchmarks must be corrected immediately.

As for talent development, the Group launched its "fledgling and rising star plan", "veteran plan", and "elite plan" since 2011. In particular, approximately 110 freshmen were recruited in 2012 under the "fledgling plan and rising star plan"; under the "veteran plan", a total of 80 experienced hands joined the Group as at the end of 2012, through directly attracting excellent talent in the industry, the Group sharpened its competitiveness in human resource and enriched its talent pool; thanks to the "elite plan", the Group managed to optimize talent flows of the industry as well as identified and attracted senior management elite from top 10 companies in the industry, providing direct support to the expansion in business coverage of the Group. These initiatives enabled the Group to provide everyone in its internal talent pool with a tailor-made career development plan.

## PRODUCT INNOVATION AND SERVICE UPGRADE

Driven by its management reforms, Shimao Property has restructured its product mix and has launched more products to cater for core demand, along with other brand new products in response to demand for housing upgrades. In 2012, out of more than 40 projects being sold by the Group, over 30 had their original large-sized apartment design modified to incorporate large, medium and small units. In addition to product innovation, the Group has established a comprehensive service system to create value through service, so that Shimao Property's products are able to add value due to their intrinsic features rather than depending on other factors for price rises.

With an initiative to boost the value of home-owners' assets, Shimao Property introduced a "7 days a week/24 hours a day Owners' Value-added Service" scheme jointly with its business partners. The scheme provides property management services up to the standard of 5-star hotels. Shimao Property also provides a lease management entrustment service through an electronic marketing platform that home-owners can use to generate rental income.

## Chairman's Statement

Wuhan Shimao Carnival



## PRUDENT OPERATIONS AND SUSTAINABLE GROWTH

In accordance with our prudent business strategy, since early 2012 the Group has made the lowering of its gearing ratio as a key objective. It accelerated collection of sales receivables, and included sales revenue and cash flows in its comprehensive results ranking indicators and assessment system. Consequently the Group managed to reduce its net gearing ratio significantly, from 81.6% at the end of 2011 to 68.3% by the first half of 2012 and further scaled down to 55.9% at the end of 2012.

Meanwhile, in order to optimize its capital structure and minimize capitalization costs, the Group fully suspended credit facilities with high interest rates and therefore effectively controlled interest costs which decreased to 7.7% in 2012 from 7.9% in 2011. The Group closed a syndicated loan of approximately US\$670 million equivalents from a bank consortium in November 2012 and issued senior notes amounting to US\$800 million in early 2013, extending the overall maturity of its debts. The Group has enjoyed healthy financial conditions. As at 31 December 2012, the Group had cash of approximately RMB18.1 billion, as well as unutilized credit facilities of approximately RMB10.0 billion.

Given the outstanding annual sales and abundant cash resources, the Group begun to enrich its land reserve since the latter half of 2012 in preparation for future sales growth. In the latter half of 2012, the Group increased

its land reserve by acquiring a total of approximately 1.3 million sq.m. of residential land in Hainan Wenchang, Shanghai, Fuzhou Minhou, Wuhan Caidian, Nanjing and Nantong, and its residential land reserve continued to grow with the acquisition of approximately 1.25 million sq.m. in Ningbo, Hangzhou and Jinan as of 28 February 2013. Currently, Shimao Property holds over 70 projects in 39 cities across the country, amounting to approximately 36.22 million sq.m. of quality land. Shimao Property's high-quality land resources, acquired at relatively low cost, will continue to give momentum to its growth in major cities in China in the coming years.

## APPRECIATION

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

**Hui Wing Mau**

*Chairman*

Hong Kong, 26 March 2013

# Management Discussion and Analysis

Shanghai Shimao Nano Magic City





## Management Discussion and Analysis

Shanghai Shimao Nano Magic City



Wuhan Shimao Splendid River



## BUSINESS REVIEW

## Property Development

## 1) Recognised sales revenue

The Group generates its turnover primarily from property development, property investment and hotel operations. Turnover for the year ended 31 December 2012 grew by 10.1% to RMB28.6 billion, from RMB26.0 billion in 2011. During the year, revenue from property sales climbed to RMB26.6 billion, approximately 8.2% more than that of 2011, and accounted for 92.9% of total revenue. The average recognized selling price decreased by 13.0% to RMB10,251 per sq.m. in 2012, from RMB11,786 per sq.m. in 2011. This decrease was mainly attributable to the discount offers applied to certain projects of the Group, and the considerable increase in the proportion of sales generated from projects in second- and third-tier cities since 2012. The number of projects recognized by the Group in 2012 totalled 37, compared with 32 recognized in 2011. The 11 projects that recognized sales revenue of over RMB1.0 billion were: Changshu Shimao The Center, Fujian Jinjiang Shimao Dragon Bay, Fuzhou Shimao Skyscrapers, Xiamen Shimao Lakeside Garden, Hangzhou Shimao Riviera Garden, Fuzhou Minhou Shimao Dragon Bay, Shanghai Shimao Riviera Garden, Nanjing Shimao Bund New City, Suzhou Shimao Canal Scene, Kunshan Shimao East No.1 and Kunshan Shimao International City.



Hangzhou Zhijiang Project

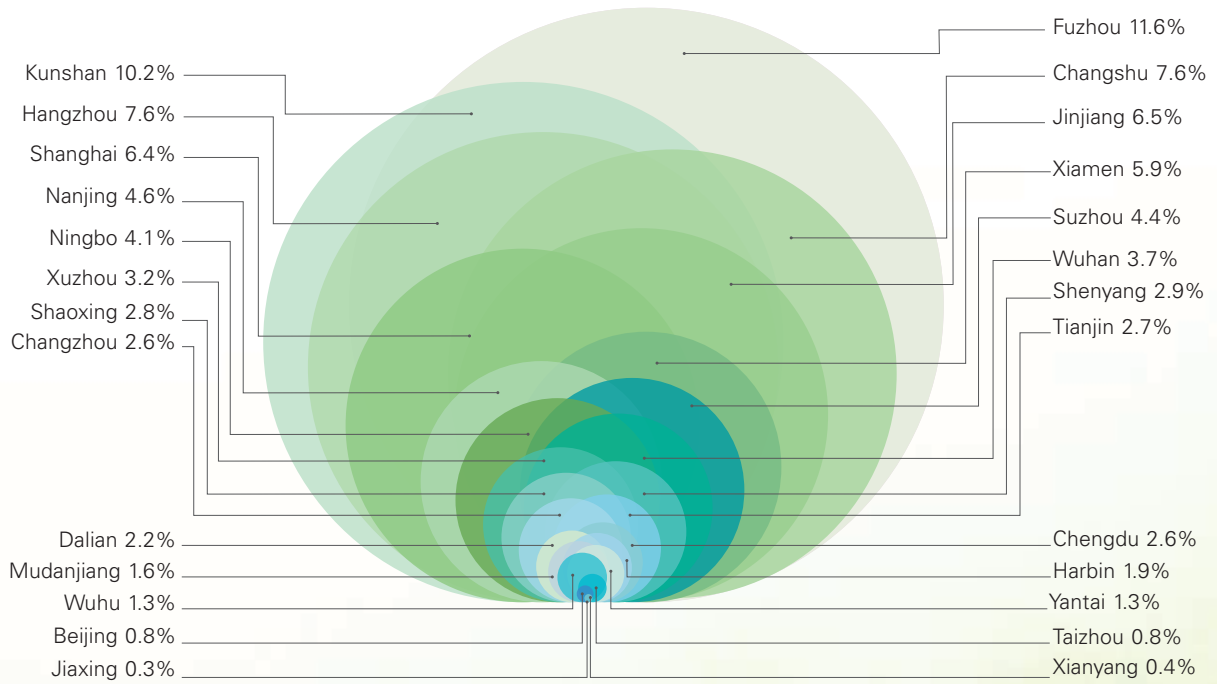
## Management Discussion and Analysis

The delivered GFA recognised for each project in 2012 and the relevant particulars are set out as follows:

Project	Recognized Sales (RMB million)	Recognized Area (sq.m.)	Average Selling Price (RMB per sq.m.)
Changshu Shimao The Center (Commercial)	2,032	216,748	9,374
Fujian Jinjiang Shimao Dragon Bay	1,728	99,958	17,287
Fuzhou Shimao Skyscrapers	1,678	61,835	27,142
Xiamen Shimao Lakeside Garden	1,557	74,460	20,907
Hangzhou Shimao Riviera Garden	1,520	186,136	8,166
Fuzhou Minhou Shimao Dragon Bay	1,406	123,745	11,364
Shanghai Shimao Riviera Garden	1,363	18,928	72,029
Nanjing Shimao Bund New City	1,226	78,443	15,635
Suzhou Shimao Canal Scene	1,177	129,473	9,088
Kushan Shimao East No. 1	1,162	168,935	6,877
Kunshan Shimao International City	1,047	108,432	9,657
Ningbo Shimao World Gulf	872	99,796	8,737
Tianjin Shimao Wetland Century	718	71,248	10,082
Shaoxing Shimao Dear Town	711	56,691	12,543
Shenyang Shimao Wulihe	711	70,716	10,048
Changzhou Shimao Champagne Lake	705	107,481	6,563
Chengdu Shimao City	688	106,502	6,461
Xuzhou Shimao Dongdu	565	93,649	6,032
Dalian Shimao Dragon Bay	553	48,636	11,378
Harbin Shimao Riviera New City	518	79,565	6,511
Kunshan Shimao Butterfly Bay	516	79,593	6,488
Hangzhou Shimao Riviera COSMO	494	48,929	10,089
Wuhan Shimao Splendid River	432	40,362	10,708
Mudanjiang Shimao Holiday Landscape	423	92,084	4,595
Wuhu Shimao Riviera Garden	354	35,148	10,055
Yantai Shimao No.1 The Harbour	338	37,432	9,030
Shanghai Shimao Emme County	336	44,645	7,516
Wuhan Shimao Carnival	312	42,807	7,286
Xuzhou Shimao Dongdu (Commercial)	291	49,969	5,829
Taizhou Shimao Riverside Garden	241	41,548	5,801
Wuhan Shimao Dragon Bay	230	22,986	9,996
Beijing Shimao Alhambra Palace	215	4,961	43,384
Ningbo Shimao Sea Dawn	207	27,409	7,551
Xianyang Shimao The Centre	99	5,839	16,972
Jiaxing Shimao Century Park	72	10,675	6,781
Shenyang Shimao Notting Hill	53	5,211	10,256
Shaoxing Shimao Dear Town (Commercial)	36	2,877	12,407
Dalian Shimao Glory City	21	1,756	11,815
<b>Total</b>	<b>26,607</b>	<b>2,595,608</b>	<b>10,251</b>

## Management Discussion and Analysis

The breakdown of recognised sales for 2012 by cities is set out as follows:



26 cities in total



Dalian Shimao Dragon Bay

## Management Discussion and Analysis

### Chengdu Shimao Royal Bay



### 2) Steady sales growth of the Group, with sales reaching annual target

With respect to property sales, the Group's contracted sales amounted to RMB46.1 billion in 2012, exceeding the sales target by 50%. The aggregate sales area reached 4.09 million sq.m., with an average selling price of RMB11,277 per sq.m..

The excellent sales achieved by the Group clearly demonstrated the effectiveness of management's sales strategy. Looking into 2013, the Group will continue to launch brand new or existing projects with new phases, which will increase the saleable area by approximately 5.10 million sq.m.. When added to a saleable area of 2.56 million sq.m. as at 31 December 2012, the Group's saleable area in 2013 will reach approximately 7.70 million sq.m..

Projects available for sale in 2013 are set out as follows:

District	Project	GFA (sq.m.)
South Central	Wuhan Shimao Splendid River	241,837
Jiangsu and Shanghai	Nanjing Shimao Bund New City	148,125
	Nanjing Baixia Project	185,898
	Suzhou Shimao Canal Scene	176,292
	Shanghai Sheshan Royal Palace	96,423
Ningbo	Shaoxing Shimao Dear Town	161,539
Western	Chengdu Shimao Royal Bay	254,460
Tourism Property	Fujian Jinjiang Shimao Dragon Bay	404,918
	Fuzhou Minhou Shimao Dragon Bay	290,135
	Dalian Shimao Dragon Bay	319,833
	Shanghai Shimao Nano Magic City	93,900
	Xiamen Shimao Lakeside Garden	112,817
Northeastern	Shenyang Shimao Wulihe and Shenyang Shimao Notting Hill	230,815

## Management Discussion and Analysis

District	Project	GFA (sq.m.)
Hangzhou	Hangzhou Shimao Imperial Landscape	114,642
Shanghai Shimao	Qingdao Jiaonan Project	181,422
	Jinan Jiefangge Project	114,731
	Xiamen Shimao MO Sky Mansion	42,800
Sub-total		3,170,587
Others (projects below RMB1.5 billion)		1,960,856
Completed Inventory		701,342
Projects available for sale (as at 31 December 2012)		1,868,021
<b>Total</b>		<b>7,700,806</b>



Dalian Shimao Dragon Bay

## Management Discussion and Analysis

### 3) Completion of projects and development plans meeting expectations

The aggregate GFA completed by the Group in 2012 was approximately 3.33 million sq.m., comparing with approximate to 3.30 million sq.m. in 2011. During the year, the Group's projects nationwide proceeded satisfactorily, with new floor area under construction reaching 5.22 million sq.m.. As at 31 December 2012, there were a

total of approximately 10 million sq.m. floor area under construction. This increase in the number of projects under construction laid a solid foundation for the Group's future development. In 2013, with a view to maintaining adequate liquidity, the GFA planned for completion was preset at approximately 5 million sq.m., 50% higher than that of 2012.

Projects completed in 2012 are set out as follows:

District/Type	Project	GFA (sq.m.)	Group's interest	Interest directly held by Shimao Property	Interest directly held by Shanghai Shimao
<b>Shimao Property</b>					
Jiangsu and Shanghai district	Xuzhou Shimao Dongdu	97,834	100%	100%	-
	Taizhou Shimao Riverside Garden	53,347	100%	100%	-
	Changzhou Shimao Champagne Lake	103,857	100%	100%	-
	Kunshan Shimao Butterfly Bay	126,615	100%	100%	-
	Kunshan Shimao East No. 1	198,611	100%	100%	-
Hangzhou district	Suzhou Shimao Canal Scene	94,549	100%	100%	-
	Hangzhou Shimao Riviera Garden	209,965	100%	100%	-
	Jiaxing Shimao Century Park	22,440	100%	100%	-
Ningbo district	Shaoxing Shimao Dear Town	39,954	100%	100%	-
South Central district	Ningbo Shimao Sea Dawn	26,916	100%	100%	-
	Wuhan Splendid River	93,106	100%	100%	-
Northeastern district	Xiamen Shimao Lakeside Garden	82,789	100%	100%	-
	Shenyang Shimao Wulihe	87,750	100%	100%	-
	Shenyang Shimao Notting Hill	11,687	100%	100%	-
	Harbin Shimao Riviera New City	128,674	100%	100%	-
	Dalian Shimao Glory City	23,282	100%	100%	-
	Mudanjiang Shimao Holiday Landscape	78,205	100%	100%	-
	Mudanjiang Shimao South Bund	36,861	100%	100%	-
	Tianjin Shimao Wetland Century	169,774	75%	75%	-
Bohai Rim district	Chengdu Shimao The City	149,900	100%	100%	-
Western district	Wuhan Shimao Dragon Bay	109,011	100%	100%	-
Tourism Property Sector	Dalian Shimao Dragon Bay	140,634	100%	100%	-
	Fuzhou Minhou Shimao Dragon Bay	149,798	100%	100%	-
	Fuzhou Shimao Skyscrapers	120,367	100%	100%	-
	Fujian Jinjiang Shimao Dragon Bay	263,594	100%	100%	-
<b>Sub-total</b>		<b>2,619,520</b>			

## Management Discussion and Analysis

Project	GFA (sq. m.)	Group's interest	Interest directly held by Shimao Property	Interest directly held by Shanghai Shimao
<b>Shanghai Shimao</b>				
Changshu Shimao The Centre (Commercial)	299,265	64.22%	–	100%
Kunshan Shimao International City	213,775	64.22%	–	100%
Wuhu Shimao Riviera Garden (Commercial)	51,368	64.22%	–	100%
Xuzhou Shimao Dongdu (Commercial)	12,213	64.22%	–	100%
Nanjing Shimao Bund New City	84,502	82.11%	50%	50%
Wuhan Shimao Carnival	50,185	81.75%	49%	51%
<b>Sub-total</b>	<b>711,308</b>			
<b>Total (Shimao Property + Shanghai Shimao)</b>	<b>3,330,828</b>			

#### 4) Steady expansion of land bank for long-term sustainable development

To support sustainable development, the Group has remained positive yet prudent in land acquisition. In 2012, the Group acquired approximately 1.3 million sq.m. of residential land bank in Wenchang in Hainan Province, Shanghai, Minhou in Fuzhou, Caidian in Wuhan, Nanjing and Nantong. In addition, the Group acquired approximately 1.25 million sq.m. of land bank in Ningbo, Hangzhou and Jinan recently. In terms of land cost, the average floor price of the new land reserve was approximately RMB4,382 per sq.m., showing the Group's commitment to prudent land acquisition and its ability to strike a balance between development opportunity and risk control. As at 31 December 2012, the Group's average land cost was RMB2,082 per sq.m.. The relatively low cost of its land should help ensure a higher profit margin in the future.

As at 31 December 2012, Shimao Property had an attributable land bank of 36.22 million sq.m., making it one of the top real estate developers in China in terms of land bank size. Geographically,

the majority of the newly-acquired land parcels were situated in second- and third-tier cities at provincial capital level. These cities hold enormous development potential, bringing ample room for project development with minimal risks.



Ningbo Baoqingsi Project

## Management Discussion and Analysis

The land parcels acquired by the Group in 2012 and up to 28 February 2013 are as follows:

New Land Parcels	Date of Acquisition	Usage	Land Cost (RMB million)	Total		Group's Interest	
				Planned GFA (sq.m.)	Cost per sq.m. (RMB)		
<b>Shimao Property</b>							
1	Hainan Wenchang	April 2012	Tourism	264.56	315,139	840	100%
2	Shanghai Sheshan	August 2012	Tourism	965.00	94,510	10,211	100%
3	Fuzhou Minhou	September 2012	Tourism	627.00	290,482	2,158	100%
4	Wuhan Caidian	October 2012	Tourism	139.50	46,440	3,004	81.7%
5	Nanjing Baixia	November 2012	Residential	1,900.00	295,346	6,433	51%
6	Nantong	November 2012	Residential	1,000.35	285,000	3,510	100%
7	Ningbo Majia	January 2013	Residential	805.05	82,148	9,800	100%
8	Ningbo Baoqingsi	January 2013	Residential	2,139.30	223,310	9,580	100%
9	Hangzhou Zhijiang	February 2013	Residential	1,601.68	200,152	8,002	51%
10	Hangzhou Niutian	February 2013	Residential	1,000.00	89,729	11,145	100%
11	Jinan Baimashan	February 2013	Residential	855.00	656,157	1,303	100%
<b>Shanghai Shimao</b>							
12	Suzhou Wuzhong	December 2012	Commercial	520.00	97,484	5,334	64.22%



Xiamen Shimao MO Sky Mansion

### Property Investment

Shimao Property develops commercial properties through its 64.22% owned subsidiary Shanghai Shimao Co., Ltd. ("Shanghai Shimao"), which is primarily engaged in the development and operation of commercial properties. Besides actively grasping development opportunities in the domestic commercial property market, Shanghai Shimao provides multiple types of commercial properties and high-quality services. It continues to work on achieving greater integration for increased competitiveness, and aims to become a highly successful listed company in the professional development and operation of commercial properties.

With respect to the development of commercial properties, during 2012 Shanghai Shimao recorded contracted sales of RMB8.53 billion and a contracted sales area of 639,000 sq.m., representing not only year-on-year growth of 68.2% and 86.3% respectively, but also a significant over-fulfilment of the sales target of RMB7 billion set at the beginning of the year. Shanghai



## Management Discussion and Analysis

Shimao actively seized opportunities brought by the ongoing recovery of the commercial property market and remained market-oriented in its product positioning. By adapting the pace of its project launches and sales to market changes, Shanghai Shimao was able to step up sales of commercial property projects in Xiamen, Jinan, Tianjin, Changshu, Hangzhou, Xuzhou, Kunshan, Nanjing and Wuhan, achieving good sales results. During 2012, all projects of Shanghai Shimao progressed on schedule with sufficient resources. New floor area under construction amounted to 909,000 sq.m., construction area reached 3.72 million sq.m., completed area reached 711,000 sq.m., and the operating properties held by Shanghai Shimao reached 804,000 sq.m.. As at the end of the year, the land reserve held by Shanghai Shimao amounted to 8.06 million sq.m., providing a strong basis for future development. During 2012, Shanghai Shimao remained market-oriented and customer-centered. Based on its annual operational strategy and targets, Shanghai Shimao made steady progress in implementing various operational, management and control measures. It focused on clarifying and strengthening its internal structure and business processes to enhance operational efficiency and optimize its management procedures. The commercial real estate business of Shanghai Shimao grew steadily, while at the same time its professional competence consolidated and improved and its product structure enriched.

Shanghai Shimao's plaza operations are based in prime locations including Shanghai, Shaoxing, Suzhou, Changshu, Kunshan and Xuzhou, giving it a strong foothold in several core business districts. Continuous growth in consumer flow and operational results were achieved, as a result of matching the business model with local consumer demand, and providing consumers with a comfortable environment and an excellent shopping experience. On 28 September 2012, Kunshan Shimao Plaza (Phase II), located at the intersection of Qianjin East Road and Dongcheng Avenue in Kunshan, held a grand opening ceremony. One of the largest commercial complexes in Suzhou, the Kunshan Shimao Plaza project includes a variety of property types such as commercial streets and commercial buildings. As an extension of Kunshan Shimao Plaza's commercial complex, Phase II was anticipated to

### Yantai Shimao Cinema



extend the success of Kunshan Shimao Plaza in terms of its business model and development. Besides, Shanghai Shimao is building up good relationships with the stores in the Plaza by paying close attention to their operation and development, their commercial value and business cycle. On the operational front, Shanghai Shimao continued to strengthen the capacity and efficiency of its internal operations and management, while keeping strict control over its operating expenses. While focusing on attracting a diverse range of quality stores, we have increased the number of local stores and booths in Shimao Plaza, and provided stores with customised and diversified commercial services to help further improve their operations.

With respect to its department store operations, Shanghai Shimao kept a close eye on market trends and changing demand in the cities in which its department stores are located. Shanghai Shimao's department stores located in cities such as Beijing, Yantai and Fuzhou adjusted both their operational strategies and management methods by closely tracking consumer demand and market trends, and introducing famous brands and quality stores that matched local demand. Careful allocation and deployment of products targeting specific groups of consumers enabled positive brand building of various products at different department stores. Shanghai Shimao firmly believes that its Shimao department stores will benefit from development opportunities presented by the growth in consumption due to national urbanisation. Therefore, Shanghai Shimao will continue focusing on improving its retail environments, and will re-evaluate its stores' operating capabilities and contribution to total revenue in its efforts to achieve significant growth in revenue.

## Management Discussion and Analysis

### Shaoxing Shimao City Cineplex



With respect to cinema investment, box office results from the movie market in China recorded further growth in 2012. Annual box office takings reached RMB17.07 billion (including the urban cinema market, the second-tier market and the rural market), representing a year-on-year increase of 31.08%; urban cinema audiences reached approximately 470 million in 2012, representing a year-on-year increase of 27%; 3,832 new screens were added during the year. As at the end of 2012, the total number of screens nationwide amounted to 13,118. During the reporting period, Shimao cinemas achieved revenue of RMB103 million, representing a significant year-on-year increase of 164.3%, providing more than 3.34 million people with cinema services. Various cinemas recorded notable growth in box office receipts, related products and goods for sale. As at the end of 2012, Shimao cinemas owned 10 cinemas and 87 screens nationwide. The number of seats in its cinemas also increased to 11,600. Shimao cinemas further enhanced its internal management structure and boosted the efficiency of its professional teams, while promoting inter-departmental coordination and integration. Shimao cinemas also carried out in-depth studies relating to cinema management, movie screenings and non-box office sales as aids to generating significant

growth for the year. "Shimao International Cinema", the second Shimao cinema in Kunshan, opened in September 2012. This cinema not only owns a SPC panoramic IMAX "the Shimao Vision", but is also the first full 3D IMAX cinema in Kunshan. Apart from its business of self-developed commercial properties, Shimao cinemas plans to develop external businesses and new cinemas given the rapid development of the domestic movie market. In addition, the project management and preparation of new cinemas got on a fast track towards the predetermined goals for the opening.

With respect to child-focused business, during 2012 "Shitian I Kids" constructed new outlets in Fuyang, Wuxi, Dahua in Shanghai, Jinshajiang in Shanghai and Kunshan, making a total of 14 outlets in operation. Staff training and assessment was upgraded at the various outlets, leading to enhanced service standards and operating capabilities. Shanghai Shimao plans to further explore development within the industry and gradually enrich its child-focused product lines by experimenting with new businesses. Shanghai Shimao will also adopt a more favourable commercial profits model in order to achieve better operating results.

## Management Discussion and Analysis

Particulars of investment property projects of the Group in 2012 are set out as follows:

Investment Properties	Total GFA (sq.m.)	Date of Commencement	2012 Revenue (RMB million)	2011 Revenue (RMB million)	Growth
Shanghai Shimao International Plaza	71,239	December 2004 – Phase I May 2007 – Phase II	161	156	3%
Beijing Shimao Tower	70,175	June 2008 – Retail March 2008 – Office	100	85	18%
Changshu Shimao The Center	43,357	1Q 2009 – Retail	15	21	(29%)
Shanghai Shimao Shangdu Tower	9,584	November 2010	32	35	(9%)
Shaoxing Shimao Dear Town	181,605	May 2010	70	70	–
Suzhou Shimao Canal Scene	49,993	June 2010	13	8	63%
Kunshan Shimao International City	88,249	April 2011	17	14	21%
Wuhu Shimao Riviera Garden	19,963	2009	3	4	(25%)
Xuzhou Shimao Dongdu (Commercial)	59,471	January 2011	13	7	86%
Miscellaneous rental income	–	–	83	41	102%
Others	–	–	539	109	394%
<b>Total</b>			<b>1,046</b>	550	90%

### Hotel Operations

Currently the Group has six hotels in operation, with 2,679 guest rooms in total. They are Le Royal Méridien Shanghai, Hyatt on the Bund Shanghai, Le Méridien Sheshan Shanghai, Hilton Nanjing Riverside, Mudanjiang Holiday Inn, and Shaoxing Shimao Holiday Inn.

In 2012, the hotel industry was affected by the slowdown in China's economy, the European sovereign debt crisis,

the China-Japan dispute over the Diaoyu Islands and the strict control over public funds imposed by the new government after the 18th CPC National Congress. These political and economic factors, coupled with the emergence of new hotels, led to an increase in hotel supply in certain regions and affected the overall revenue of Shimao hotels to a certain extent. In response, the Group's hotels consolidated its European and American markets, and explored emerging markets in Russia



Shenyang Shimao Notting Hill



Shaoxing Shimao Dear Town

## Management Discussion and Analysis

and India to compensate for the reduction in overseas guests. It also stepped up its marketing efforts in the domestic market, actively building new customer bases in state-owned and private enterprises and tapping into the personal consumption market (such as wedding banquets) through flexible pricing strategies. These initiatives helped the Group's hotels record revenue of approximately RMB1 billion in 2012, representing a year-on-year increase of 12%.

Although hotel supply in Shanghai continued to grow, the Group's Le Royal Méridien Shanghai and Hyatt on the Bund Shanghai remained among the top hotels in Puxi in terms of revenue, amid intense competition. Food and beverage revenue from Hyatt on the Bund Shanghai continued to rank top among hotels in Puxi. Le Méridien Sheshan Shanghai has remained one of the best suburban hotels in terms of operating efficiency. Although Mudanjiang Holiday Inn, Shaoxing Shimao Holiday Inn and Hilton Nanjing Riverside have only been open for 1 to 2 years, they have already gained a strong foothold in the local market and are currently heading towards better operating results.

Looking into 2013, it is expected that China's GDP growth will be higher than the 7.8% of 2012 and the global economy will witness improvements, even though the U.S. is dealing with the "fiscal cliff", and there are

signs of possible economic recovery there. The European sovereign debt crisis has been further relieved. It is hoped that these favourable macro factors will benefit the Group's hotels. Although the tight restrictions on public funds imposed by the government have affected high-end hotels, the overall operating environment for hotels will continue to improve. In addition, the recovery of the Shanghai hotel industry is expected to accelerate in 2013 after a slump following the 2010 World Expo peak. Construction of the infrastructure and supporting facilities of Shanghai Disneyland has been largely completed, and the first round of recruitment has started. The theme park broke ground in April 2012 and is expected to open in 2015, providing another boost for Shanghai's tourism industry. As the largest city in China, Shanghai maintained its leading position in attracting foreign direct investment (FDI) in 2012, which amounted to US\$15.02 billion, representing a year-on-year increase of 20.5%. China as a whole attracted foreign investment of US\$111.72 billion in 2012, representing a year-on-year decrease of 3.7%. As at the end of 2012, there were a total of 265 investment companies in Shanghai, and 403 multinational companies had set up their regional headquarters in the city, placing Shanghai ahead of all other cities in China in this respect. In the long run, Shanghai's economy, finance and shipping sectors will further rise to world-class city standards. The Shanghai tourism industry (including the hotel industry) will undoubtedly benefit from this trend.

Particulars of the hotel projects of the Group in 2012 are set out as follows:

Hotel	No. of Rooms	Date of Commencement	Average Room Rate (RMB per room)		Turnover (RMB million)		EBITDA (RMB million)	
			2012	2011	2012	2011	2012	2011
Sheshan Le Méridien Shanghai	327	November 2005	<b>730</b>	769	<b>137</b>	128	<b>47</b>	46
Le Royal Méridien Shanghai	761	September 2006	<b>1,078</b>	1,095	<b>385</b>	384	<b>163</b>	173
Hyatt on the Bund Shanghai	631	June 2007	<b>1,253</b>	1,279	<b>346</b>	349	<b>137</b>	148
Hilton Nanjing Riverside	411	December 2011	<b>513</b>	504	<b>68</b>	3	<b>3</b>	(11)
Mudanjiang Holiday Inn	265	December 2010	<b>329</b>	318	<b>29</b>	22	<b>8</b>	(2)
Shaoxing Holiday Inn	284	September 2011	<b>346</b>	307	<b>34</b>	6	<b>2</b>	(4)
<b>Total</b>	<b>2,679</b>				<b>999</b>	892	<b>360</b>	350

## Management Discussion and Analysis

In 2012, the Group's hotels received 40 awards from renowned organizations and media at home and abroad.

Hotel properties are stated at carrying amount, i.e. cost less accumulated depreciation and impairment losses, if any, rather than at fair value. In order to provide shareholders with additional non-GAAP information on the net assets value of the Group, the Directors have appointed Vigers Appraisal and Consulting Limited, an independent valuer, to perform a valuation of the Group's hotel properties as at 31 December 2012. Had the seventeen hotels (2011:

twelve hotels), Shanghai Le Méridien Sheshan, Le Royal Méridien Shanghai, Hyatt on the Bund Shanghai, Hilton Nanjing Riverside, Mudanjiang Holiday Inn, Shaoxing Shimao Crown Plaza, Conrad Xiamen, Shaoxing Shimao Holiday Inn, Hilton Shenyang, Hilton Tianjin Eco-city, InterContinental Fuzhou, Doubletree by Hilton Wuhu, Yu Hotel Taizhou, Doubletree By Hilton Ningbo Chunxiao, Yu Resort Guling, Hilton Yantai and Hilton Wuhan Riverside been restated at fair value of RMB24.5 billion (2011: 18.6 billion), the net assets value of the Group would have been increased to RMB55.2 billion (2011: 45.6 billion). In light of the fair value adjustment of these hotels, the adjusted gearing ratio of the Group would be:

	As at 31 December 2012 RMB million	As at 31 December 2011 RMB million
Fair value of above-mentioned hotels	<b>24,463</b>	18,610
Less: Carrying amount	<b>(10,230)</b>	(7,985)
Increase in net assets value if the above-mentioned hotels are stated at fair value	<b>14,233</b>	10,625
Net assets value per consolidated balance sheet	<b>40,927</b>	35,018
Adjusted net assets value	<b>55,160</b>	45,643
Net debt	<b>22,896</b>	28,567
Adjusted gearing ratio	<b>42%</b>	63%



Fuzhou Minhou Shimao Dragon Bay

## Management Discussion and Analysis

### FINANCIAL ANALYSIS

Key consolidated income statement figures are set out below:

	2012 RMB million	2011 RMB million
Revenue	<b>28,652</b>	26,031
Gross profit	<b>9,606</b>	10,000
Operating profit	<b>10,035</b>	11,010
Profit attributable to shareholders	<b>5,765</b>	5,723
Earnings per share – Basic (RMB cents)	<b>166.3</b>	162.2

#### Revenue

For the year ended 31 December 2012, the revenue of the Group was approximately RMB28,652 million (2011: RMB26,031 million), representing an increase of 10.1% over 2011. Approximately 92.9% (2011: 94.5%) of the

revenue was generated from the sales of properties and 7.1% (2011: 5.5%) from hotel operation, leasing of commercial properties and others.

The components of the revenue are analysed as follows:

	2012 RMB million	2011 RMB million
Sales of properties	<b>26,607</b>	24,589
Hotel operation income	<b>999</b>	892
Rental income from investment properties	<b>507</b>	441
Others	<b>539</b>	109
<b>Total</b>	<b>28,652</b>	26,031



Kunshan Shimao Plaza

## Management Discussion and Analysis

## (i) Sales of properties

Sales of properties for the year ended 31 December 2012 and 2011 are set out below:

	2012		2011	
	Area (sq.m.)	RMB million	Area (sq.m.)	RMB million
<b>Shimao Property</b>				
Wuhan Shimao Splendid River	40,362	432	132,906	1,233
Shaoxing Shimao Dear Town	56,691	711	67,344	865
Harbin Shimao Riviera New City	79,565	518	47,268	530
Changshu Shimao The Center	–	–	5,277	44
Kunshan Shimao Butterfly Bay	79,593	516	180,724	1,444
Shanghai Shimao Riviera Garden	18,928	1,363	6,348	502
Kunshan Shimao East No. 1	168,935	1,162	135,895	1,017
Hangzhou Shimao Riviera Garden	186,136	1,520	179,817	2,170
Shanghai Shimao Emme County	44,645	336	33,278	291
Wuhu Shimao Riviera Garden	35,148	354	3,002	43
Fuzhou Shimao Skyscrapers	61,835	1,678	19,731	407
Suzhou Shimao Canal Scene	129,473	1,177	86,572	965
Jiaxing Shimao Century Park	10,675	72	11,242	86
Changzhou Shimao Champagne Lake	107,481	705	72,472	551
Yantai Shimao No.1 The Harbour	37,432	338	30,441	353
Xuzhou Shimao Dongdu	93,649	565	87,750	542
Taizhou Shimao Riverside Garden	41,548	241	63,188	356
Ningbo Shimao World Gulf	99,796	872	243,483	2,732
Shenyang Shimao Wulihe	70,716	711	35,091	312
Mudanjiang Shimao Holiday Landscape	92,084	423	1,350	5
Beijing Shimao Alhambra Palace	4,961	215	31,418	1,515
Xiamen Shimao Lakeside Garden	74,460	1,557	56,312	1,381
Ningbo Shimao Sea Dawn	27,409	207	107,936	889
Shenyang Shimao Notting Hill	5,211	53	–	–
Tianjin Shimao Wetland Century	71,248	718	60,704	661
Chengdu Shimao City	106,502	688	–	–
Dalian Shimao Glory City	1,756	21	11,219	146
Xianyang Shimao The Centre	5,839	99	20,884	293
Dalian Shimao Dragon Bay	48,636	553	–	–
Fuzhou Minhou Shimao Dragon Bay	123,745	1,406	–	–
Fujian Jinjiang Shimao Dragon Bay	99,958	1,728	–	–
Wuhan Shimao Dragon Bay	22,986	230	–	–
Sub-total (a)	2,047,403	21,169	1,731,652	19,333
<b>Shanghai Shimao</b>				
Beijing Shimao Gongsan Plaza	–	–	60,905	2,623
Changshu Shimao The Center (Commercial)	216,748	2,032	127,506	1,103
Hangzhou Shimao Riviera COSMO	48,929	494	94,512	920
Nanjing Shimao Bund New City	78,443	1,226	16,052	253
Xuzhou Shimao Dongdu (Commercial)	49,969	291	44,365	179
Shaoxing Shimao Dear Town (Commercial)	2,877	36	11,273	178
Kunshan Shimao International City	108,432	1,047	–	–
Wuhan Shimao Carnival	42,807	312	–	–
Sub-total (b)	548,205	5,438	354,613	5,256
Total (a)+(b)	2,595,608	26,607	2,086,265	24,589

## Management Discussion and Analysis

### (ii) Hotel income

Hotel operation income are analysed below:

	2012 RMB million	2011 RMB million
Shanghai Le Méridien Sheshan	137	128
Le Royal Méridien Shanghai	385	384
Hyatt on the Bund Shanghai	346	349
Mudanjiang Holiday Inn	29	22
Hilton Nanjing Riverside	68	3
Shaoxing Shimao Holiday Inn	34	6
<b>Total</b>	<b>999</b>	<b>892</b>

Hotel operation income increased approximately 12.0% to RMB999 million in 2012 from approximately RMB892 million in 2011. The increase was mainly due to the commencement of Nanjing and Shaoxing Hotels from the second half year of 2011.

### (iii) Rental income and others

Rental income from investment properties reached approximately RMB507 million, which increased by 15.0% with the growth in average rent.

Other income amounted to approximately RMB539 million was mainly derived from the construction service and the operation of department stores and cinemas.

	2012 RMB million	2011 RMB million
Shanghai Shimao International Plaza	161	156
Beijing Shimao Tower	100	85
Changshu Shopping Mall	15	21
Shanghai Shimao Shangdu Tower	32	35
Shaoxing Shimao Dear Town	70	70
Kunshan Shimao Plaza	17	14
Wuhu Shimao Riviera Garden (commercial)	3	4
Xuzhou Shimao Dongdu (commercial)	13	7
Suzhou Shimao Canal Scene	13	8
Miscellaneous rental income	83	41
Others	539	109
<b>Total</b>	<b>1,046</b>	<b>550</b>



## Management Discussion and Analysis

### Cost of sales

Cost of sales increased by 18.8% to approximately RMB19,046 million in 2012 from approximately

RMB16,031 million in 2011, primarily due to the increase in cost of properties sold in line with the increase in areas delivered.

Cost of sales are analysed as follows:

	2012 RMB million	2011 RMB million
Sales taxes	<b>1,733</b>	1,518
Land costs, construction costs and capitalised borrowing costs	<b>16,552</b>	14,094
Direct operating costs for hotels, commercial properties and others	<b>761</b>	419
<b>Total</b>	<b>19,046</b>	16,031

### Fair value gains on investment properties

During the year, the Group recorded aggregate fair value gains of approximately RMB2,363 million (2011: RMB2,527 million), mainly contributed by the further increase in value of certain investment properties. Aggregate net fair value gains after deferred income tax of approximately RMB591 million recognised was approximately RMB1,772 million (2011: fair value gains after deferred income tax was RMB1,895 million).

million to RMB1,816 million. It was mainly due to the increase in labour cost and corporate and office expenses which in line with the expansion of business during the year. In addition, hotel expenses also increased with the commencement of two new hotels from the second half year of 2011. However, the proportion of total expenses to the total contract sales decreased to 6.2% from 6.9% in 2011.

### Other gains

Other gains of approximately RMB1,196 million for the year ended 31 December 2012 (2011: RMB794 million) mainly included gains on deemed disposal of subsidiaries and government grants.

### Selling and marketing costs and administrative expenses

Selling and marketing costs for the year was approximately RMB1,047 million (2011: RMB770 million), which increased by approximately 35.9% year-on-year in line with the significant growth of approximately 50.2% in contracted sales. Administrative expenses for the year increased by approximately 34.6% from RMB1,349



Changzhou Shimao Champagne Lake

## Management Discussion and Analysis

Suzhou Shimao Canal Scene



### Operating profit

Operating profit amounted to approximately RMB10.0 billion for the year ended 31 December 2012, representing a decrease of approximately 8.8% over 2011 (2011: RMB11.0 billion). It was mainly due to the lower gross margin, as a result of the group's promotion efforts to speed up turnover of large-size apartments and other completed properties subject to government purchasing limitations.

### Finance costs – net

Net finance costs decreased to approximately RMB22 million (2011: RMB380 million) mainly due to that more loan interests were capitalised during the year.

### Share of results of associated companies and jointly controlled entities

Share of losses of associated companies amounted to approximately RMB211 million (2011: share of profits

of RMB98 million), which was mainly due to the loss of Guangzhou Asian Game City Project. Share of profits of jointly controlled entities amounted to approximately RMB363 million (2011: share of profits of RMB24 million), which was significantly increased by approximately 1,412.5% with the completion and recognition of properties by two joint ventures in Hangzhou.

### Taxation

The Group's tax provisions amounted to approximately RMB3,581 million, in which PRC land appreciation tax ("LAT") was approximately RMB926 million (2011: RMB4,303 million, in which LAT was RMB1,171 million) for the year.

### Profit attributable to shareholders

Profit attributable to shareholders for the year slightly increased from approximately RMB5,723 million in 2011 to approximately RMB5,765 million in 2012.

### Liquidity and financial resources

As of 31 December 2012, total assets of the Group were approximately RMB130.8 billion, of which current assets reached approximately RMB78.6 billion. Total liabilities were approximately RMB89.9 billion, whereas non-current liabilities were approximately RMB32.4 billion. Total equity were approximately RMB40.9 billion, of which equity attributable to the shareholders amounted to approximately RMB35.9 billion.

As of 31 December 2012, the Group had aggregate cash and bank balances (including restricted cash) of approximately RMB18.1 billion (31 December 2011: RMB14.0 billion), total borrowings amounted to approximately RMB41.0 billion (31 December 2011: RMB42.6 billion). Total net borrowings were approximately RMB22.9 billion (31 December 2011: RMB28.6 billion). Net gearing ratio decreased from approximately 81.6% as at 31 December 2011 to approximately 55.9% as at 31 December 2012.

## Management Discussion and Analysis

The maturity of the borrowings of the Group as at 31 December 2012 is set out as follows:

	RMB million
<b>Bank borrowings and borrowings from other financial institutions</b>	
Within 1 year	12,381
Between 1 and 2 years	6,719
Between 2 and 5 years	9,260
Over 5 years	5,243
<b>Senior notes</b>	
Between 2 and 5 years	5,232
Over 5 years	2,159
<b>Total</b>	<b>40,994</b>

The borrowings were denominated in different currencies set out below:

	Original currency million	RMB equivalent million
US\$	1,868	11,743
HK\$	4,186	3,394
RMB	25,857	25,857

### Financing activities

The Group successfully lowered the net gearing ratio from approximately 81.6% as at 31 December 2011 to approximately 55.9% as at 31 December 2012 by prioritizing reduction of borrowings and generation of operating cash inflows. Cash and bank balance increased by approximately 29.3% from RMB14.0 billion as at 31 December 2011 to RMB18.1 billion as at 31 December 2012.

The Group also optimized the debt structure by gradually lowering the proportion of its short-term borrowings

from approximately 35% to approximately 30% and increasing the proportion of its long-term borrowings from approximately 65% to 70% during the year. Short-term borrowings decreased from approximately RMB15.0 billion as at 31 December 2011 to approximately RMB12.4 billion as at 31 December 2012. As a result, the cash coverage ratio, i.e. cash and bank balance to short-term borrowings, increased to approximately 146% as at 31 December 2012 from approximately 93% as at 31 December 2011.

## Management Discussion and Analysis

Wuhan Shimao Splendid River



In November 2012, the Group acquired a total of approximately US\$670 million equivalent low-interest syndicated loan, of which 25% due in the year 2014 and 75% due in the year 2015. The new syndicated loan helped to lower the average cost of borrowings and balance the debt maturity profile of the Group. The Group continued to maintain good relationships with over 20 onshore and offshore banks and other financial institutions which formed a strong liquidity support for the sustainable development of the Group.

In January 2013, the Group issued a total of US\$800 million senior notes due on 14 January 2020. The interest rate is 6.625%, one of the lowest in the industry. The issuance received overwhelming response with 27 times

oversubscription, which indicated a high degree of market confidence in the prospect of the Group.

### Foreign exchange risks

Other than financing activities such as foreign currency borrowings which were denominated in foreign currencies, the Group conducts its business almost exclusively in RMB. The Group would be affected mainly by the bank deposits denominated in foreign currencies and the outstanding foreign currency borrowings which include US\$510 million and HK\$391 million equivalents syndicated loans, US\$1.2 billion senior notes, US\$182 million and HK\$3.8 billion bank borrowings as at 31 December 2012.

### Pledge of assets

As of 31 December 2012, the Group had pledged property and equipment, investment properties, land use rights, available for-sale financial assets, properties under development, completed properties held for sale and restricted cash with a total carrying amount of approximately RMB41.4 billion to secure bank facilities granted to the Group. The corresponding bank and other loans amounted to approximately RMB26.4 billion. The Group had also pledged shares of certain subsidiaries for a total borrowing of approximately RMB6.5 billion.

### Contingencies

As of 31 December 2012, the Group had provided guarantees for approximately RMB8.4 billion in respect of the mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. In addition, the Group had provided guarantees of approximately RMB3.9 billion in its portion of equity interests in associated company and jointly controlled entities for their borrowings.

## Management Discussion and Analysis

### Nanjing Straits City



### Capital and property development expenditure commitments

As of 31 December 2012, the Group had contracted capital and property development expenditure but not provided for amounted to approximately RMB27.7 billion.

### Employees and remuneration policy

As of 31 December 2012, the Group employed a total of 4,992 employees. Total remuneration for the period amounted to approximately RMB884 million. The Group has adopted a performance-based rewarding system to motivate its staff. In addition to the Share Option Scheme, a share award scheme of the Company (the "Share Award

Scheme") was adopted by the board of directors of the Company on 30 December 2011. The purpose of the Share Award Scheme is to recognize the contributions by certain selected employees of the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. In relation to staff training, the Group also provides different types of programmes for its staff to improve their skills and develop their respective expertise.

# Report of the Directors

Fujian Jinjiang Shimao  
Dragon Bay



## Report of the Directors

The directors (the "Directors") of Shimao Property Holdings Limited (the "Company") have pleasure in presenting their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2012.

### PRINCIPAL ACTIVITIES

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

### RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2012 are set out on pages 63 to 164 of this annual report.

The Board of Directors (the "Board") has proposed a final dividend of HK55 cents (throughout 2011: HK40 cents) per ordinary share for the year ended 31 December 2012. The proposed final dividend, if approved at the forthcoming annual general meeting of the Company ("AGM") to be held on 17 June 2013, will be payable on 5 July 2013 to shareholders whose names appear on the register of members of the Company on 25 June 2013.

### CLOSURE OF REGISTER OF MEMBERS

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

- (i) on Friday, 14 June 2013 and Monday, 17 June 2013, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 pm on Thursday, 13 June 2013; and
- (ii) on Monday, 24 June 2013 and Tuesday, 25 June 2013, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at the address as set out in sub paragraph (i) above for registration no later than 4:30 pm on Friday, 21 June 2013.

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

### RESERVES

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

## Report of the Directors

### MAJOR CUSTOMERS AND SUPPLIERS

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

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

### BANK AND OTHER BORROWINGS

Particulars of bank and other borrowings of the Company and the Group as at 31 December 2012 are set out in note 23 to the consolidated financial statements.

### DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB10,039,000 (2011: RMB13,250,000).

### PROPERTY AND EQUIPMENT

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

### SHARE CAPITAL

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

Details of the movements of the share options of the Company during the year are set out on pages 123 and 124 of this annual report.

### FINANCIAL HIGHLIGHTS

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

### PRE-EMPTIVE RIGHTS

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



## Report of the Directors

### DIRECTORS

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

#### Executive Directors

Mr. Hui Wing Mau (*Chairman*)  
Mr. Hui Sai Tan, Jason (*Vice Chairman*)  
Mr. Liu Sai Fei  
Mr. Xu Younong  
Ms. Tang Fei (*appointed on 6 February 2013*)  
Mr. Liao Lujiang (*appointed on 6 February 2013*)

#### Non-executive Director

Ms. Yao Li (*re-elected as a non-executive director on 18 June 2012 and resigned on 6 February 2013*)

#### Independent Non-executive Directors

Ms. Kan Lai Kuen, Alice  
Mr. Lu Hong Bing  
Mr. Lam Ching Kam

In accordance with article 86(3) of the Company's articles of association, Ms. Tang Fei and Mr. Liao Lujiang, who were appointed Directors of the Company after the last AGM of the Company, will hold office until the forthcoming AGM and, being eligible, offer themselves for re-election at the AGM.

In accordance with article 87 of the Company's articles of association, Mr. Hui Wing Mau, Mr. Liu Sai Fei and Mr. Lu Hong Bing will retire by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming AGM.

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

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

### DIRECTORS' INTERESTS IN CONTRACTS

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

## Report of the Directors

## INFORMATION ON SHARE OPTIONS

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

## (1) Pre-IPO Share Option Scheme

- (a) Movement of share options under the Pre-IPO Share Option Scheme during the year ended 31 December 2012 was as follows:

	Date of grant (DD/MM/YY)	Exercise price per share (HK\$)	Number of share options			As at 31 December 2012	Exercise period (DD/MM/YY)	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
			As at 1 January 2012	Exercised	Lapsed			
<b>Directors</b>								
Hui Sai Tan, Jason	09/06/06	5.625	378,000	(378,000)	0	0	01/04/07- 08/06/12	9.45
Xu Younong	09/06/06	5.625	197,000	0	(197,000)	0	01/04/07- 08/06/12	-
Yao Li	09/06/06	5.625	924,000	(924,000)	0	0	01/04/07- 08/06/12	9.45
			1,499,000	(1,302,000)	(197,000)	0		
Employees of the Group	09/06/06	5.625	6,525,550	(5,318,650)	(1,206,900)	0	01/04/07- 08/06/12	9.60
			8,024,550	(6,620,650)	(1,403,900)	0		

- (b) The purpose of the Pre-IPO Share Option Scheme is to give the participants an opportunity to have a personal stake in the Company and help motivate the participants to optimize their performance and efficiency, and also to retain the participants whose contributions are important to the long-term growth and profitability of the Group.
- (c) Options to subscribe for a total of 63,920,000 ordinary shares of the Company have been granted to directors and selected employees on 9 June 2006.
- (d) Each option has a 6-year exercise period with 30% vesting on 31 March 2007, another 30% vesting on 31 March 2008 and the remaining 40% vesting on 31 March 2009.
- (e) The consideration paid by each grantee for each grant of options is HK\$1.00.
- (f) Performance targets have been imposed as conditions for the grant of options under the Pre-IPO Share Option Scheme.

## Report of the Directors

- (g) Upon listing of the Company on 5 July 2006, the Pre-IPO Share Option Scheme was terminated and no further option may be granted under the Pre-IPO Share Option Scheme. However, the options granted but not yet exercised shall continue to be valid until 8 June 2012 and exercisable in accordance with the terms of the Pre-IPO Share Option Scheme.
- (h) 1,403,900 outstanding share options granted under the Pre-IPO Share Option Scheme lapsed automatically on 8 June 2012, being the last date for exercise of all outstanding options.

### (2) Share Option Scheme

- (a) The purpose of the Share Option Scheme is to provide the participants the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and the shares of the Company for the benefit of the Company and shareholders of the Company as a whole. The Share Option Scheme will provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to the participants.
- (b) The Directors may, at their discretion, invite any directors, employees and officers of any member of the Group and any advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners and service providers of any member of the Group to participate in the Share Option Scheme.
- (c) The total number of shares which may be issued upon exercise of all options (the "Share Options") granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company must not exceed 30% of the Company's shares in issue from time to time.
- (d) The total number of shares issued and to be issued upon exercise of the Share Options granted to each participant under the Share Option Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue and any further grant of Share Options which would result in the number of shares of the Company issued as aforesaid exceeding the said 1% limit must be approved by the shareholders of the Company.
- (e) The exercise price of the Share Options shall be no less than the higher of (i) the closing price of the shares of the Company on the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.
- (f) The consideration paid by each grantee for each grant of options is HK\$1.00.
- (g) Performance targets have been imposed as conditions for the grant of options under the Share Option Scheme.
- (h) The Share Option Scheme will expire on 8 June 2016.
- (i) No share options was granted under the Share Option Scheme during the year ended 31 December 2012, nor was there any share option outstanding as at 1 January 2012 and 31 December 2012.

## Report of the Directors

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

### SHARE AWARD SCHEME

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

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

No share was granted to the employees under the Share Award Scheme for the year ended 31 December 2012.

### DISCLOSURE OF INTERESTS IN SECURITIES

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

As at 31 December 2012, the interests and short position of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Cap. 571 of the Laws of Hong Kong)) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

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

Name of Directors	Capacity/Nature of interests	Number of ordinary shares held	Approximate percentage of issued share capital
Hui Wing Mau	Interest of controlled corporation	2,216,437,442 <sup>(Note)</sup>	63.83%
Hui Sai Tan, Jason	Beneficial owner	2,112,000	0.06%
Yao Li	Beneficial owner	1,336,500	0.04%
Liu Sai Fei	Beneficial owner	437,600	0.01%

Note: These 2,216,437,442 shares represent the interests in the Company held by Gemfair Investments Limited and Shiyang Finance Limited, companies which are directly wholly-owned by Mr. Hui Wing Mau.

## Report of the Directors

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

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

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

**Directors' Right to Acquire Shares or Debentures**

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

**Interests of Substantial Shareholders**

As at 31 December 2012, the interests and short position of substantial shareholders in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

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

Name	Nature of interest	Number of shares or underlying shares held	Approximate percentage of issued share capital
<b>Long position</b>			
Gemfair Investments Limited ("Gemfair")	(Note 1)	1,947,984,000	56.10%
Overseas Investment Group International Limited ("Overseas Investment")	(Note 2)	1,947,984,000	56.10%
Shiyang Finance Limited ("Shiyang Finance")	(Note 3)	268,453,442	7.73%

Notes:

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

## Report of the Directors

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

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed below that during the year ended 31 December 2012, the following Directors were considered to have interests in the following businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group.

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

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

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

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased from the market a total of 4,000,000 shares of the Company at a total consideration of approximately HK\$26 million.

### CONTINUING DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

The Company entered into a credit agreement (the "Credit Agreement") on 26 November 2012 between, among others, the Company as borrower, certain subsidiaries of the Company as guarantors, The Hongkong and Shanghai Banking Corporation Limited, Hang Seng Bank Limited, Standard Chartered Bank (Hong Kong) Limited, The Bank of East Asia, Limited and Sumitomo Mitsui Banking Corporation as mandated co-ordinating arrangers and lenders, multi-currency term loan facilities (the "Loan Facilities") in the amount of US\$610,000,000 and HK\$468,000,000 will be made available to the Company for a term of 36 months from the date of the Credit Agreement.

As provided in the Credit Agreement, if (a) Mr. Hui Wing Mau and his family together cease: (i) to be the single largest shareholder of the Company; (ii) to maintain (directly or indirectly) at least 51% beneficial shareholding interest in the issued share capital of the Company; (iii) to have the power to direct the management of the Company, whether through the ownership of voting capital, by contract or otherwise; or (b) Mr. Hui Wing Mau ceases to be the chairman of the Board and is not replaced by Mr. Hui Sai Tan, Jason as the replacement chairman of the Board within 10 business days of any such cessation, the commitments under the Loan Facilities may be cancelled and all amounts outstanding under the Loan Facilities may become immediately due and payable.

## Report of the Directors

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2012 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

### CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance which it believes is crucial to the development of the Group and safeguard the interests of the shareholders of the Company. Information on the Company's corporate governance principles and practices is set out in the Corporate Governance Report on pages 46 to 54 of this annual report.

### AUDITOR

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

On behalf of the Board

**Hui Wing Mau**

*Chairman*

Hong Kong, 26 March 2013

# Corporate Governance Report

Shenyang Shimao Notting Hill





## Corporate Governance Report

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

The corporate governance standards of the Company are built on the principles of independence, accountability, transparency and fairness. The Company has complied with the code provisions set out in the Corporate Governance Code (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the financial year ended 31 December 2012 except for one deviation as set out under the paragraph on “Chairman and Chief Executive Officer” below.

### A DIRECTORS

#### A.1 Board of Directors

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

The Board has four scheduled meetings a year at quarterly interval and meets as and when required. During the year 2012, the Board held four meetings. The attendance of the directors of the Company (the “Directors”) at the Board meetings is set out below:

Directors	Number of attendance
<i>Executive Directors:</i>	
Hui Wing Mau ( <i>Chairman</i> )	4/4
Hui Sai Tan, Jason ( <i>Vice Chairman</i> )	4/4
Liu Sai Fei	4/4
Xu Younong	4/4
<i>Non-executive Director:</i>	
Yao Li	4/4
<i>Independent Non-executive Directors:</i>	
Kan Lai Kuen, Alice	4/4
Lu Hong Bing	4/4
Lam Ching Kam	4/4

## Corporate Governance Report

### A.2 Chairman and Chief Executive Officer

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

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

### A.3 Board Composition

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

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

### A.4 Appointments, Re-election and Removal of Directors

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

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

## Corporate Governance Report

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

Directors	Number of attendance
Hui Wing Mau ( <i>Committee Chairman</i> )	2/2
Kan Lai Kuen, Alice	2/2
Lu Hong Bing	2/2
Lam Ching Kam	2/2

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

### A.5 Responsibilities of Directors

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

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

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

## Corporate Governance Report

According to the records of the Company, during the period from 1 April 2012 to 31 December 2012, the Directors participated in the following trainings:

Directors	Reading materials
<i>Executive Directors:</i>	
Hui Wing Mau ( <i>Chairman</i> )	✓
Hui Sai Tan, Jason ( <i>Vice Chairman</i> )	✓
Liu Sai Fei	✓
Xu Younong	✓
 <i>Non-executive Director:</i>	
Yao Li	✓
 <i>Independent Non-executive Directors:</i>	
Kan Lai Kuen, Alice	✓
Lu Hong Bing	✓
Lam Ching Kam	✓

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

### A.6 Supply of and Access to Information

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

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

## B REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

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

## Corporate Governance Report

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

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

Directors	Number of attendance
Lu Hong Bing ( <i>Committee Chairman</i> )	2/2
Hui Wing Mau	2/2
Kan Lai Kuen, Alice	2/2
Lam Ching Kam	2/2

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

## C ACCOUNTABILITY AND AUDIT

### C.1 Financial Reporting

The Directors are responsible for overseeing the preparation of the financial statements for each financial period which gives a true and fair view of the Group's state of affairs and the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2012, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate accounting standards; made judgments and estimates that are prudent and reasonable; and ensured the accounts are prepared on the going concern basis.

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

A statement by the external auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 61 and 62 of this annual report.

## Corporate Governance Report

### C.2 Internal Controls

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

### C.3 Audit Committee

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

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

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

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

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

Directors	Number of attendance
Kan Lai Kuen, Alice ( <i>Committee Chairman</i> )	2/2
Lu Hong Bing	2/2
Lam Ching Kam	2/2

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

## Corporate Governance Report

The remuneration to the Company's auditor, Messrs. PricewaterhouseCoopers, in respect of the services rendered for the year ended 31 December 2012 is set out as follows:

Services rendered	RMB'000
Audit service	6,000
Other services	
– Service in connection with the notes offering	1,200
– Service in connection with SAP project management office	2,300
	<hr/>
	9,500

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

The consolidated annual results of the Group for the year ended 31 December 2012 have been reviewed by the Audit Committee.

## D DELEGATION BY THE BOARD

### D.1 Management Functions

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

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

### D.2 Board Committees

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

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

## E COMMUNICATION WITH SHAREHOLDERS

### E.1 Effective Communication

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

## Corporate Governance Report

The annual general meeting provides a useful forum for the shareholders to exchange views with the Board. The Directors and senior management will attend the shareholder's meetings to answer the questions of shareholders.

Attendance of the Directors at the annual general meetings during the year is set out below:

Directors	Number of attendance
<i>Executive Directors:</i>	
Hui Wing Mau ( <i>Chairman</i> )	1/1
Hui Sai Tan, Jason ( <i>Vice Chairman</i> )	1/1
Liu Sai Fei	1/1
Xu Younong	1/1
<i>Non-executive Director:</i>	
Yao Li	1/1
<i>Independent Non-executive Directors:</i>	
Kan Lai Kuen, Alice	1/1
Lu Hong Bing	1/1
Lam Ching Kam	1/1

In addition, questions received from the general public and individual shareholders were answered promptly. Published documents together with the latest corporate information and news are made available on the Company's website. Shareholders may raise enquiries to the Board by contacting the Investor Relations Department of the Group.

Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board pursuant to article 58 of the Articles for the transaction of any business specified in such requisition. Such requisition shall contain, inter alia, a description of the proposed resolution desired to be put forward at the meeting, the reasons for such proposal and any material interest of the proposing shareholder in such proposal.

### E.2 Voting by Poll

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

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



# Information for Shareholders

## ANNUAL REPORT

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

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

## ANNUAL GENERAL MEETING ("AGM")

The 2013 AGM will be held on Monday, 17 June 2013. The notice of the 2013 AGM, which constitutes part of the circular to shareholders, is sent together with this annual report. The notice of the 2013 AGM and the proxy form are also available on the Company's website.

## 2012 DIVIDENDS

Interim dividend	Nil
Proposed final dividend	HK55 cents per share

## CLOSURE OF REGISTER OF MEMBERS ("ROM")

For determining shareholders' eligibility to attend and vote at the 2013 AGM

Latest time to lodge transfer documents for registration	4:30 pm on Thursday, 13 June 2013
Closure of ROM	Friday, 14 June 2013 and Monday, 17 June 2013
Record date	17 June 2013

For determining shareholders' entitlement to the final dividend

Latest time to lodge transfer documents for registration	4:30 pm on Friday, 21 June 2013
Closure of ROM	Monday, 24 June 2013 and Tuesday, 25 June 2013
Record date	25 June 2013
Dispatch of final dividend warrants	5 July 2013

# Directors and Senior Management Profiles

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## Directors and Senior Management Profiles

### EXECUTIVE DIRECTORS

#### *Hui Wing Mau (Chairman)*

Mr. Hui Wing Mau, aged 62, the Chairman and Executive Director of Shimao Property Holdings Limited (the "Company") and the founder of the Group. With over 23 years' experience in property development, property investment and hotel operation, he is primarily responsible for the Group's overall strategic planning and business management. Mr. Hui is currently a member of the National Committee of the Twelfth Chinese People's Political Consultative Conference ("CPPCC") and deputy director of the Economic Committee of the National Committee of the CPPCC, the president of China Federation of Overseas Chinese Entrepreneurs, vice president of China Overseas Chinese Entrepreneurs Association, chairman of Shanghai Overseas Chinese Chamber of Commerce, president of The Association for the Promotion of Global Chinese Traders Fraternity, executive president of China Red Ribbon Foundation and president of New Home Association Hong Kong. Mr. Hui obtained a Master's Degree in Business Administration from the University of South Australia. Mr. Hui is also the non-executive chairman of Shanghai Shimao Co., Ltd. ("Shanghai Shimao"), a 64.22% owned subsidiary of the Company listed on the Shanghai Stock Exchange, and a director of Shimao International Holdings Limited ("Shimao International"). He is a director of Gemfair Investments Limited and Shiyang Finance Limited, substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance. He has been the Chairman and Executive Director of the Company since 8 November 2004. Mr. Hui is the father of Mr. Hui Sai Tan, Jason, the Vice Chairman and Executive Director of the Company, and Ms. Hui Mei Mei, Carol, the Vice Chairman and the President of Shanghai Shimao.

#### *Hui Sai Tan, Jason (Vice Chairman)*

Mr. Hui Sai Tan, Jason, aged 36, the Vice Chairman and Executive Director of the Company. He has been the Group Sales Controller since he joined the Group in March 2000. Mr. Jason Hui is responsible for the sales, marketing, management and design of the Group's projects. He has more than 14 years' experience in the property development industry and has presided over the sales and marketing of Shanghai Shimao Riviera Garden which boasted top sales proceeds among residential projects in Shanghai for four consecutive years from 2001 to 2004. Mr. Jason Hui obtained a Master of Science Degree in Real Estate from the University of Greenwich, the United Kingdom in 2001 and a Masters Degree in Business Administration from the University of South Australia in 2004. He is a member of Shanghai Committee of the CPPCC. He has been an Executive Director and the Vice Chairman of the Company since 17 November 2004 and 21 April 2008 respectively and was an executive director of Shimao International from July 2002 to June 2006. He is also a director of Shanghai Shimao. Mr. Jason Hui is the son of Mr. Hui Wing Mau, the Chairman and Executive Director of the Company, and a brother of Ms. Hui Mei Mei, Carol, the Vice Chairman and the President of Shanghai Shimao.

#### *Liu Sai Fei*

Mr. Liu Sai Fei, aged 51, has joined the Group since 2003 and was appointed an Executive Director of the Company on 1 February 2010. He is currently a Vice President and Regional Project Controller of the Group, responsible for project management of the Group's projects. He obtained a Master's Degree in Project Management from the University of Western Sydney, Australia in 2000. Mr. Liu has over 28 years' experience in architectural design and project management. Prior to joining the Group, he worked for CRG Contractors Dte from 1998 to 2001. From 2001 and 2003, he worked for Shanghai Merry Land Co. Ltd. as project manager.

## Directors and Senior Management Profiles

### *Xu Younong*

Mr. Xu Younong, aged 54, has joined the Group since June 2001 and was appointed an Executive Director of the Company on 1 January 2011. He is currently a Vice President and Regional President of the Group, responsible for project management of the Group. Mr. Xu holds a Bachelor's degree of engineering from Tong Ji University in Shanghai and has over 29 years' experience in architectural design and project management. Prior to joining the Group, he worked for Shanghai Building Material Industry Design Institute (上海市建築材料工業設計研究院) from 1983 to 1992 as an engineer and designer. From 1993 to 2001, he worked for Shanghai Fortune World Development Company Limited as project manager.

### *Tang Fei*

Ms. Tang Fei, aged 42, has joined the Group since July 2004 and was appointed an Executive Director of the Company on 6 February 2013. Ms. Tang is currently a Vice President of the Group, responsible for the financial control of the Group. Ms. Tang holds a Master's Degree in business administration from the University of South Australia and has over 19 years' experience in financial management and internal audit. Prior to joining the Group, Ms. Tang worked in the internal audit department of Bank of China, Head office from 1992 to 1998. She also worked in the audit department and treasury department of Bank of China (Hong Kong) Limited from 1999 to 2004.

### *Liao Lujiang*

Mr. Liao Lujiang, aged 41, has joined the Group since January 2011 and was appointed an Executive Director of the Company on 6 February 2013. Mr. Liao is currently the Chief Operation Officer of the Group, responsible for management of enterprise operation, human resources, information system and administrative support of the Group. Mr. Liao holds a Master's Degree in public administration from Tsinghua University and has over 10 years' experience in office administration, human resources management and staff training. Prior to joining the Group, Mr. Liao worked in Ianjia Group as senior human resources manager of northern district from 2003 to 2006. From 2006 to 2010, he worked for Beijing Longfor Properties Co., Ltd. as deputy human resources general manager and chief human resources officer (property).

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### *Kan Lai Kuen, Alice*

Ms. Kan Lai Kuen, Alice, aged 58, has been an Independent Non-executive Director of the Company since 16 March 2006 and has more than 21 years' experience in corporate finance. She is a responsible officer of three licensed corporations registered under the Securities and Futures Ordinance, Asia Investment Management Limited, Asia Investment Research Limited and Lotus Asset Management Limited. Asia Investment Management Limited is currently the investment manager of China Investment Fund Company Limited which is listed on The Stock Exchange of Hong Kong Limited. She is also a shareholder and the managing director of Asia Investment Management Limited and Asia Investment Research Limited. Ms. Kan currently serves as an independent non-executive director on the boards of the following companies which are listed on The Stock Exchange of Hong Kong Limited: Shougang Concord International Enterprises Company Limited, Regal Hotels International Holdings Limited and China Energine International (Holdings) Limited. She is also a non-executive independent director of AVIC International Investments Limited, a company listed on Singapore Exchange Securities Trading Limited. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Directors. Ms. Kan held various senior positions in international and local banks and financial institutions.

## Directors and Senior Management Profiles

### *Lu Hong Bing*

Mr. Lu Hong Bing, aged 46, has been an Independent Non-executive Director of the Company since 17 November 2004. Mr. Lu obtained a Master's Degree in law from the East China University of Politics and Law in 1991 and has more than 20 years' experience in corporate and securities laws in China. Mr. Lu currently serves as an independent director on the boards of the following companies which are listed on the Shanghai Stock Exchange: Shanghai Pudong Road & Bridge Construction Co., Ltd (上海浦東路橋建設股份有限公司), Shanghai Aerospace Automobile Electromechanical Co., Ltd (上海航天汽車機電股份有限公司), Shanghai Jiaoda Onlly Co., Ltd (上海交大昂立股份有限公司), Shanghai Metersbonwe Fashion & Accessories Co., Ltd. (上海美特斯邦威服飾股份有限公司), Shanghai DaZhong Public Utilities (Group) Co., Ltd (上海大眾公用事業(集團)股份有限公司). Mr. Lu is an executive partner of the Grandall Legal Group, a vice-president of the Executive Council of the All China Lawyers Association, an arbitrator of the China International Economic and Trade Arbitration Commission, an arbitrator of the Shanghai Arbitration Committee, a concurrent professor of the East China University of Political Science and Law and the Shanghai Institute of Foreign Trade and a commissioner of the public offering commission of the Shanghai Stock Exchange. He was appointed as an independent non-executive director of Shimao International from October 2001 to February 2005.

### *Lam Ching Kam*

Mr. Lam Ching Kam, aged 52, has been an Independent Non-executive Director of the Company since 1 June 2006. He is currently a fellow member and the committee member of the PRC committee (Quantity Surveying Division) of the Hong Kong Institute of Surveyors. Mr. Lam obtained a Master's Degree in Business Administration from the Hong Kong Open University in 2004 and is a fellow member of the Chartered Institute of Building and the Royal Institution of Chartered Surveyors. Mr. Lam was the Vice Chairman of the Royal Institution of Chartered Surveyors China Group from 2003 to 2006. He is a member of the China Civil Engineering Society (中國土木工程師學會會員) and also a registered China Costing Engineer (中國造價工程師執業資格). Mr. Lam has been a consultant to the Beijing Construction Project Management Association (北京市建設監理協會) since 2003 and has engaged in professional training and vocational education in China for more than 11 years. Mr. Lam has been in the property development and construction industry for 29 years, and has worked for construction contractors such as Shui On Building Contractors Limited, China State Construction Engineering Corporation and Hopewell Construction Co. Ltd. Mr. Lam was employed as a quantity surveyor and worked in London from 1990 to 1991. He was employed by certain consultant firms and the Architectural Services Department of the Hong Kong Government before he emigrated to Australia in 1996 and operated a project management firm in Sydney. Mr. Lam was the project controller of Sino Regal Ltd. (HK) for investment projects in China from 1994 to 1996. In 1998, Mr. Lam established a surveying and management consultant firm which has been participating in many large-scale projects in China and Macau, including a Beijing Olympic 2008 project involving the hotels, offices towers and commercial complex in Olympic Park, Beijing.

## SENIOR MANAGEMENT

The Executive Directors of the Company are members of senior management of the Group.

## Directors and Senior Management Profiles

### CHANGE IN INFORMATION OF DIRECTORS

The change in the information of the Directors of the Company since the publication of the annual report of the Company for the year ended 31 December 2012 required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited is set out below:

Name of Director	Detail of changes
<b><i>Independent Non-executive Director</i></b>	
Ms. Kan Lai Kuen, Alice	<p>Acts as a responsible officer of Asia Investment Management Limited. Asia Investment Management Limited is currently the investment manager of China Investment Fund Company Limited which is listed on The Stock Exchange of Hong Kong Limited.</p> <p>Retired as an independent non-executive director of Sunway International Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited, with effect from 28 February 2013.</p>

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

## Independent Auditor's Report

### **TO THE SHAREHOLDERS OF SHIMAO PROPERTY HOLDINGS LIMITED**

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Shimao Property Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 63 to 164, which comprise the consolidated and Company balance sheets as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

### **AUDITOR'S RESPONSIBILITY**

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

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

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

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

## Independent Auditor's Report

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 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 disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 26 March 2013



## Consolidated Balance Sheet

As at 31 December 2012

	Note	As at 31 December	
		2012	2011
		RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	6	9,702,631	8,325,789
Investment properties	7	26,248,098	20,566,979
Land use rights	8	4,717,336	2,475,068
Intangible assets	9	2,139,925	2,264,027
Associated companies	11	1,490,441	1,308,281
Jointly controlled entities	12	5,547,675	4,307,877
Available-for-sale financial assets	13	369,833	267,362
Deferred income tax assets	24	1,248,390	1,313,909
Other non-current assets	14	757,250	3,205,665
		<b>52,221,579</b>	44,034,957
<b>Current assets</b>			
Properties under development	15	37,608,942	37,324,085
Completed properties held for sale	16	7,103,351	7,382,116
Trade and other receivables and prepayments	17	6,638,544	4,472,085
Prepayment for acquisition of land use rights	18	6,676,235	7,634,561
Prepaid income taxes		1,165,244	949,184
Amounts due from related companies	19	1,316,027	1,451,591
Restricted cash	20	2,204,028	1,681,222
Cash and cash equivalents	20	15,893,845	12,312,740
		<b>78,606,216</b>	73,207,584
<b>Total assets</b>		<b>130,827,795</b>	117,242,541
<b>EQUITY</b>			
<b>Equity attributable to the equity holders of the Company</b>			
Share capital	21	356,275	355,737
Reserves			
– Proposed final dividend	22	1,548,559	505,772
– Others	22	34,002,316	29,730,171
		<b>35,907,150</b>	30,591,680
<b>Non-controlling interests</b>		<b>5,020,082</b>	4,426,397
<b>Total equity</b>		<b>40,927,232</b>	35,018,077

## Consolidated Balance Sheet

As at 31 December 2012

	Note	As at 31 December	
		2012	2011
		RMB'000	RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	23	<b>28,613,297</b>	27,577,834
Deferred income tax liabilities	24	<b>3,775,578</b>	3,172,815
		<b>32,388,875</b>	30,750,649
<b>Current liabilities</b>			
Trade and other payables	25	<b>14,316,430</b>	17,317,407
Advanced proceeds received from customers		<b>20,578,024</b>	11,828,902
Income tax payable		<b>7,259,690</b>	7,159,326
Borrowings	23	<b>12,380,644</b>	14,983,419
Derivative financial instruments	26	<b>42,572</b>	52,115
Amounts due to related parties	27	<b>2,897,713</b>	30,831
Deferred income		<b>36,615</b>	101,815
		<b>57,511,688</b>	51,473,815
<b>Total liabilities</b>		<b>89,900,563</b>	82,224,464
<b>Total equity and liabilities</b>		<b>130,827,795</b>	117,242,541
<b>Net current assets</b>		<b>21,094,528</b>	21,733,769
<b>Total assets less current liabilities</b>		<b>73,316,107</b>	65,768,726

**Hui Wing Mau**  
Director

**Hui Sai Tan, Jason**  
Director

The notes on pages 71 to 164 are an integral part of these consolidated financial statements.

**Balance Sheet**

As at 31 December 2012

	Note	As at 31 December	
		2012	2011
		RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Interests in subsidiaries	10	<b>23,438,485</b>	21,216,520
<b>Current assets</b>			
Other receivables and prepayments		<b>1,117</b>	3,248
Dividend receivable from subsidiaries	10	<b>267,000</b>	1,246,430
Cash and cash equivalents	20	<b>38,954</b>	96,470
		<b>307,071</b>	1,346,148
<b>Total assets</b>		<b>23,745,556</b>	22,562,668
<b>EQUITY</b>			
<b>Equity attributable to the equity holders of the Company</b>			
Share capital	21	<b>356,275</b>	355,737
Reserves			
– Proposed final dividend	22	<b>1,548,559</b>	505,772
– Others	22	<b>7,405,755</b>	10,021,132
<b>Total equity</b>		<b>9,310,589</b>	10,882,641
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	23	<b>10,810,720</b>	8,652,245
<b>Current liabilities</b>			
Borrowings	23	<b>3,146,369</b>	2,561,074
Derivative financial instruments	26	<b>42,572</b>	52,115
Trade and other payables		<b>239,635</b>	223,100
Amounts due to subsidiaries	10	<b>195,671</b>	191,493
		<b>3,624,247</b>	3,027,782
<b>Total liabilities</b>		<b>14,434,967</b>	11,680,027
<b>Total equity and liabilities</b>		<b>23,745,556</b>	22,562,668
<b>Net current liabilities</b>		<b>(3,317,176)</b>	(1,681,634)
<b>Total assets less current liabilities</b>		<b>20,121,309</b>	19,534,886

Hui Wing Mau  
DirectorHui Sai Tan, Jason  
Director

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	Year ended 31 December	
		2012	2011
		RMB'000	RMB'000
<b>Revenue</b>	5	<b>28,652,243</b>	26,031,426
Cost of sales	29	<b>(19,046,444)</b>	(16,031,376)
<b>Gross profit</b>		<b>9,605,799</b>	10,000,050
Fair value gains on investment properties	7	<b>2,362,880</b>	2,527,013
Other income/other gains – net	28	<b>1,196,104</b>	794,320
Selling and marketing costs	29	<b>(1,046,841)</b>	(769,889)
Administrative expenses	29	<b>(1,815,871)</b>	(1,349,272)
Other operating expenses	29	<b>(266,706)</b>	(192,173)
<b>Operating profit</b>		<b>10,035,365</b>	11,010,049
Finance income		<b>146,055</b>	100,074
Finance costs		<b>(168,170)</b>	(480,420)
Finance costs – net	30	<b>(22,115)</b>	(380,346)
Share of results of			
– Associated companies	11	<b>(210,938)</b>	97,653
– Jointly controlled entities	12	<b>363,125</b>	24,213
		<b>152,187</b>	121,866
<b>Profit before income tax</b>		<b>10,165,437</b>	10,751,569
Income tax expense	32	<b>(3,580,949)</b>	(4,302,640)
<b>Profit for the year</b>		<b>6,584,488</b>	6,448,929
<b>Other comprehensive income:</b>			
Fair value gains/(losses) on available-for-sale financial assets, net of tax		<b>76,853</b>	(60,346)
<b>Total comprehensive income for the year</b>		<b>6,661,341</b>	6,388,583

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	Year ended 31 December	
		2012 RMB'000	2011 RMB'000
<b>Profit for the year attributable to:</b>			
Equity holders of the Company		<b>5,764,632</b>	5,722,775
Non-controlling interests		<b>819,856</b>	726,154
		<b>6,584,488</b>	6,448,929
<b>Total comprehensive income for the year attributable to:</b>			
Equity holders of the Company		<b>5,813,987</b>	5,684,021
Non-controlling interests		<b>847,354</b>	704,562
		<b>6,661,341</b>	6,388,583
<b>Earnings per share for profit attributable to the equity holders of the Company</b>			
– Basic (RMB cents)	33	<b>166.3</b>	162.2
– Diluted (RMB cents)	33	<b>166.2</b>	162.1

The notes on pages 71 to 164 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December	
		2012 RMB'000	2011 RMB'000
<b>Dividends</b>	34	<b>1,548,559</b>	1,145,545

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Note	Attributable to the equity holders of the Company			Total RMB'000
		Share capital RMB'000	Reserves RMB'000 (Note 22)	Non-controlling interests RMB'000	
<b>Balance at 1 January 2012</b>		<b>355,737</b>	<b>30,235,943</b>	<b>4,426,397</b>	<b>35,018,077</b>
Profit for the year		–	<b>5,764,632</b>	<b>819,856</b>	<b>6,584,488</b>
Other comprehensive income for the year		–	<b>49,355</b>	<b>27,498</b>	<b>76,853</b>
Total comprehensive income for the year		–	<b>5,813,987</b>	<b>847,354</b>	<b>6,661,341</b>
Transactions with owners:					
Acquisition of additional interests of subsidiaries	14	–	–	<b>(330,000)</b>	<b>(330,000)</b>
Capital contribution from non-controlling interests of subsidiaries		–	–	<b>124,502</b>	<b>124,502</b>
Employee share option scheme – Proceeds from shares issued	21(b)	<b>538</b>	<b>29,703</b>	–	<b>30,241</b>
Repurchases of shares		–	<b>(21,207)</b>	–	<b>(21,207)</b>
Dividends	34	–	<b>(507,551)</b>	<b>(48,171)</b>	<b>(555,722)</b>
Total transactions with owners		<b>538</b>	<b>(499,055)</b>	<b>(253,669)</b>	<b>(752,186)</b>
<b>Balance at 31 December 2012</b>		<b>356,275</b>	<b>35,550,875</b>	<b>5,020,082</b>	<b>40,927,232</b>

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Note	Attributable to the equity holders of the Company			Total RMB'000
		Share capital RMB'000	Reserves RMB'000 (Note 22)	Non-controlling interests RMB'000	
<b>Balance at 1 January 2011</b>		362,384	26,336,450	3,255,150	29,953,984
Profit for the year		–	5,722,775	726,154	6,448,929
Other comprehensive losses for the year		–	(38,754)	(21,592)	(60,346)
Total comprehensive income for the year		–	5,684,021	704,562	6,388,583
Transactions with owners:					
Capital contribution from non-controlling interests of subsidiaries		–	–	466,685	466,685
Employee share option scheme					
– Proceeds from shares issued	21(b)	216	11,996	–	12,212
Repurchases and cancellation of shares		(6,863)	(414,718)	–	(421,581)
Dividends	34	–	(1,381,806)	–	(1,381,806)
Total transactions with owners		(6,647)	(1,784,528)	466,685	(1,324,490)
<b>Balance at 31 December 2011</b>		355,737	30,235,943	4,426,397	35,018,077

The notes on pages 71 to 164 are an integral part of these consolidated financial statements.

## Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Note	Year ended 31 December	
		2012	2011
		RMB'000	RMB'000
<b>Cash flow from operating activities</b>			
Net cash generated from operations	35	<b>14,513,221</b>	1,197,445
Interest received		<b>146,055</b>	100,074
Interest paid		<b>(3,169,479)</b>	(2,916,023)
PRC income tax paid		<b>(3,095,484)</b>	(2,443,309)
Net cash generated from/(used in) operating activities		<b>8,394,313</b>	(4,061,813)
<b>Cash flow from investing activities</b>			
Additions of property and equipment and investment properties		<b>(3,627,887)</b>	(2,442,537)
Sales of property and equipment		<b>2,444</b>	11,367
Additions of land use rights and other non-current assets		<b>(647,046)</b>	(148,117)
Disposal of a subsidiary		<b>320,000</b>	226,419
Deemed disposal of subsidiaries	12(a)	<b>(158,930)</b>	–
Settlement from/(loans to) jointly controlled entities	12	<b>1,223,327</b>	(52,897)
Capital injection to associated companies		<b>(393,098)</b>	(803,025)
Net cash used in investing activities		<b>(3,281,190)</b>	(3,208,790)
<b>Cash flow from financing activities</b>			
Proceeds from borrowings		<b>28,259,939</b>	21,100,031
Repayments of borrowings		<b>(28,702,243)</b>	(11,981,818)
Repurchases of shares		<b>(21,207)</b>	(421,581)
Issue of new shares		<b>30,241</b>	12,212
Capital contribution from non-controlling interests of subsidiaries		<b>124,502</b>	466,685
Prepayment for acquisition of additional interests in a subsidiary		–	(330,000)
Dividends paid to equity holders of the Company		<b>(507,551)</b>	(1,381,806)
Dividends paid to non-controlling interests		<b>(48,171)</b>	–
(Decrease)/increase in restricted cash for borrowings		<b>(665,512)</b>	32,464
Net cash (used in)/generated from financing activities		<b>(1,530,002)</b>	7,496,187
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of the year		<b>12,312,740</b>	12,139,549
Effect of foreign exchange rate changes		<b>(2,016)</b>	(52,393)
Cash and cash equivalents at end of the year	20	<b>15,893,845</b>	12,312,740

The notes on pages 71 to 164 are an integral part of these consolidated financial statements.



## Notes to the Consolidated Financial Statements

### 1 GENERAL INFORMATION

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

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

These consolidated financial statements are presented in Renminbi, unless otherwise stated.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 2.1 Basis of preparation

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

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

#### (a) New and amended standards adopted by the Group

The HKICPA has amended HKAS 12, 'Income taxes', to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012.

This amendment does not have significant impact on the Group's consolidated financial statements as the Group has the intention to hold the investment properties for lease rather than sale.

There are no HKFRSs or HK(IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.1 Basis of preparation (continued)

##### (b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are issued but not effective for annual periods beginning 1 January 2012, and have not been early adopted

Currently related to the Group:

- Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). This standard is effective for annual periods beginning on or after 1 July 2012 with early adoption permitted. The management assessed this standard has no significant impact to the Group's consolidation financial statements.
- HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. This standard is not applicable until 1 January 2015 but is available for early adoption. The Group is yet to assess HKFRS 9's full impact, and will consider the impact of the remaining phases of HKFRS 9 when completed by the Board.
- HKFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard is effective for the accounting period beginning on or after 1 January 2013 with early adoption permitted. The management assessed the impact of HKFRS 10 and considers no change of consolidation scope for the adoption since 1 January 2013.
- HKFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard is effective for the accounting period beginning on or after 1 January 2013 with early adoption permitted. The Group is yet to assess HKFRS 12's full impact.

## Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.1 Basis of preparation (continued)

## (b) New standards and interpretations not yet adopted (continued)

- HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. This standard is effective for the accounting period beginning on or after 1 January 2013 with early adoption permitted. The Group is yet to assess HKFRS 13's full impact.
- HKFRS 11 'Joint Arrangements' reduced the types of joint arrangements to two: joint operations and joint ventures and proportional consolidation of joint ventures is no longer allowed. This standard is effective for the accounting period beginning on or after 1 January 2013 with early adoption permitted. The Group is yet to assess HKFRS 11's full impact.
- HKAS 19 (Amendment) 'Employee benefits' eliminate the corridor approach and calculate finance costs on a net funding basis. This standard is effective for the accounting period beginning on or after 1 January 2013 with early adoption permitted. The Group is yet to assess HKAS 19's full impact.
- HKAS 27 (revised 2011), 'Separate financial statements', includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10. This standard is effective for the accounting periods beginning on or after 1 January 2013. The Group is yet to assess HKAS 27's full impact.
- HKAS 28 (revised 2011) 'Associates and joint ventures' includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of HKFRS 11. This standard is effective for the accounting period beginning on or after 1 January 2013. The Group is yet to assess HKAS 28's full impact.
- Fourth 2011 annual improvements project – Changes effective for annual periods beginning on or after 1 January 2013 (subject to HKICPA endorsement) with early adoption permitted.

Not currently related to the Group (although they may affect the accounting for future transactions and events):

- HKAS 32 (Amendment) 'Financial instruments: Presentation – Offsetting financial assets and financial liabilities', effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

## Notes to the Consolidated Financial Statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (continued)

#### (b) New standards and interpretations not yet adopted (continued)

- HKFRS 7 (Amendment) 'Financial instruments: Disclosures – Offsetting financial assets and financial liabilities' requires new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. This standard is effective for the accounting period beginning on or after 1 January 2013.

As at 31 December 2012, the Company's current liabilities exceed current assets by approximately RMB3,317,176,000 since the Company borrowed more short term bank loans during the year to finance its property development subsidiaries in the mainland China, while subsidiaries did not declare adequate dividends to the Company. The Company has prepared cash flow projections for the twelve months subsequent to 31 December 2012 and has assessed the compliance of loan covenants. The directors of the Company, having taken into consideration of long-term senior notes issued in early 2013, operation cash flows and available financial resources of the Group, are confident that the Company has adequate resources to continue in operations, to repay its liabilities when they fall due. The Company therefore continues to adopt the going concern basis in preparing its financial statements. Further information of the Company's borrowings is given in Note 23.

### 2.2 Subsidiaries

#### 2.2.1 Consolidation

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

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

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Subsidiaries (continued)

##### 2.2.1 Consolidation (continued)

###### (a) Business combinations

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Subsidiaries (continued)

##### 2.2.1 Consolidation (continued)

###### (c) Disposal of subsidiaries

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

#### 2.3 Jointly controlled entities and associates

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

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

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

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.3 Jointly controlled entities and associates (continued)

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

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

#### 2.4 Segment reporting

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

#### 2.5 Foreign currency translation

##### (a) Functional and presentation currency

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

##### (b) Transactions and balances

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.5 Foreign currency translation (continued)

##### (c) Group companies

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

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

#### 2.6 Property and equipment

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

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

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

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

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

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



## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.6 Property and equipment (continued)

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

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

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

#### 2.7 Investment property

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

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

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

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.8 Intangible assets – goodwill

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

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

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

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

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.10 Financial assets

##### (a) Classification

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

- Loans and receivables

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

- Available-for-sale financial assets

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

##### (b) Recognition and measurement

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

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

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

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.10 Financial assets (continued)

##### (c) Impairment of financial assets

- Loans and receivables

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.10 Financial assets (continued)

##### (c) Impairment of financial assets (continued)

- Assets classified as available for sale

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

#### 2.11 Derivative financial instruments and hedging activities

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

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

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

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.12 Properties under development

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

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

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

#### 2.13 Completed properties held for sale

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

Cost comprises development costs attributable to the unsold properties.

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

#### 2.14 Trade and other receivables

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

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

#### 2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, call deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.16 Share capital

Ordinary shares are classified as equity.

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

Where any group company purchases the Company's share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to equity holders of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

#### 2.17 Trade payables

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

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

#### 2.18 Borrowings

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

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

#### 2.19 Borrowings cost

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

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

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.20 Current and deferred income tax

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

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

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

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

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

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

#### 2.21 Employee benefits

##### (i) Employee leave entitlements

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



## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.21 Employee benefits (continued)

##### (ii) Retirement benefits

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

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

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

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

##### (iii) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the shares/options is recognised as costs of assets or expenses to whichever the employee service is attributable.

Under the long term incentive scheme, the fair value of shares granted to eligible employees for their services is based on the share price at the grant date.

Under the share option scheme, the fair value of the options granted to the eligible employees for their services rendered is determined by reference to:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.21 Employee benefits (continued)

##### (iii) Equity-settled share-based payment transactions (continued)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total cost/expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of shares/options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When shares are vested, the Company issues shares from treasury shares. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

#### 2.22 Provisions and contingent liabilities

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

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

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

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

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.23 Revenue recognition

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

(i) **Sales of properties**

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

(ii) **Property management services**

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

(iii) **Interest income**

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

(iv) **Rental income**

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

(v) **Hotel operation income**

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

(vi) **Sales of goods**

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

(vii) **Dividend income**

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.24 Government grants

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

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

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

#### 2.25 Leases

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

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

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

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

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

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

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

(iii) **The Group is the lessor**

Assets leased out under operating leases are included in investment property in the consolidated balance sheet.

#### 2.26 Dividend distribution

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

## Notes to the Consolidated Financial Statements

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.27 Insurance contracts

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

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

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

### 3 FINANCIAL RISK MANAGEMENT

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

#### (a) Market risk

##### (i) Foreign exchange risk

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

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

As at 31 December 2012, if RMB had strengthened/weakened by 5%, against US dollar and HK dollar with all other variables held constant, post-tax profit for the year would have been RMB749,468,000 (2011: RMB660,810,000) higher/lower, mainly as a result of net foreign exchange gains/losses on translation of US dollar and HK dollar denominated bank deposits, senior notes and bank borrowings.

## Notes to the Consolidated Financial Statements

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (a) Market risk (continued)

##### (ii) Price risk

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

##### (iii) Cash flow and fair value interest rate risk

Except for cash deposits in the banks, the Group has no other significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, especially long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The interest rate and terms of repayments of borrowings are disclosed in Note 23. The Group manages certain of its fair value interest rate risk by using fixed-to-floating interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from fixed rates to floating rates. As at 31 December 2012, the Group converted borrowings of US\$300,000,000 (2011: US\$300,000,000) from fixed rate to floating rate through interest rate swap (Note 26).

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

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

If interest rates on RMB denominated variable rate borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB23,676,000 (2011: RMB39,732,000) lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates as at 31 December 2012. If interest rates on US dollar and HK dollar denominated variable rate borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax profit for the year would have been RMB8,807,000 (2011: RMB17,403,000) lower/higher mainly as a result of higher/lower interest expenses on borrowings with variable rates as at 31 December 2012.

## Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## (b) Credit risk

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

Cash transactions are limited to high-credit-quality institutions. The table below shows the bank deposit balances of the major counterparties as at 31 December 2012.

Counterparty	Rating (note)	As at 31 December	
		2012	2011
		RMB'000	RMB'000
Bank A	A	<b>4,265,122</b>	2,629,354
Bank B	BBB+	<b>3,737,371</b>	880,402
Bank C	A	<b>2,864,095</b>	1,710,039
Bank D	A	<b>1,727,726</b>	1,215,683
Bank E	A	<b>1,619,143</b>	1,725,648

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

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

## (c) Liquidity risk

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

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

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

## Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## (c) Liquidity risk (continued)

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
<b>As at 31 December 2012</b>					
Borrowings and interests payments (note)	15,152,613	8,714,961	18,678,245	9,372,340	51,918,159
Trade and other payables	13,656,136	14,557	21,597	14,490	13,706,780
Amounts due to related parties	2,897,713	-	-	-	2,897,713
Derivative financial instruments	42,572	-	-	-	42,572
	<b>31,749,034</b>	<b>8,729,518</b>	<b>18,699,842</b>	<b>9,386,830</b>	<b>68,565,224</b>
<b>As at 31 December 2011</b>					
Borrowings and interests payments (note)	17,947,179	10,856,245	13,324,843	11,129,829	53,258,096
Trade and other payables	16,712,694	9,655	25,558	17,555	16,765,462
Amounts due to related parties	30,831	-	-	-	30,831
Derivative financial instruments	52,115	-	-	-	52,115
	34,742,819	10,865,900	13,350,401	11,147,384	70,106,504

Note: The interest on borrowings is calculated based on borrowings outstanding as at 31 December 2012 and 2011 without taking into account of future issues. Floating-rate interest is estimated using the applicable interest rate as at 31 December 2012 and 2011 respectively.



## Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## (d) Capital risk management

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

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

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

The gearing ratios at 31 December 2012 and 2011 were as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Total borrowings	<b>40,993,941</b>	42,561,253
Less: Cash and cash equivalents	<b>(15,893,845)</b>	(12,312,740)
Restricted cash (Note 20)	<b>(2,204,028)</b>	(1,681,222)
Net debt	<b>22,896,068</b>	28,567,291
Total equity	<b>40,927,232</b>	35,018,077
Gearing ratio	<b>55.9%</b>	81.6%

The decrease in gearing ratio was mainly due to the Group accelerated collection of sales receivables during 2012, with a result of substantial increase in receipt of advances from customers of contract sales and cash collection from properties sales, included sales revenue and cash flows in its comprehensive results ranking indicators and assessment system, as well as the disposal of certain subsidiaries.

## Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## (e) Fair value estimation

The different levels are defined as follows:

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012 and 2011:

As at 31 December 2012	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Assets</b>				
Available-for-sale financial assets				
– equity securities	369,833	–	–	369,833
<b>Liabilities</b>				
Derivative financial instruments	–	–	42,572	42,572

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

## Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## (e) Fair value estimation (continued)

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

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

The following table presents the changes in Level 3 instruments for the year ended 31 December 2012.

	Trading derivative's at fair value through profit or loss RMB'000	Total RMB'000
Opening balance	52,115	52,115
Gains recognised in profit or loss	(9,543)	(9,543)
Closing balance	42,572	42,572
Total gains or losses for the period including in profit or loss for assets held at the end of the reporting period	(9,543)	(9,543)

The following table presents the changes in Level 3 instruments for the year ended 31 December 2011.

	Trading derivative's at fair value through profit or loss RMB'000	Total RMB'000
Opening balance	-	-
Transfers into Level 3	28,524	28,524
Losses recognised in profit or loss	23,591	23,591
Closing balance	52,115	52,115
Total gains or losses for the period including in profit or loss for assets held at the end of the reporting period	52,115	52,115

## Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## (f) Financial instruments by category

## Group

Financial assets	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Loans and receivables		
– Trade and other receivables	<b>3,719,176</b>	2,291,441
– Amounts due from related companies	<b>1,316,027</b>	1,451,591
– Restricted cash	<b>2,204,028</b>	1,681,222
– Cash and cash equivalents	<b>15,893,845</b>	12,312,740
Available-for-sale financial assets	<b>369,833</b>	267,362
<b>Total</b>	<b>23,502,909</b>	18,004,356

Financial liabilities	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Liabilities at fair value through the profit and loss:		
– Derivative financial instruments	<b>42,572</b>	52,115
Other financial liabilities at amortised cost:		
– Borrowings	<b>40,993,941</b>	42,561,253
– Trade and other payables (excluding other taxes payable)	<b>13,706,780</b>	16,765,462
– Amounts due to related companies	<b>2,897,713</b>	30,831
<b>Total</b>	<b>57,641,006</b>	59,409,661

## Notes to the Consolidated Financial Statements

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## (f) Financial instruments by category (continued)

## Company

Financial assets	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Loans and receivables		
– Trade and other receivables	1,117	3,248
– Dividend receivable from subsidiaries	267,000	1,246,430
– Cash and cash equivalents	38,954	96,470
<b>Total</b>	<b>307,071</b>	<b>1,346,148</b>

Financial liabilities	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Liabilities at fair value through the profit and loss:		
– Derivative financial instruments	42,572	52,115
Other financial liabilities at amortised cost:		
– Borrowings	13,957,089	11,213,319
– Trade and other payables	239,635	223,100
– Amounts due to subsidiaries	195,671	191,493
<b>Total</b>	<b>14,434,967</b>	<b>11,680,027</b>

## Notes to the Consolidated Financial Statements

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

#### 4.1 Critical accounting estimates and assumptions

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

##### (a) Income taxes and deferred taxation

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

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

##### (b) Land appreciation tax

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

##### (c) Impairment of goodwill

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

## Notes to the Consolidated Financial Statements

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(CONTINUED)

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

##### (d) Fair value of investment properties

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

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

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

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

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

##### (f) Fair value of derivatives financial instruments

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

##### (g) Impairment of trade receivable

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

## Notes to the Consolidated Financial Statements

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(CONTINUED)

#### 4.2 Critical judgements in applying the Group's accounting policy

##### Classification between investment properties and owner-occupied properties

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

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

### 5 SEGMENT INFORMATION

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

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

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

#### (a) Revenue

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Sales of properties	<b>26,607,120</b>	24,589,476
Hotel operation income	<b>999,134</b>	892,012
Rental income from investment properties	<b>507,415</b>	440,559
Others	<b>538,574</b>	109,379
	<b>28,652,243</b>	26,031,426



## Notes to the Consolidated Financial Statements

## 5 SEGMENT INFORMATION (CONTINUED)

## (b) Segment information

Year ended 31 December 2012

	Property development and investment					Total RMB'000
	Shanghai Shimao Co., Ltd. ("Shanghai Shimao")*	Others RMB'000	Hotel operation RMB'000	Unallocated** RMB'000		
Revenue						
– Sales of properties	5,438,466	21,168,654	–	–	26,607,120	
– Hotel operation income	101,792	–	897,342	–	999,134	
– Rental income from investment properties	341,963	165,452	–	–	507,415	
– Others	454,168	84,406	–	–	538,574	
<b>Total revenue</b>	<b>6,336,389</b>	<b>21,418,512</b>	<b>897,342</b>	<b>–</b>	<b>28,652,243</b>	
Operating profit	3,604,949	6,476,474	81,470	(127,528)	10,035,365	
Finance income	37,593	102,977	2,516	2,969	146,055	
Finance costs	(121,816)	(36,120)	(10,234)	–	(168,170)	
Share of results of						
– Associated companies	–	(210,938)	–	–	(210,938)	
– Jointly controlled entities	–	363,125	–	–	363,125	
<b>Profit before income tax</b>	<b>3,520,726</b>	<b>6,695,518</b>	<b>73,752</b>	<b>(124,559)</b>	<b>10,165,437</b>	
Income tax expense					(3,580,949)	
<b>Profit for the year</b>					<b>6,584,488</b>	
Other segment items are as follows:						
Capital and property development expenditure	6,846,674	15,293,612	1,740,616	1,138	23,882,040	
Fair value gains on investment properties	1,706,887	655,993	–	–	2,362,880	
Fair value gain on derivative financial instrument	–	9,543	–	–	9,543	
Write-off of intangible assets	–	124,102	–	–	124,102	
Depreciation	76,495	31,602	216,872	22,062	347,031	
Amortisation of land use rights	9,154	–	33,214	–	42,368	
Provision for/(write back of) impairment of receivables	8,064	(13,708)	–	–	(5,644)	

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

\*\* Unallocated mainly represent corporate level activities

## Notes to the Consolidated Financial Statements

## 5 SEGMENT INFORMATION (CONTINUED)

## (b) Segment information (continued)

The segment assets and liabilities at 31 December 2012 are as follows:

	Property development and investment			Total RMB'000
	Shanghai	Others	Hotel	
	Shimao RMB'000	RMB'000	operation RMB'000	
Associated companies	–	1,490,441	–	1,490,441
Jointly controlled entities	–	5,547,675	–	5,547,675
Intangible assets	1,709,730	299,267	130,928	2,139,925
Other segment assets	35,968,004	72,296,566	11,373,946	119,638,516
<b>Total segment assets</b>	<b>37,677,734</b>	<b>79,633,949</b>	<b>11,504,874</b>	<b>128,816,557</b>
Deferred income tax assets				1,248,390
Available-for-sale financial assets				369,833
Other assets				393,015
<b>Total assets</b>				<b>130,827,795</b>
Borrowings	11,339,454	14,103,317	414,368	25,857,139
Other segment liabilities	10,649,375	28,517,163	5,636,560	44,803,098
<b>Total segment liabilities</b>	<b>21,988,829</b>	<b>42,620,480</b>	<b>6,050,928</b>	<b>70,660,237</b>
Corporate borrowings				15,136,802
Deferred income tax liabilities				3,775,578
Derivative financial instruments				42,572
Other liabilities				285,374
<b>Total liabilities</b>				<b>89,900,563</b>

## Notes to the Consolidated Financial Statements

## 5 SEGMENT INFORMATION (CONTINUED)

## (b) Segment information (continued)

Year ended 31 December 2011

	Property development and investment		Hotel operation RMB'000	Unallocated RMB'000	Total RMB'000
	Shanghai Shimao RMB'000	Others RMB'000			
Revenue					
– Sales of properties	5,256,149	19,333,327	–	–	24,589,476
– Hotel operation income	8,245	–	883,767	–	892,012
– Rental income from investment properties	241,309	199,250	–	–	440,559
– Others	59,236	50,143	–	–	109,379
<b>Total revenue</b>	<b>5,564,939</b>	<b>19,582,720</b>	<b>883,767</b>	<b>–</b>	<b>26,031,426</b>
Operating profit	3,898,316	6,586,574	150,544	374,615	11,010,049
Finance income	36,943	54,984	222	7,925	100,074
Finance cost	(138,473)	(222,807)	(8,147)	(110,993)	(480,420)
Share of results of					
– Associated companies	–	97,653	–	–	97,653
– Jointly controlled entities	–	24,213	–	–	24,213
<b>Profit before income tax</b>	<b>3,796,786</b>	<b>6,540,617</b>	<b>142,619</b>	<b>271,547</b>	<b>10,751,569</b>
Income tax expense					(4,302,640)
<b>Profit for the year</b>					<b>6,448,929</b>
Other segment items are as follows:					
Capital and property development expenditure	8,035,281	25,072,887	2,048,243	1,222	35,157,633
Fair value gains on investment properties	1,927,013	600,000	–	–	2,527,013
Fair value loss on derivative financial instrument	–	–	–	52,115	52,115
Write-off of intangible assets	–	16,435	–	–	16,435
Depreciation	18,850	27,232	230,192	21,740	298,014
Amortisation of land use rights	3,919	–	36,139	–	40,058
Provision for impairment losses on completed properties held for sale	–	15,398	–	–	15,398
Provision for impairment of receivables	6,066	–	–	–	6,066

## Notes to the Consolidated Financial Statements

## 5 SEGMENT INFORMATION (CONTINUED)

## (b) Segment information (continued)

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

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

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

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

## Notes to the Consolidated Financial Statements

## 6 PROPERTY AND EQUIPMENT – GROUP

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Jet plane and motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
<b>Cost</b>						
At 1 January 2012	3,064,683	5,395,075	234,294	459,495	411,792	9,565,339
Additions	1,546,742	22,589	70,604	3,994	180,794	1,824,723
Amortisation of land use rights	20,268	-	-	-	-	20,268
Disposals	-	-	(10,383)	(6,679)	-	(17,062)
Transfer to properties under development and completed properties held for sale	(53,743)	-	-	-	(85,101)	(138,844)
At 31 December 2012	4,577,950	5,417,664	294,515	456,810	507,485	11,254,424
<b>Accumulated depreciation</b>						
At 1 January 2012	-	1,064,100	66,380	60,454	48,616	1,239,550
Charge for the year	-	262,314	40,537	32,785	11,395	347,031
Disposals	-	-	(8,386)	(5,315)	-	(13,701)
Transfer to properties under development and completed properties held for sale	-	-	-	-	(21,087)	(21,087)
At 31 December 2012	-	1,326,414	98,531	87,924	38,924	1,551,793
<b>Net book value</b>						
At 31 December 2012	4,577,950	4,091,250	195,984	368,886	468,561	9,702,631

## Notes to the Consolidated Financial Statements

## 6 PROPERTY AND EQUIPMENT – GROUP (CONTINUED)

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

Depreciation charge of RMB347,031,000 for the year ended 31 December 2012 (2011: RMB298,014,000) has been recorded in cost of sales and administrative expenses in the consolidated income statement (Note 29).

As at 31 December 2012, assets under construction and buildings of the Group with a total carrying amount of RMB5,747,018,000 (2011: RMB6,955,413,000) were pledged as collateral for certain bank borrowings of the Group (Note 23).

As at 31 December 2012, interest capitalised in assets under construction amounted to RMB131,231,000 (2011: RMB169,950,000).

The capitalisation rate of borrowings was 7.48% for the year ended 31 December 2012 (2011: 7.89%).

## Notes to the Consolidated Financial Statements

## 7 INVESTMENT PROPERTIES – GROUP

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Opening balance	<b>20,566,979</b>	11,854,995
Additions		
– Transfer from properties under development	<b>242,937</b>	3,477,519
– Additions-construction cost and others	<b>3,075,302</b>	2,707,452
Fair value gains	<b>2,362,880</b>	2,527,013
Ending balance	<b>26,248,098</b>	20,566,979

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

	Year ended 31 December	
	2012	2011
Rental income	<b>507,415</b>	440,559
Direct operating expenses from properties that generated rental income	<b>33,119</b>	31,789
Direct operating expenses from properties that did not generate rental income	<b>5,415</b>	4,914

## (b) Valuation basis

The fair values of the Group's investment properties were assessed as at 31 December 2012 by Vigers Appraisal & Consulting Limited ("Vigers") and Shanghai Zhonghua Asserts Appraisal Co., Ltd. ("Shanghai Zhonghua"), two independent professional qualified valuers. Valuations were performed using either: (i) income capitalisation approach based on existing and current market rents for similar properties, using capitalisation rates that reflect current market assessments of the uncertainty in the market; or (ii) direct comparison approach assuming sales of these properties in its existing state by making reference to comparable sales transactions as available in the relevant market. Shanghai Zhonghua assessed the fair values of investment properties held by Shanghai Shimao, a subsidiary of the Group listed in Shanghai Stock Exchange. The management has evaluated the standards and assumptions used, as well as the results got by Shanghai Zhonghua, and concluded the valuations are acceptable for preparation of these consolidation financial statements.

## (c) Pledge

As at 31 December 2012, the Group's investment properties were held in the PRC on leases of between 10 to 50 years. Investment properties with a carrying amount of RMB15,261,100,000 (2011: RMB14,423,730,000) were pledged as collateral for the Group's borrowings (Note 23).

## Notes to the Consolidated Financial Statements

## 7 INVESTMENT PROPERTIES – GROUP (CONTINUED)

## (d) Leasing arrangements

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Within 1 year	<b>325,370</b>	451,152
Later than 1 year but no later than 5 years	<b>863,981</b>	1,067,904
Later than 5 years	<b>707,087</b>	831,485
	<b>1,896,438</b>	2,350,541

## (e) Investment properties under construction

As at 31 December 2012, RMB10,470,979,000 of the investment properties are under construction (2011: RMB6,680,698,000).

## 8 LAND USE RIGHTS – GROUP

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Land use rights relating to property and equipment under non-current assets		
Opening balance	<b>2,475,068</b>	2,572,389
Additions	<b>2,422,593</b>	148,117
Amortisation		
– Capitalised in property and equipment (Note 6)	<b>(20,268)</b>	(31,977)
– Recognised as expenses (Note 29)	<b>(42,368)</b>	(40,058)
Transfer to properties under development and completed properties held for sale	<b>(117,689)</b>	(173,403)
Ending balance	<b>4,717,336</b>	2,475,068
Outside Hong Kong, held on leases of:		
Over 50 years	<b>79,103</b>	79,098
Between 10 to 50 years	<b>4,638,233</b>	2,395,970
	<b>4,717,336</b>	2,475,068



## Notes to the Consolidated Financial Statements

**8 LAND USE RIGHTS – GROUP (CONTINUED)**

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

As at 31 December 2012, land use rights of RMB1,877,321,000 (2011: of RMB1,892,220,000) were pledged as collateral for the Group's bank borrowings (Note 23).

**9 INTANGIBLE ASSETS – GROUP**

Intangible assets comprise goodwill arising from acquisitions:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Opening balance	<b>2,264,027</b>	2,280,462
Write-off of goodwill recognised as expenses (Note 29)	<b>(124,102)</b>	(16,435)
Ending balance	<b>2,139,925</b>	2,264,027

**Impairment tests for goodwill**

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Property development and investment – Shanghai Shimao	<b>1,709,730</b>	1,709,730
Property development and investment – Others	<b>299,267</b>	423,369
Hotel operation	<b>130,928</b>	130,928
	<b>2,139,925</b>	2,264,027

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

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

## Notes to the Consolidated Financial Statements

## 10 INTERESTS IN SUBSIDIARIES – COMPANY

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Interests in subsidiaries		
– Unlisted shares, at cost	<b>290,902</b>	301,186
– Amounts due from subsidiaries (note)	<b>23,147,583</b>	20,915,334
	<b>23,438,485</b>	21,216,520
Dividend receivable from subsidiaries	<b>267,000</b>	1,246,430
Amounts due to subsidiaries (note)	<b>195,671</b>	191,493

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

Details of the principal subsidiaries of the Group as at 31 December 2012 are set out in Note 36.

## 11 ASSOCIATED COMPANIES – GROUP

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Share of net assets:		
Opening balance	<b>1,308,281</b>	412,442
Capital injection	<b>393,098</b>	803,025
Share of results	<b>(210,938)</b>	97,653
Transfer to a subsidiary	–	(4,839)
Ending balance	<b>1,490,441</b>	1,308,281

## Notes to the Consolidated Financial Statements

## 11 ASSOCIATED COMPANIES – GROUP (CONTINUED)

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

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group
<b>2012</b>						
Guangzhou Li He Property Development Co., Ltd ("Guangzhou Li He") (Note (a))	<b>PRC</b>	<b>4,578,300</b>	<b>(4,468,164)</b>	<b>296,544</b>	<b>(94,627)</b>	<b>20%</b>
Eagle Rights Limited ("Eagle Rights")	<b>British Virgin Islands</b>	<b>90,471</b>	<b>(9,848)</b>	<b>10,370</b>	<b>(17,346)</b>	<b>33%</b>
Straits Construction Holdings Limited ("Straits Construction")	<b>British Virgin Islands</b>	<b>4,331,884</b>	<b>(3,023,202)</b>	<b>–</b>	<b>(98,965)</b>	<b>49%</b>
		<b>9,000,655</b>	<b>(7,501,214)</b>	<b>306,914</b>	<b>(210,938)</b>	
<b>2011</b>						
Guangzhou Li He	PRC	4,632,830	(4,428,068)	1,289,614	120,938	20%
Eagle Rights	British Virgin Islands	128,946	(8,334)	–	(10)	33%
Straits Construction	British Virgin Islands	1,833,546	(850,639)	–	(23,275)	49%
		<b>6,595,322</b>	<b>(5,287,041)</b>	<b>1,289,614</b>	<b>97,653</b>	

## Note

- (a) Guangzhou Li He is an associate company of the Group, in which the Group holds 20% equity interest. The land use right of Guangzhou Li He consists of three phases. According to the agreed payment schedule of land premium, the third phase land premium of RMB10,200 million should be settled in December 2011. As at 31 December 2012, there was an outstanding land premium totalling RMB7,700 million remained unsettled. Management of Guangzhou Li He is in the progress of negotiating with related government authorities about the repayment schedule of this outstanding land premium. Based on the continuing negotiation initiated by the management of Guangzhou Li He and their consultation with external lawyer, the directors of the Company consider that the delayed payment of land premium does not have significant adverse impact on the operating results and financial position of the Group as at 31 December 2012.

## Notes to the Consolidated Financial Statements

## 12 JOINTLY CONTROLLED ENTITIES – GROUP

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Share of net assets:		
Opening balance	<b>1,522,831</b>	1,176,405
Transfer from subsidiaries (note (a))	<b>2,100,000</b>	322,213
Share of result	<b>363,125</b>	24,213
Ending balance	<b>3,985,956</b>	1,522,831
Advances to jointly controlled entities (note (b))	<b>1,561,719</b>	2,785,046
	<b>5,547,675</b>	4,307,877

- (a) In March, May and October 2012, a third party made capital injections into three subsidiaries (Nanchang Shimao New development Property Co., Ltd., Changsha Shimao Real Estate Development Co., Ltd. and Cheng Du Shimao Investment Co., Ltd.) of the Group unilaterally at a total consideration of RMB2.1 billion, where the Group's equity interests in these three subsidiaries were diluted from 100% to 50% accordingly. Pursuant to the revised articles of association, the Group and the third party jointly control the operation of these three entities. As controls of these three entities were lost, the Group's retained interests in these three entities were recognised at their fair value at the date when the controls were lost. The remeasurement gains of RMB545,135,000 resulted from the deemed disposal of the three subsidiaries were recognised in the income statement as other gains (Note 28). A net cash outflow of approximately RMB159 million from these transactions was recognised as a cash outflow from investing activities in the cash flow statement.
- (b) As at 31 December 2012, the Group made advances to three jointly controlled entities to finance their acquisition of land use rights. These advances are interest free, unsecured and have no fixed repayment terms. The Group's intention is that the advances will only be recalled when the jointly controlled entities have surplus cash.

Advances to jointly controlled entities	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Fast Right Investments Limited	<b>789,571</b>	1,603,914
Kingtron Enterprises Limited	<b>272,848</b>	780,313
Huizhou Fumao Property Development Co., Ltd.	–	315,500
Tianjin Jinnan New City Property Development Co., Ltd. ("Tianjin Jinnan")	<b>499,300</b>	85,319
	<b>1,561,719</b>	2,785,046

## Notes to the Consolidated Financial Statements

## 12 JOINTLY CONTROLLED ENTITIES – GROUP (CONTINUED)

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

	Country of Incorporation	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Net profit/ (loss) RMB'000	Interest held by the Group
<b>2012</b>						
Tianjin Hean Investment Co., Ltd. ("Tianjin Hean")	PRC	2,095	–	–	(435)	25%
Tianjin Jinnan	PRC	2,162,776	(1,284,996)	182,297	(2,177)	25%
Huizhou Fumao Property Development Co., Ltd.	PRC	724,268	(499,171)	–	(13,583)	50%
Qingdao Shimao New City Property Development Co., Ltd. ("Qingdao New City")	PRC	1,624,482	(1,315,140)	–	(16,530)	50%
Nanchang Shimao New Development Property Co., Ltd. ("Nanchang New Development")	PRC	1,933,964	(1,083,519)	251,542	50,443	50%
Changsha Shimao Real Estate Co., Ltd. ("Changsha Real Estate")	RPC	700,030	(196,488)	378,876	3,542	50%
Chengdu Shimao Investment Co., Ltd. ("Chengdu Investment")	RPC	1,250,100	(449,596)	–	504	50%
Fast Right Investments Limited*	Hong Kong	2,459,077	(2,181,777)	956,341	252,557	50%
Kingtron Enterprises Limited*	Hong Kong	1,228,694	(1,088,843)	631,592	88,804	50%
		<b>12,085,486</b>	<b>(8,099,530)</b>	<b>2,400,648</b>	<b>363,125</b>	

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

## Notes to the Consolidated Financial Statements

## 12 JOINTLY CONTROLLED ENTITIES – GROUP (CONTINUED)

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

Details of the principal jointly controlled entities of the Group as at 31 December 2012 are set out in Note 36.

## 13 AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Opening balance	<b>267,362</b>	347,823
Fair value gains/(losses) recognised in other comprehensive income	<b>102,471</b>	(80,461)
Ending balance	<b>369,833</b>	267,362

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

As at 31 December 2012, available-for-sale financial assets with a carrying amount of RMB82,000,000 (2011: RMB207,480,000) were pledged as collateral for the Group's borrowings (Note 23).

## Notes to the Consolidated Financial Statements

## 14 OTHER NON-CURRENT ASSETS – GROUP

As at 31 December 2012, the Group has made prepayments of RMB757,250,000 (2011: RMB2,875,665,000) for certain land use rights for the purpose to develop hotel buildings, self-used buildings and investment properties, the ownership certificates of which have not been obtained.

As at 31 December 2011, the Group made prepayments of RMB330,000,000 for acquisition of additional 5% interests in a subsidiary. In June 2012, this acquisition was completed.

## 15 PROPERTIES UNDER DEVELOPMENT – GROUP

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Properties under development comprise:		
Land use rights	<b>21,881,174</b>	20,424,315
Construction costs and capitalised expenditures	<b>12,384,879</b>	14,702,487
Interests capitalised	<b>3,342,889</b>	2,197,283
	<b>37,608,942</b>	37,324,085

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Land use rights		
Outside Hong Kong, held on leases of:		
Over 50 years	<b>17,729,216</b>	14,772,368
Between 10 to 50 years	<b>4,151,958</b>	5,651,947
	<b>21,881,174</b>	20,424,315

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

## Notes to the Consolidated Financial Statements

## 15 PROPERTIES UNDER DEVELOPMENT – GROUP (CONTINUED)

As at 31 December 2012, properties under development of approximately RMB15,341,479,000 (2011: RMB17,502,613,000) were pledged as collateral for the Group's bank borrowings (Note 23).

The capitalisation rate of borrowings was 7.48% for the year ended 31 December 2012 (2011: 7.89%).

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Properties under development:		
Expected to be completed and available for sale after more than 12 months	<b>15,793,008</b>	18,233,372
Expected to be completed and available for sale within 12 months	<b>21,815,934</b>	19,090,713
	<b>37,608,942</b>	37,324,085

## 16 COMPLETED PROPERTIES HELD FOR SALE – GROUP

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Outside Hong Kong, held on leases of:		
Over 50 years	<b>1,020,287</b>	1,125,561
Between 10 to 50 years	<b>133,839</b>	247,374
	<b>1,154,126</b>	1,372,935

As at 31 December 2012, completed properties held for sale of RMB1,159,357,000 (2011: RMB1,049,536,000) were pledged as collateral for the Group's bank borrowings (Note 23).

For the year ended 31 December 2012, no impairment losses (2011: RMB15,398,000) was recognized by the group on completed properties held for sale.



## Notes to the Consolidated Financial Statements

## 17 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS – GROUP

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Bidding deposits for land use rights (note (a))	<b>1,179,136</b>	1,177,617
Trade receivables (note (b))	<b>2,407,832</b>	1,549,466
Prepaid business tax on pre-sale proceeds	<b>1,074,301</b>	676,215
Prepayments for construction costs	<b>665,931</b>	326,812
Other receivables	<b>1,311,344</b>	741,975
	<b>6,638,544</b>	4,472,085

- (a) Bidding deposits for land use rights mainly represented deposits of the Group placed with various municipal government for the participation in miscellaneous land auctions. These deposits will be deducted against the total land costs to be paid if the Group wins the bid at the auction. If the Group's bid did not win, the amount will be fully refunded.
- (b) Trade receivables are mainly arisen from sales of properties. Consideration in respect of properties sold is paid in accordance with the terms of the related sales and purchase agreements. The ageing analysis of trade receivables at respective balance sheet dates is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Within 90 days	<b>1,608,555</b>	1,220,336
Over 90 days and within 365 days	<b>566,032</b>	289,375
Over 365 days	<b>233,245</b>	39,755
	<b>2,407,832</b>	1,549,466

## Notes to the Consolidated Financial Statements

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

As at 31 December 2012, receivables arising from sales of properties was approximately RMB2,217,761,000 (2011: RMB1,422,348,000).

Trade receivables are analysed as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Fully performing under credit terms	<b>1,454,429</b>	872,166
Past due but not impaired	<b>953,403</b>	677,300
	<b>2,407,832</b>	1,549,466

The ageing analysis of trade receivables past due but not impaired is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Within 90 days	<b>326,277</b>	492,197
Over 90 days and within 365 days	<b>393,881</b>	145,348
Over 365 days	<b>233,245</b>	39,755
	<b>953,403</b>	677,300

As the Group normally holds collateral of the properties before collection of the outstanding balances and passing the titles to the purchasers, the Directors consider that the past due trade receivables would be recovered and no provision was made against past due receivables as at 31 December 2012 (2011: Nil).

As at 31 December 2012, provision for impairment of other receivables was approximately RMB16,529,000 (2011: RMB22,173,000).

As at 31 December 2012, the fair value of trade receivables, bidding deposits for land use rights, and other receivables of the Group approximate their carrying amounts.

As at 31 December 2012 and 2011, trade and other receivables of the Group were mainly denominated in RMB.

## Notes to the Consolidated Financial Statements

## 18 PREPAYMENT FOR ACQUISITION OF LAND USE RIGHTS

Prepayments for acquisition of land use rights are related to acquisition of land for the purpose to develop properties for sale, the ownership certificates of which have not been obtained as at 31 December 2012.

## 19 AMOUNTS DUE FROM RELATED COMPANIES – GROUP

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
<b>Companies with common directors</b>		
Shimao International Holdings Limited ("Shimao International")	486	486
Shanghai Mason Club Co., Ltd. ("Shanghai Mason")	161	161
<b>Associated companies</b>		
Straits Construction	941	22,939
Guangzhou Li He (note)	1,150,507	1,141,312
<b>Jointly controlled entities</b>		
Qingdao New City	–	284,261
Huizhou Fumao Property Development Co., Ltd.	161,500	–
Tianjin Jinnan	2,432	2,432
	<b>1,316,027</b>	<b>1,451,591</b>

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

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

Note: The Group made advances to Guangzhou Li He to finance its acquisition of land use rights.

## Notes to the Consolidated Financial Statements

## 20 CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
<b>Group</b>		
Bank balances and cash		
– denominated in RMB	<b>17,932,852</b>	13,670,876
– denominated in US dollar	<b>100,201</b>	305,164
– denominated in HK dollar	<b>64,820</b>	17,922
Less: Restricted cash	<b>(2,204,028)</b>	(1,681,222)
	<b>15,893,845</b>	12,312,740

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
<b>Company</b>		
Bank balances and cash – unrestricted		
– denominated in US dollar	<b>32,707</b>	88,172
– denominated in HK dollar	<b>6,247</b>	8,298
	<b>38,954</b>	96,470

As at 31 December 2012, the Group's cash of approximately RMB222,381,000 (2011: RMB365,086,000) was restricted and deposited in certain banks as guarantee deposits for the benefit of mortgage loan facilities granted by the banks to the purchasers of the Group's properties (Note 37). The Group's cash of approximately RMB1,981,647,000 (2011: RMB1,316,136,000) was pledged as collateral for the Group's borrowings (Note 23).

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

The effective interest rate on bank deposits as at 31 December 2012 was 0.4% (2011: 0.5%).

## Notes to the Consolidated Financial Statements

## 21 SHARE CAPITAL – GROUP AND COMPANY

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

	Note	Par value HK\$	Number of shares '000	Nominal value of ordinary shares Equivalent to RMB'000	
Authorised:					
At 31 December 2012 and 2011		<b>0.1</b>	<b>5,000,000</b>	<b>500,000</b>	
Issued and fully paid:					
At 1 January 2011			3,547,413	354,742	362,384
Employee share option scheme					
– Shares issued	(b)		2,593	259	216
Repurchases and cancellation of shares	(d)		(84,055)	(8,406)	(6,863)
At 31 December 2011			3,465,951	346,595	355,737
Employee share option scheme					
– Shares issued	(b)		6,621	662	538
At 31 December 2012			<b>3,472,572</b>	<b>347,257</b>	<b>356,275</b>

## (b) Pre-IPO Share Option Scheme

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

## Notes to the Consolidated Financial Statements

## 21 SHARE CAPITAL – GROUP AND COMPANY (CONTINUED)

## (b) Pre-IPO Share Option Scheme (continued)

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

	Year ended 31 December	
	2012	2011
	'000	'000
Balance at beginning of the year	<b>8,024</b>	10,617
Exercised	<b>(6,621)</b>	(2,593)
Expired	<b>(1,403)</b>	–
Balance at end of the year	<b>–</b>	8,024

There were no outstanding options at 31 December 2012 (2011: 8,024,000 options). During the year ended 31 December 2012, 6,621,000 options (2011: 2,593,000 options) have been exercised at exercise price of HK\$5.625 per share, totaling HK\$37,243,000 (equivalent to RMB30,241,000). The related weighted average share price at the time of exercise was HK\$9.72 (2011: HK\$10.36) per share.

## (c) Share Option Scheme

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

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

Pursuant to the board resolution, options for a total of 15,350,000 ordinary shares of the Company under this scheme have been granted to independent non-executive directors, an executive director and selected employees on 4 February 2008, with exercise price of HK\$16.24 per share. As at 31 December 2008, all 15,350,000 options were forfeited or cancelled, and no other options have been granted under share option scheme since then.

## Notes to the Consolidated Financial Statements

## 21 SHARE CAPITAL – GROUP AND COMPANY (CONTINUED)

## (d) Share Award Scheme

The Company's board of directors (the "Board") approved and adopted the Share Award Scheme on 30 December 2011 (the "Share Scheme"). Unless terminated earlier by the Board, the Share Scheme is valid and effective for a term of 8 years commencing on 30 December 2011. The maximum number of shares to be awarded must not exceed 34,659,508 shares (i.e. 1% of issued shares of the Company as at 30 December 2011).

The Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the Board from time to time) select such employee(s) for participation in the Share Scheme and determine the number of awarded shares. However, until so selected, no employee shall be entitled to participate in the Share Scheme. Subject to the provisions of the Share Scheme, the Board may impose any conditions, restrictions or limitations or waive any such conditions, restrictions or limitations from time to time in relation to the award as it may at its absolute discretion think fit.

A Trust was constituted to manage the Share Scheme, and a wholly owned subsidiary of the Company incorporated in the British Virgin Islands was designated as Trustee. For the year ended 31 December 2012, the Trust purchased 4,000,000 ordinary shares from market at average price of HK\$6.5178 per share, totaling HK\$26,071,000 (equivalent to RMB21,207,000). Up to 31 December 2012, no shares were granted to eligible employees according to the Share Scheme.

(e) Reconciliation of the number of shares outstanding was as follows:

	Year ended 31 December	
	2012	2011
	'000	'000
Balance at beginning of the year	<b>3,465,951</b>	3,547,413
Share issued according to employee share option scheme	<b>6,621</b>	2,593
Repurchases and cancellation of shares	–	(84,055)
Treasury shares purchased for share award scheme	<b>(4,000)</b>	–
Balance at end of the year	<b>3,468,572</b>	3,465,951

## Notes to the Consolidated Financial Statements

## 22 RESERVES – GROUP AND COMPANY

## Group

	Merger reserve	Share premium	Share-based compensation reserve	Statutory reserve fund	Capital redemption reserve	Available-for- sale financial assets	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note (a))	(note (b))	(note (c))	(note (d))				
Balance at 1 January 2011	(185,787)	12,038,830	105,117	307,268	4,949	(78,376)	14,144,449	26,336,450
Profit for the year	-	-	-	-	-	-	5,722,775	5,722,775
Other comprehensive loss for the year, net of tax	-	-	-	-	-	(38,754)	-	(38,754)
Employee share option scheme – proceeds from shares issued	-	11,996	-	-	-	-	-	11,996
Repurchases and cancellation of shares	-	(414,718)	-	-	-	-	-	(414,718)
Profit appropriations	-	-	-	323,604	-	-	(323,604)	-
2010 final dividend	-	(742,033)	-	-	-	-	-	(742,033)
2011 interim dividend	-	(639,773)	-	-	-	-	-	(639,773)
Balance at 31 December 2011	(185,787)	10,254,302	105,117	630,872	4,949	(117,130)	19,543,620	30,235,943
Balance at 1 January 2012	<b>(185,787)</b>	<b>10,254,302</b>	<b>105,117</b>	<b>630,872</b>	<b>4,949</b>	<b>(117,130)</b>	<b>19,543,620</b>	<b>30,235,943</b>
Profit for the year	-	-	-	-	-	-	5,764,632	5,764,632
Other comprehensive gains for the year, net of tax	-	-	-	-	-	49,355	-	49,355
Employee share option scheme – value of employee services	-	105,117	(105,117)	-	-	-	-	-
– proceeds from shares issued	-	29,703	-	-	-	-	-	29,703
Repurchases of shares (Note 21(d))	-	(21,207)	-	-	-	-	-	(21,207)
Profit appropriations	-	-	-	123,359	-	-	(123,359)	-
2011 final dividend	-	(507,551)	-	-	-	-	-	(507,551)
Balance at 31 December 2012	<b>(185,787)</b>	<b>9,860,364</b>	<b>-</b>	<b>754,231</b>	<b>4,949</b>	<b>(67,775)</b>	<b>25,184,893</b>	<b>35,550,875</b>
Representing:								
Proposed final dividend		1,548,559						1,548,559
Others		8,311,805						34,002,316
		<b>9,860,364</b>						<b>35,550,875</b>



## Notes to the Consolidated Financial Statements

## 22 RESERVES – GROUP AND COMPANY (CONTINUED)

## Company

	Share premium RMB'000 (note (b))	Share-based compensation reserve RMB'000 (note (c))	Capital redemption reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
Balance at 1 January 2011	12,038,830	105,117	4,949	268,888	12,417,784
Loss for the year	–	–	–	(106,352)	(106,352)
Employee share option scheme					
– proceeds from shares issued	11,996	–	–	–	11,996
Repurchases and cancellation of shares	(414,718)	–	–	–	(414,718)
2010 final dividend	(742,033)	–	–	–	(742,033)
2011 interim dividend	(639,773)	–	–	–	(639,773)
Balance at 31 December 2011	10,254,302	105,117	4,949	162,536	10,526,904
Balance at 1 January 2012	<b>10,254,302</b>	<b>105,117</b>	<b>4,949</b>	<b>162,536</b>	<b>10,526,904</b>
Loss for the year	–	–	–	(1,073,535)	(1,073,535)
Employee share option scheme					
– value of employee services	<b>105,117</b>	<b>(105,117)</b>	–	–	–
– proceeds from shares issued	<b>29,703</b>	–	–	–	<b>29,703</b>
Repurchase of shares (Note 21(d))	<b>(21,207)</b>	–	–	–	<b>(21,207)</b>
2011 final dividend	<b>(507,551)</b>	–	–	–	<b>(507,551)</b>
Balance at 31 December 2012	<b>9,860,364</b>	–	<b>4,949</b>	<b>(910,999)</b>	<b>8,954,314</b>
Representing:					
Proposed final dividend	<b>1,548,559</b>				<b>1,548,559</b>
Others	<b>8,311,805</b>				<b>7,405,755</b>
	<b>9,860,364</b>				<b>8,954,314</b>

## Notes:

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

## Notes to the Consolidated Financial Statements

## 23 BORROWINGS – GROUP AND COMPANY

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
<b>Group</b>		
Borrowings included in non-current liabilities		
Long-term bank borrowings		
– secured by assets (note (i))	<b>17,483,356</b>	18,161,449
– secured by shares of subsidiary guarantors (note (ii))	<b>3,419,577</b>	2,575,912
– secured by shares of a listed subsidiary (note (iii))	<b>500,000</b>	–
– unsecured	<b>376,840</b>	750,000
Long-term borrowings from other financial institutions		
– secured by assets (note (i))	<b>4,778,246</b>	3,152,900
– secured by shares of a listed subsidiary (notes (iii))	<b>1,131,969</b>	3,605,000
– unsecured	<b>50,000</b>	200,000
Senior notes – secured (note (iv))	<b>7,391,143</b>	7,380,822
	<b>35,131,131</b>	35,826,083
Less: Long-term bank borrowings due within one year	<b>(3,058,668)</b>	(3,965,249)
Long-term borrowings from other financial institutions due within one year	<b>(3,459,166)</b>	(4,283,000)
Amounts due within one year	<b>(6,517,834)</b>	(8,248,249)
	<b>28,613,297</b>	27,577,834
Borrowings included in current liabilities		
Short-term bank borrowings		
– secured by assets (notes (i))	<b>3,869,063</b>	4,369,627
– unsecured	<b>273,000</b>	25,000
Short-term borrowings from other financial institutions		
– secured by assets (note (i))	<b>293,867</b>	700,000
– secured by shares of a listed subsidiary (note (iii))	<b>1,426,880</b>	500,543
– unsecured	–	1,140,000
Current portion of long-term borrowings	<b>6,517,834</b>	8,248,249
	<b>12,380,644</b>	14,983,419

## Notes to the Consolidated Financial Statements

## 23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
<b>Company</b>		
Borrowings included in non-current liabilities		
Long-term bank borrowings		
– secured by shares of subsidiary guarantors (note (ii))	<b>3,419,577</b>	2,575,912
Senior notes – secured (note (iv))	<b>7,391,143</b>	7,380,822
	<b>10,810,720</b>	9,956,734
Less: Long-term bank borrowings due within one year		
– secured by shares of subsidiary guarantors (note (ii))	–	(1,304,489)
Amounts due within one year	–	(1,304,489)
	<b>10,810,720</b>	8,652,245
Borrowings included in current liabilities		
Short term bank borrowings – secured by assets (note (i))	<b>2,903,129</b>	1,256,585
Short term bank borrowings – unsecured	<b>243,240</b>	–
Current portion of long-term borrowing	–	1,304,489
	<b>3,146,369</b>	2,561,074

## Notes:

- (i) As at 31 December 2012, the Group's total secured bank borrowings and borrowings from other financial institutions of RMB26,424,532,000 (2011: RMB26,383,976,000) were secured by its assets under construction and buildings (Note 6), investment properties (Note 7), land use rights (Note 8), properties under development (Note 15), completed properties held for sale (Note 16), available-for-sale financial assets (Note 13) and restricted cash (Note 20). As at 31 December 2012, secured borrowings of RMB4,794,664,000 (2011: RMB6,450,333,000) were further guaranteed by Mr. Hui Wing Mau.
- (ii) On 14 May 2010, the Company entered into a multi-currency loan facility agreement with a syndicate of 14 banks. Pursuant to the agreement, the Company obtained 3-year syndicated loan facilities, including a US\$440,000,000 facility and a HK\$156,000,000 facility at a floating rate of interest, 10% out of the loan principal matured in 2011, 45% matured in 2012 and remaining 45% will mature in 2013. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the share of certain subsidiary guarantors. All the facilities have been drawn down as of 31 December 2011. On 7 December 2012, the Company early repaid the remaining 45% of the borrowings (approximately RMB1,303,016,000).

On 26 November 2012, the Company entered into a multi-currency loan facility agreement with a syndicate of 5 banks. Pursuant to the agreement, the Company obtained 3-year syndicated loan facilities, including a US\$610,000,000 facility and a HK\$468,000,000 facility at a floating rate of interest, 25% out of the loan principal will mature in 2014 and 75% will mature in 2015. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the share of these subsidiary guarantors. As of 31 December 2012, US\$510,000,000 and HK\$391,278,689 have been drawn down.

## Notes to the Consolidated Financial Statements

### 23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

Notes: (continued)

- (iii) As at 31 December 2012, 107,200,000 shares of Shanghai Shimao have been pledged for a total bank borrowings of RMB500,000,000 for group companies.

As at 31 December 2012, 575,050,000 shares (2011: 793,770,000 shares) of Shanghai Shimao have been pledged for a total borrowings from other financial institutions of RMB2,558,849,000 (2011: RMB4,105,543,000) for group companies.

- (iv) On 29 November 2006, the Company issued a total of US\$600,000,000 senior notes, including US\$250,000,000 at a floating interest rate due on 1 December 2011 and US\$350,000,000 at a fixed interest rate due on 1 December 2016. The Company may at its option to redeem the notes, in whole or in part, by certain dates based on the terms of the notes. The notes are senior obligations guaranteed by certain subsidiaries other than those established under the laws of the PRC ("Subsidiary Guarantors"), and secured by a pledge of the shares of these subsidiary guarantors. On 3 May 2011, the Company early redeemed senior notes of US\$250,000,000, which was originally due in December 2011.

On 3 August 2010, the Company issued a total of US\$500,000,000 senior notes at a fixed interest rate due on 3 August 2017. In addition, on 8 March 2011, the Company issued a total of US\$350,000,000 senior notes at a fixed interest rate due on 8 March 2018. The Company may at its option to redeem the notes, in whole or in part, by certain dates based on the terms of the notes. The notes are senior obligations guaranteed by certain restricted offshore subsidiaries and secured by a pledge of the shares of these offshore restricted subsidiaries.

## Notes to the Consolidated Financial Statements

**23 BORROWINGS – GROUP AND COMPANY (CONTINUED)**

The interest-bearing bank borrowings, including the term loans repayable on demand, are carried at amortised cost. RMB1,538,087,600 of the term loans due for repayment after one year which contain a repayment on demand clause were classified as current liabilities as at 31 December 2012 (2011: RMB1,987,836,400), none of these loans are expected to be settled within one year.

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

	6 months or less RMB'000	6 – 12 months RMB'000	1 – 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
<b>Group</b>					
Borrowings included in non-current liabilities:					
At 31 December 2012	<b>17,385,104</b>	<b>1,276,000</b>	<b>7,793,233</b>	<b>2,158,960</b>	<b>28,613,297</b>
At 31 December 2011	16,390,677	994,335	4,947,047	5,245,775	27,577,834
Borrowings included in current liabilities:					
At 31 December 2012	<b>8,614,533</b>	<b>3,766,111</b>	–	–	<b>12,380,644</b>
At 31 December 2011	9,130,520	5,852,899	–	–	14,983,419
<b>Company</b>					
Borrowings included in non-current liabilities:					
At 31 December 2012	<b>3,419,577</b>	–	<b>5,232,183</b>	<b>2,158,960</b>	<b>10,810,720</b>
At 31 December 2011	1,271,422	–	2,135,048	5,245,775	8,652,245
Borrowings included in current liabilities:					
At 31 December 2012	<b>2,903,129</b>	<b>243,240</b>	–	–	<b>3,146,369</b>
At 31 December 2011	1,304,489	1,256,585	–	–	2,561,074

## Notes to the Consolidated Financial Statements

## 23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
<b>Group</b>		
Bank borrowings:		
Between 1 and 2 years	<b>4,537,491</b>	6,512,057
Between 2 and 5 years	<b>8,941,013</b>	6,805,554
Over 5 years	<b>5,242,600</b>	4,204,500
Borrowings from other financial institution:		
Between 1 and 2 years	<b>2,181,050</b>	2,354,900
Between 2 and 5 years	<b>320,000</b>	320,000
Senior notes:		
Between 2 and 5 years	<b>5,232,183</b>	2,135,048
Over 5 years	<b>2,158,960</b>	5,245,775
	<b>28,613,297</b>	27,577,834
<b>Company</b>		
Bank borrowings:		
Between 1 and 2 years	<b>880,713</b>	1,271,423
Between 2 and 5 years	<b>2,538,864</b>	–
Senior notes:		
Between 2 and 5 years	<b>5,232,183</b>	2,135,047
Over 5 years	<b>2,158,960</b>	5,245,775
	<b>10,810,720</b>	8,652,245

## Notes to the Consolidated Financial Statements

## 23 BORROWINGS – GROUP AND COMPANY (CONTINUED)

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

	As at 31 December	
	2012	2011
<b>Group</b>		
Bank borrowings – RMB	<b>8.57%</b>	7.78%
Bank borrowings – US dollar	<b>2.87%</b>	3.59%
Bank borrowings – HK dollar	<b>2.91%</b>	2.73%
Senior notes – US dollar	<b>10.02%</b>	10.02%
Borrowings from other financial institutions – RMB	<b>10.78%</b>	9.46%
<b>Company</b>		
Bank borrowings – US dollar	<b>2.87%</b>	3.68%
Bank borrowings – HK dollar	<b>2.87%</b>	3.68%
Senior notes – US dollar	<b>10.02%</b>	10.02%

The carrying amounts of bank borrowings and borrowings from other financial institution approximate their fair values. The fair values of senior notes as at 31 December 2012 amounted to RMB8,091,000,000, which were calculated using valuation technique or using the market price of the traded senior notes on the balance sheet date.

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
<b>Group</b>		
RMB	<b>25,857,139</b>	29,076,557
HK dollar	<b>3,393,929</b>	3,325,177
US dollar	<b>11,742,873</b>	10,159,519
	<b>40,993,941</b>	42,561,253
<b>Company</b>		
HK dollar	<b>2,214,216</b>	1,337,340
US dollar	<b>11,742,873</b>	9,875,979
	<b>13,957,089</b>	11,213,319

## Notes to the Consolidated Financial Statements

## 24 DEFERRED INCOME TAX – GROUP

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	<b>842,944</b>	895,648
– to be recovered within 12 months	<b>405,446</b>	418,261
	<b>1,248,390</b>	1,313,909
Deferred income tax liabilities		
– to be recovered after more than 12 months	<b>3,547,521</b>	2,943,190
– to be recovered within 12 months	<b>228,057</b>	229,625
	<b>3,775,578</b>	3,172,815
Net deferred income tax liabilities	<b>2,527,188</b>	1,858,906

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Opening balance	<b>1,858,906</b>	1,176,429
Charged to the consolidated income statement (Note 32)	<b>642,664</b>	702,592
Charged/(credit) to other comprehensive income	<b>25,618</b>	(20,115)
Ending balance	<b>2,527,188</b>	1,858,906



## Notes to the Consolidated Financial Statements

## 24 DEFERRED INCOME TAX – GROUP (CONTINUED)

Movement in deferred income tax assets and liabilities for the year ended 31 December 2012, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

## Deferred income tax assets

	Provision for land appreciation tax deductible for future income tax clearance RMB'000	Unrealized profit on intra-group transaction RMB'000	Tax loss and temporary difference on recognition of expenses RMB'000	Total RMB'000
At 1 January 2011	739,589	288,378	179,846	1,207,813
Credited/(charged) to the consolidated income statement	115,044	(64,653)	(4,674)	45,717
At 31 December 2011	854,633	223,725	175,172	1,253,530
Credited/(charged) to the consolidated income statement	(83,848)	(81,232)	93,862	(71,218)
At 31 December 2012	<b>770,785</b>	<b>142,493</b>	<b>269,034</b>	<b>1,182,312</b>

## Deferred income tax liabilities

	Fair value gains on investment properties RMB'000	Fair value adjustments on assets and liabilities upon acquisition RMB'000	Withholding tax on the retained earnings of certain subsidiaries RMB'000	Total RMB'000
At 1 January 2011	1,312,241	1,043,580	28,421	2,384,242
Charged/(credited) to the consolidated income statement	631,753	(68,444)	185,000	748,309
Credited to other comprehensive income	–	(20,115)	–	(20,115)
At 31 December 2011	1,943,994	955,021	213,421	3,112,436
Charged/(credited) to the consolidated income statement	590,720	(39,579)	20,305	571,446
Charge to other comprehensive income	–	25,618	–	25,618
At 31 December 2012	<b>2,534,714</b>	<b>941,060</b>	<b>233,726</b>	<b>3,709,500</b>

## Notes to the Consolidated Financial Statements

## 24 DEFERRED INCOME TAX – GROUP (CONTINUED)

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

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB47,741,000 (2011: RMB72,302,000) in respect of accumulated losses amounting to RMB190,965,000 (2011: RMB289,208,000). Accumulated losses amounting to RMB44,271,000, RMB21,792,000, RMB5,591,000, RMB101,434,000 and RMB17,877,000 as at 31 December 2012 will expire in 2013, 2014, 2015, 2016, and 2017 respectively.

## 25 TRADE AND OTHER PAYABLES – GROUP

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Trade payables (note (a))	<b>11,595,770</b>	15,525,549
Other taxes payable	<b>609,650</b>	551,945
Accrued expenses	<b>732,484</b>	463,316
Other payables (note (b))	<b>1,378,526</b>	776,597
	<b>14,316,430</b>	17,317,407

Notes:

(a) The ageing analysis from the recorded date of trade payables is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Within 90 days	<b>11,140,635</b>	14,517,012
Over 90 days and within 1 year	<b>455,135</b>	1,008,537
	<b>11,595,770</b>	15,525,549

## Notes to the Consolidated Financial Statements

## 25 TRADE AND OTHER PAYABLES – GROUP (CONTINUED)

Notes: (continued)

(b) Other payables comprise:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Deposits received from customers	955,517	264,830
Fees collected from customers on behalf of government agencies	85,470	127,719
Deposits from constructors	94,178	136,289
Rental deposits from tenants and hotel customers	154,546	140,074
Others	88,815	107,685
	<b>1,378,526</b>	776,597

## 26 DERIVATIVE FINANCIAL INSTRUMENTS – GROUP AND COMPANY

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Interest rate swap contracts	42,572	52,115

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

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

There is a day-one loss of approximately RMB125,306,000 arising from the Swap Contracts, which is deferred and amortised in the consolidation income statement based on the straight line method within the effective lives of the Swap Contracts. For the year ended 31 December 2012, the fair value gains of the Swap Contracts amounted to RMB26,097,000, net off against the amortization of day-one loss with RMB16,554,000, is recognized in “other gains” (2011: net loss of RMB52,115,000, recognized in “other operating expenses”).

## Notes to the Consolidated Financial Statements

## 27 AMOUNTS DUE TO RELATED PARTIES – GROUP

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
<b>Company with common directors</b>		
Perfect Zone International Limited	–	1,861
<b>Jointly controlled entities</b>		
Nanchang New Development	1,332,662	–
Changsha Real Estate	633,588	–
Chengdu Investment	490,086	–
Qingdao New City	441,377	–
<b>Others</b>		
Mr. Xu Shiyong and Ms. Wang Lili (relatives of Mr. Hui Wing Mau)	–	28,970
	<b>2,897,713</b>	<b>30,831</b>

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

## 28 OTHER INCOME/OTHER GAINS – NET

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Gain on deemed disposal of subsidiaries with loss of control		
– remeasurement gain on retained interest (Note 12)	545,135	–
Gain on disposal of a subsidiary (Note (a))	240,089	–
Government grants received	344,301	261,925
Fair value gain on derivative financial instruments (Note 26)	9,543	–
Net exchange gain	26,793	520,134
Others	30,243	12,261
	<b>1,196,104</b>	<b>794,320</b>

Notes:

- (a) In 2012, the Group sold a PRC incorporated subsidiary to a third party at total consideration of RMB320,000,000 with a gain of RMB240,089,000.

## Notes to the Consolidated Financial Statements

## 29 EXPENSES BY NATURE

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Cost of properties sold and others	<b>16,904,213</b>	14,157,018
Business taxes and other levies on sales of properties (note (a))	<b>1,669,597</b>	1,413,713
Staff costs – including directors' emoluments (note (b))	<b>883,934</b>	613,674
Advertising, promotion and commission costs	<b>800,926</b>	460,822
Direct expenses arising from hotel operation	<b>496,190</b>	396,604
Corporate and office expenses	<b>475,223</b>	441,311
Depreciation (Note 6)	<b>347,031</b>	298,014
Write off of intangible assets (Note 9)	<b>124,102</b>	16,435
Operating lease rental expenses	<b>88,053</b>	79,659
Amortisation of land use rights (Note 8)	<b>42,368</b>	40,058
Direct expenses arising from investment properties	<b>38,534</b>	36,703
Charitable donations	<b>10,039</b>	13,250
Provision for impairment of receivables (Note 17)	<b>7,899</b>	6,503
Auditor's remuneration	<b>6,000</b>	6,900
Fair value loss on derivative financial instrument (Note 26)	–	52,115
Loss from disposal of a subsidiary	–	34,450
Provision of impairment losses on completed properties held for sale (Note 16)	–	15,398
Write back for impairment of receivables (Note 17)	<b>(13,543)</b>	(437)
Other expenses	<b>295,296</b>	260,520
<b>Total cost of sales, selling and marketing costs, administrative expenses and other operating expenses</b>	<b>22,175,862</b>	18,342,710

## (a) Business tax and other levies

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

## (b) Staff costs (including directors' emoluments) comprise:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Wages and salaries	<b>652,419</b>	460,089
Pension costs – statutory pension (note (c))	<b>64,480</b>	45,318
Other allowances and benefits	<b>167,035</b>	108,267
	<b>883,934</b>	613,674

## Notes to the Consolidated Financial Statements

## 29 EXPENSES BY NATURE (CONTINUED)

## (c) Pensions – defined contribution plans

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

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

## 30 FINANCE COSTS – NET

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Interest on bank borrowings		
– wholly repayable within five years	<b>1,040,899</b>	1,467,887
– not wholly repayable within five years	<b>212,364</b>	270,748
Interest on senior notes		
– wholly repayable within five years	<b>481,333</b>	189,520
– not wholly repayable within five years	<b>262,933</b>	558,824
Interest on borrowing from other financial institutions		
– wholly repayable within five years	<b>1,227,056</b>	552,913
	<b>3,224,585</b>	3,039,892
Less: interest capitalised	<b>(3,056,415)</b>	(2,559,472)
Finance costs	<b>168,170</b>	480,420
Finance income	<b>(146,055)</b>	(100,074)
Finance costs – net	<b>22,115</b>	380,346

## Notes to the Consolidated Financial Statements

## 31 EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

## (a) Directors' emoluments

The remuneration of each of the directors of the Company for the year ended 31 December 2012 is set out as follows:

Name of directors	Salaries, allowances and benefits		Bonuses	Retirement	Employee	Total
	Fees	in kind		contributions	share option	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Mr. Hui Wing Mau	-	4,880	1,627	11	-	6,518
Mr. Hui Sai Tan, Jason	-	3,909	2,852	11	782	7,554
Ms. Yao Li (Note)	-	-	-	-	-	-
Mr. Liu Sai Fei	-	2,201	2,780	11	-	4,992
Mr. Xu Younong	-	2,070	1,862	56	-	3,988
Independent non-executive directors						
Ms. Kan Lai Kuen, Alice	195	-	-	-	-	195
Mr. Lu Hong Bing	195	-	-	-	-	195
Mr. Lam Ching Kam	195	-	-	-	-	195
	<b>585</b>	<b>13,060</b>	<b>9,121</b>	<b>89</b>	<b>782</b>	<b>23,637</b>

Note: Ms. Yao Li was transferred from executive director to non-executive director on 18 June 2012 and she resigned from non-executive director on 6 February 2013.

## Notes to the Consolidated Financial Statements

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

## (a) Directors' emoluments (continued)

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

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

## Notes:

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



## Notes to the Consolidated Financial Statements

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

## (b) Five highest paid individuals

Four of the five individuals whose emoluments were the highest in the Group for the year ended 31 December 2012 are directors (2011: four). The aggregate amounts of emoluments of the five highest paid individuals are set out below:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Salaries and allowances	<b>14,520</b>	13,485
Bonuses	<b>9,434</b>	7,869
Retirement scheme contributions	<b>100</b>	91
Share options granted	<b>2,103</b>	–
	<b>26,157</b>	21,445

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
RMB2,500,001 – RMB3,000,000	–	2
RMB3,000,001 – RMB3,500,000	<b>1</b>	–
RMB3,500,001 – RMB4,000,000	<b>1</b>	–
RMB4,000,001 – RMB4,500,000	–	1
RMB4,500,001 – RMB5,000,000	<b>1</b>	–
RMB5,000,001 – RMB5,500,000	–	1
RMB6,500,001 – RMB7,000,000	<b>1</b>	1
RMB7,500,001 – RMB8,000,000	<b>1</b>	–

- (c) No emolument was paid or payable by the Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended 31 December 2012 and 2011.

## Notes to the Consolidated Financial Statements

## 32 INCOME TAX EXPENSE

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Current income tax		
– PRC enterprise income tax	<b>1,985,703</b>	2,304,624
– PRC withholding income tax	<b>26,700</b>	124,643
– PRC land appreciation tax	<b>925,882</b>	1,170,781
	<b>2,938,285</b>	3,600,048
Deferred income tax (Note 24)		
– PRC enterprise income tax	<b>622,359</b>	517,592
– PRC withholding income tax	<b>20,305</b>	185,000
	<b>642,664</b>	702,592
	<b>3,580,949</b>	4,302,640

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit before income tax	<b>10,165,437</b>	10,751,569
Less: Share of results of associated companies and jointly controlled entities	<b>(152,187)</b>	(121,866)
Land appreciation tax	<b>(925,882)</b>	(1,170,781)
	<b>9,087,368</b>	9,458,922
Calculated at PRC enterprise income tax rate of 25% (2011: 25%)	<b>2,271,842</b>	2,364,730
Effect of different tax rates in other countries or regions	–	(2,139)
Expenses not deductible for income tax purposes (note (a))	<b>374,963</b>	542,393
Income not subject to tax (note (b))	<b>(43,212)</b>	(132,311)
Tax losses not recognised	<b>4,469</b>	49,543
PRC enterprise income tax charge	<b>2,608,062</b>	2,822,216
PRC land appreciation tax	<b>925,882</b>	1,170,781
Current income tax – PRC withholding income tax	<b>26,700</b>	124,643
Deferred income tax – PRC withholding income tax	<b>20,305</b>	185,000
	<b>3,580,949</b>	4,302,640

## Notes to the Consolidated Financial Statements

### 32 INCOME TAX EXPENSE (CONTINUED)

Notes:

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

#### Hong Kong profits tax

No Hong Kong profits tax has been provided for as the Group has no assessable profit in Hong Kong for the year ended 31 December 2012 (2011: Nil).

#### PRC enterprise income tax

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

#### PRC land appreciation tax

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

#### PRC withholding income tax

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

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

## Notes to the Consolidated Financial Statements

## 33 EARNINGS PER SHARE

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

	Year ended 31 December	
	2012	2011
Profit attributable to the equity holders of the Company (RMB'000)	<b>5,764,632</b>	5,722,775
Weighted average number of ordinary shares in issue (thousands)	<b>3,466,759</b>	3,527,568
Basic earnings per share (RMB cents)	<b>166.3</b>	162.2

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

	Year ended 31 December	
	2012	2011
Profit attributable to the equity holders of the Company (RMB'000)	<b>5,764,632</b>	5,722,775
Weighted average number of ordinary shares in issue (thousands)	<b>3,466,759</b>	3,527,568
Adjustment for share options granted under the Pre-IPO Share Option Scheme (thousands)	<b>1,264</b>	3,181
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<b>3,468,023</b>	3,530,749
Diluted earnings per share (RMB cents)	<b>166.2</b>	162.1

## Notes to the Consolidated Financial Statements

## 34 DIVIDENDS

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Interim dividend paid of HK0 cent (2011: HK22 cents) per ordinary share (note (a))	–	639,773
Proposed final dividend of HK55 cents (2011: HK18 cents) per ordinary share (note (b))	<b>1,548,559</b>	505,772
	<b>1,548,559</b>	1,145,545

## Notes:

- (a) No dividend in respect of the six months ended 30 June 2012 (2011: HK22 cents per ordinary share) was declared at the Company's board meeting held on 27 August 2012.
- (b) At a meeting held on 26 March 2013, the directors proposed a final dividend of HK55 cents per ordinary share out of share premium as at 31 December 2012. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of share premium for the year ending 31 December 2012 upon approval by the shareholders at the forthcoming annual general meeting of the Company. A final dividend in respect of 2011 of HK18 cents per ordinary share, amounting to approximately HK\$623,871,000 (equivalent to RMB505,772,000) was proposed at the Company's board meeting held on 29 March 2012, and was approved at the annual general meeting of the Company held on 18 June 2012.

## Notes to the Consolidated Financial Statements

## 35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Net cash generated from operations:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit before income tax	<b>10,165,437</b>	10,751,569
Adjustments for:		
Interest income	<b>(146,055)</b>	(100,074)
Finance costs	<b>168,170</b>	480,420
Net (written-back of)/provision for impairment of receivables	<b>(5,644)</b>	6,066
Provision for impairment losses on completed properties held for sale	<b>–</b>	15,398
Depreciation	<b>347,031</b>	298,014
Gain on disposal of property and equipment	<b>(92)</b>	(464)
Share of results of associated companies	<b>210,938</b>	(97,653)
Share of results of jointly controlled entities	<b>(363,125)</b>	(24,213)
Net (gain)/loss on disposal of a subsidiary	<b>(240,089)</b>	34,450
Gain on deemed disposal of subsidiaries	<b>(545,135)</b>	–
Amortisation of land use rights	<b>42,368</b>	40,058
Fair value (gain)/loss on derivative financial instruments	<b>(9,543)</b>	52,115
Fair value gains on investment properties	<b>(2,362,880)</b>	(2,527,013)
Write-off of intangible assets	<b>124,102</b>	16,435
Net exchange gain	<b>(26,793)</b>	(520,134)
	<b>7,358,690</b>	8,424,974
Changes in working capital:		
Properties under development, completed properties held for sale and prepayment for acquisition of land use rights	<b>105,869</b>	(6,795,909)
Restricted cash	<b>142,706</b>	(124,605)
Trade and other receivables and prepayments	<b>(2,135,921)</b>	713,177
Amount due from related companies	<b>135,564</b>	358,975
Trade and other payables	<b>(3,419,350)</b>	(1,276,020)
Advanced proceeds received from customers	<b>9,458,781</b>	(103,147)
Amount due to related companies	<b>2,866,882</b>	–
Net cash generated from operations	<b>14,513,221</b>	1,197,445

## Notes to the Consolidated Financial Statements

## 36 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the principal subsidiaries, associated companies and jointly controlled entities of the Group as at 31 December 2012 are as follows:

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
<b>Principal subsidiaries – established and operation conducted in the PRC</b>					
上海世茂房地產有限公司 (Shanghai Shimao Real Estate Co., Ltd.)	15 March 2000	Foreign investment enterprise	Registered capital US\$75,000,000	100%	Property development
上海世茂國際廣場有限責任公司 (Shanghai Shimao International Plaza Co., Ltd.)	15 September 1994	Foreign investment enterprise	Registered capital RMB1,600,000,000	100%	Hotel and shopping mall
上海世茂建設有限公司 (Shanghai Shimao Jianshe Co., Ltd.)	16 March 2001	Foreign investment enterprise	Registered capital RMB540,000,000	100%	Investment holding
上海世茂莊園置業有限公司 (Shanghai Shimao Manor Real Estate Co., Ltd.)	19 June 2002	Foreign investment enterprise	Registered capital US\$18,400,000	100%	Property development and hotel
上海世茂北外灘開發建設有限公司 (Shanghai Shimao North Bund Co., Ltd.)	17 May 2002	Foreign investment enterprise	Registered capital HK\$650,000,000	100%	Hotel
上海世茂佘山匯盈置業有限公司 (Shanghai Shimao Sheshan Huiying Property Co., Ltd.)	14 September 2012	Domestic enterprise	Registered capital RMB200,000,000	100%	Property development
北京世茂投資發展有限公司 (Beijing Shimao Investment and Development Co., Ltd.)	26 December 2000	Foreign investment enterprise	Registered capital RMB755,780,000	100%	Property development
哈爾濱世茂濱江新城開發建設 有限公司 (Harbin Shimao Riviera New City Development and Construction Co., Ltd.)	24 March 2004	Foreign investment enterprise	Registered capital HK\$548,000,000	100%	Property development
常熟世茂房地產開發有限公司 (Changshu Shimao Real Estate Development Co., Ltd.)	24 December 2004	Foreign investment enterprise	Registered capital HK\$440,000,000	100%	Property development

## Notes to the Consolidated Financial Statements

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

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
<b>Principal subsidiaries – established and operation conducted in the PRC (continued)</b>					
昆山世茂蝶湖灣開發建設有限公司 (Kunshan Shimao Butterfly Bay Development and Construction Co., Ltd.)	10 November 2003	Foreign investment enterprise	Registered capital RMB412,410,000	100%	Property development
武漢世茂錦繡長江房地產開發 有限公司 (Wuhan Shimao Splendid River Real Estate Development Co., Ltd.)	6 June 2005	Foreign investment enterprise	Registered capital US\$114,269,000	96.1%	Property development
昆山世茂房地產開發有限公司 (Kunshan Shimao Real Estate Development Co., Ltd.)	24 December 2003	Domestic enterprise	Registered capital RMB547,668,147	64.2%	Property development
嘉興世茂新城房地產開發有限公司 (Jiaxing Shimao New City Real Estate Development Co., Ltd.)	28 September 2006	Foreign investment enterprise	Registered capital US\$70,232,000	100%	Property development
上海世茂新體驗置業有限公司 (Shanghai Shimao Wonderland Real Estate Co., Ltd.)	6 March 2006	Domestic enterprise	Registered capital RMB391,092,834	64.2%	Property development
紹興世茂新城房地產開發有限公司 (Shaoxing Shimao New City Real Estate Development Co., Ltd.)	11 July 2006	Foreign investment enterprise	Registered capital US\$52,350,000	100%	Property development
紹興世茂置業有限公司 (Shaoxing Shimao Real Estate Co., Ltd.)	11 July 2006	Foreign investment enterprise	Registered capital US\$79,030,000	100%	Property development
蕪湖世茂房地產開發有限公司 (Wuhu Shimao Real Estate Development Co., Ltd.)	8 September 2006	Foreign investment enterprise	Registered capital US\$56,500,000	100%	Property development
煙台世茂置業有限公司 (Yantai Shimao Real Estate Co., Ltd.)	6 September 2006	Foreign investment enterprise	Registered capital US\$48,500,000	100%	Property development



## Notes to the Consolidated Financial Statements

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

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
<b>Principal subsidiaries – established and operation conducted in the PRC (continued)</b>					
常州世茂房地產有限公司 (Changzhou Shimao Real Estate Co., Ltd.)	27 November 2006	Foreign investment enterprise	Registered capital US\$313,730,000	100%	Property development
杭州世茂置業有限公司 (Hangzhou Shimao Real Estate Development Co., Ltd.)	13 December 2006	Foreign investment enterprise	Registered capital US\$111,900,000	100%	Property development
徐州世茂新城房地產開發有限公司 (Xuzhou Shimao New City Real Estate Development Co., Ltd.)	14 February 2007	Foreign investment enterprise	Registered capital US\$75,980,000	100%	Property development
徐州世茂置業有限公司 (Xuzhou Shimao Property Co., Ltd.)	14 February 2007	Domestic enterprise	Registered capital RMB491,412,600	64.2%	Property development
徐州世茂新紀元房地產開發 有限公司 (Xuzhou Shimao New Era Real Estate Development Co., Ltd.)	22 June 2007	Foreign investment enterprise	Registered capital RMB50,000,000	100%	Property development
福州世茂置業有限公司 (Fuzhou Shimao Property Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB430,000,000	100%	Property development
福州世茂新城房地產開發有限公司 (Fuzhou Shimao New City Real Estate Development Co., Ltd.)	5 July 2007	Foreign investment enterprise	Registered capital RMB880,000,000	100%	Property development
蕪湖世茂新發展置業有限公司 (Wuhu Shimao New Development Property Co., Ltd.)	16 May 2007	Domestic enterprise	Registered capital RMB110,000,000	64.2%	Property development
蕪湖世茂新世紀置業有限公司 (Wuhu Shimao New Century Property Co., Ltd.)	26 September 2007	Foreign investment enterprise	Registered capital RMB35,000,000	100%	Property development

## Notes to the Consolidated Financial Statements

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

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
<b>Principal subsidiaries – established and operation conducted in the PRC (continued)</b>					
瀋陽世茂新世紀房地產開發有限公司 (Shenyang Shimao New Century Real Estate Development Co., Ltd.)	24 May 2007	Domestic enterprise	Registered capital RMB580,058,500	64.2%	Property development
瀋陽世茂新紀元置業有限公司 (Shenyang Shimao New Era Property Co., Ltd.)	24 May 2007	Foreign investment enterprise	Registered capital HK\$257,000,000	100%	Property development
大連世茂龍河發展有限公司 (Dalian Shimao Dragon River Property Co., Ltd.)	9 June 2006	Foreign investment enterprise	Registered capital US\$109,600,000	95.8%	Property development
紹興世茂新世紀置業有限公司 (Shaoxing Shimao New Century Property Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB453,457,740	60%	Property development
蘇州世茂投資發展有限公司 (Suzhou Shimao Investment & Development Co., Ltd.)	2 March 2007	Domestic enterprise	Registered capital RMB526,795,630	64.2%	Property development
蘇州世茂置業有限公司 (Suzhou Shimao Property Co., Ltd.)	26 January 2007	Foreign investment enterprise	Registered capital US\$178,000,000	100%	Property development
紹興世茂新紀元置業有限公司 (Shaoxing Shimao New Era Property Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB245,520,127	64.2%	Property development
紹興世茂新置業發展有限公司 (Shaoxing Shimao New Property Development Co., Ltd.)	13 July 2007	Foreign investment enterprise	Registered capital US\$14,500,000	100%	Property development
嘉興世茂新世紀置業有限公司 (Jiaxing Shimao New Century Property Co., Ltd.)	6 July 2007	Foreign investment enterprise	Registered capital RMB100,000,000	64.2%	Property development
牡丹江世茂置業有限公司 (Mudanjiang Shimao Property Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US\$16,000,000	95%	Property development

## Notes to the Consolidated Financial Statements

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

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
<b>Principal subsidiaries – established and operation conducted in the PRC (continued)</b>					
牡丹江世茂新城房地產開發有限公司 (Mudanjiang Shimao New City Real Estate Development Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US\$29,980,000	100%	Property development
常熟世茂新發展置業有限公司 (Changshu Shimao New Development Property Co., Ltd.)	24 August 2007	Domestic enterprise	Registered capital RMB692,174,000	64.2%	Property development
昆山世茂新發展置業有限公司 (Kunshan Shimao New Development Property Co., Ltd.)	12 September 2007	Foreign investment enterprise	Registered capital US\$49,980,000	100%	Property development
成都世盈投資管理諮詢有限公司 (Chengdu Shiyong Investment Management Consulting Co., Ltd.)	20 September 2007	Foreign investment enterprise	Registered capital US\$29,980,000	100%	Property development
常州世茂新城房地產開發有限公司 (Changzhou Shimao New City Real Estate Development Co., Ltd.)	12 February 2007	Domestic enterprise	Registered capital RMB269,300,000	64.2%	Property development
上海世源建材貿易有限公司 (Shanghai Shine Construction Product Co., Ltd.)	22 January 2007	Foreign investment enterprise	Registered capital HK\$5,000,000	100%	Trading of construction materials
上海世盈投資管理有限公司 (Shanghai Shiyong Investment Management Co., Ltd.)	21 August 2007	Domestic enterprise	Registered capital RMB200,000,000	100%	Investment holding
廈門信誠建築裝潢有限公司 (Xiamen Xincheng Building Decoration Co., Ltd.)	6 March 2007	Domestic enterprise	Registered capital RMB10,000,000	100%	Trading of construction materials
北京財富時代置業有限公司 (Beijing Fortune Times Property Co., Ltd.)	18 September 2001	Domestic enterprise	Registered capital RMB1,010,000,000	64.2%	Property development

## Notes to the Consolidated Financial Statements

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

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
<b>Principal subsidiaries – established and operation conducted in the PRC (continued)</b>					
牡丹江睿智營銷企劃有限公司 (Mudanjiang Ruizhi Marketing Planning Co., Ltd.)	4 December 2007	Domestic enterprise	Registered capital RMB1,000,000	100%	Marketing
牡丹江世拓建材貿易有限公司 (Mudanjiang Shituo Construction Product Co., Ltd.)	3 April 2008	Domestic enterprise	Registered capital RMB1,000,000	100%	Trading of construction materials
咸陽世茂房地產開發有限公司 (Xianyang Shimao Real Estate Development Co., Ltd.)	29 April 2004	Foreign investment enterprise	Registered capital HK\$30,000,000	100%	Property development
上海碧橙房地產有限公司 (Shanghai Bicheng Real Estate Co., Ltd.)	28 September 2003	Domestic enterprise	Registered capital RMB236,200,000	100%	Property development
福建世茂投資發展有限公司 (Fujian Shimao Investment and Development Limited)	17 November 2003	Foreign investment enterprise	Registered capital RMB200,000,000	82.1%	Property development
南京世茂房地產開發有限公司 (Nanjing Shimao Real Estate Development Limited)	23 July 2004	Foreign investment enterprise	Registered capital RMB328,000,000	82.1%	Property development
上海星橙房地產有限公司 (Shanghai Xingcheng Real Estate Co., Ltd.)	25 January 2006	Domestic enterprise	Registered capital RMB28,000,000	100%	Property development
上海世茂投資管理有限公司 (Shanghai Shimao Investment Management Co., Ltd.)	11 May 2009	Domestic enterprise	Registered capital RMB50,000,000	100%	Investment holding
上海逸景園林景觀工程有限公司 (Shanghai Yijing Landscaping Architect Co., Ltd.)	3 September 2009	Domestic enterprise	Registered capital RMB10,000,000	100%	Architect
福建世茂新里程投資發展 有限公司 (Fujian Shimao New Way Investment Development Co., Ltd.)	10 October 2009	Domestic enterprise	Registered capital RMB1,887,000,000	80.9%	Property development

## Notes to the Consolidated Financial Statements

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

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
<b>Principal subsidiaries – established and operation conducted in the PRC (continued)</b>					
上海世茂企業發展有限公司 (Shanghai Shimao Enterprises Development Co., Ltd.)	22 June 2000	Domestic enterprise	Registered capital RMB101,723,568	50.9%	Investment holding
牡丹江新睿房地產營銷代理有限公司 (Mudanjiang Xinrui Real Estate Marketing Agency Co., Ltd.)	7 March 2008	Domestic enterprise	Registered capital RMB1,000,000	100%	Real Estate Marketing
泰州世茂新發展置業有限公司 (Taizhou Shimao New Development Property Co., Ltd.)	17 January 2008	Foreign investment enterprise	Registered capital US\$20,000,000	100%	Property development
泰州世茂新城房地產開發有限公司 (Taizhou Shimao New City Real Estate Development Co., Ltd.)	22 February 2008	Foreign investment enterprise	Registered capital US\$40,000,000	100%	Property development
無錫世茂房地產開發建設有限公司 (Wuxi Shimao Real Estate Development Co., Ltd.)	20 November 2009	Domestic enterprise	Registered capital RMB102,000,000	95%	Property development
武漢世茂嘉年華置業有限公司 (Wuhan Shimao Jianianhua Property Co., Ltd.)	14 December 2009	Domestic enterprise	Registered capital RMB200,000,000	81.7%	Property development
嘉興世茂新里程置業有限公司 (Jiaxing Shimao Xinlicheng Property Co., Ltd.)	6 July 2007	Foreign investment enterprise	Registered capital RMB37,882,640	100%	Property development
寧波世茂房地產開發有限公司 (Ningbo Shimao Real Estate Development Co., Ltd.)	24 December 2007	Foreign investment enterprise	Registered capital US\$99,980,000	100%	Property development
大連世茂嘉年華置業有限公司 (Dalian Shimao Jianianhua Property Co., Ltd.)	4 September 2009	Domestic enterprise	Registered capital US\$100,000,000	100%	Property development
天津世茂新里程置業有限公司 (Tianjin Shimao Xinlichen Property Co., Ltd.)	5 November 2009	Domestic enterprise	Registered capital RMB470,000,000	100%	Property development

## Notes to the Consolidated Financial Statements

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

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
<b>Principal subsidiaries – established and operation conducted in the PRC (continued)</b>					
成都世茂置業有限公司 (Chengdu Shimao Property Co., Ltd.)	13 October 2009	Domestic enterprise	Registered capital RMB299,021,884	100%	Property development
無錫世茂新發展置業有限公司 (Wuxi Shimao New Development Property Co., Ltd.)	23 November 2009	Domestic enterprise	Registered capital RMB102,000,000	77.8%	Property development
南通世茂房地產開發有限公司 (Nantong Shimao Real Estate Co., Ltd.)	14 December 2012	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development
余姚世茂置業有限公司 (Yuyao Shimao Property Co., Ltd.)	19 September 2010	Foreign investment enterprise	Registered capital RMB100,000,000	70%	Property development
寧波世茂新紀元置業有限公司 (Ningbo Shimao New Era Property Co., Ltd.)	27 May 2010	Domestic enterprise	Registered capital RMB50,000,000	100%	Property development
寧波世茂新里程置業有限公司 (Ningbo Shimao Xinlicheng Property Co., Ltd.)	5 August 2011	Domestic enterprise	Registered capital RMB150,000,000	100%	Property development
成都世茂房地產開發有限公司 (Chengdu Shimao Real Estate Development Co., Ltd.)	26 November 2010	Domestic enterprise	Registered capital RMB143,000,000	100%	Property development
福州世茂新世紀房地產開發有限公司 (Fuzhou Shimao New Century Real Estate Development Co., Ltd.)	23 December 2010	Domestic enterprise	Registered capital RMB1,192,700,000	100%	Property development
大連世茂新紀元置業有限公司 (Dalian Shimao New Era Property Co., Ltd.)	22 June 2010	Domestic enterprise	Registered capital RMB100,000,000	100%	Property development

## Notes to the Consolidated Financial Statements

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

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
<b>Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands</b>					
Shimao Property Holdings (BVI) Limited	23 August 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Advance Assets Holdings Limited	22 June 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Best Empire Investments Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Double Achieve Assets Limited	31 January 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Easy Reach Group Limited	13 December 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
East Light Group Limited	12 May 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Everactive Properties Limited	2 May 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Highsharp International Limited	23 February 2007	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Keen View Limited	10 May 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Keenrich Holdings Limited	18 December 2002	Limited liability company	1 ordinary share of US\$1	100%	Trademark Registration
Magic Dynasty Investments Limited	15 November 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Mega Make Investments Limited	18 October 2007	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Mega Universe Limited	10 July 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Peak Castle Assets Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Peak Gain International Limited	13 December 2006	Limited liability company	1 ordinary share of US\$1	100%	Investment holding

## Notes to the Consolidated Financial Statements

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

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
<b>Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands</b> (continued)					
Precise Choice Investments Limited	18 October 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Prime Master Holdings Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Shimao Management (Overseas) Limited	18 December 2002	Limited liability company	1 ordinary share of US\$1	100%	Management services
Shimao Travel Limited	5 November 2010	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Significant Asset Group Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
True Excel Limited	31 March 2010	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Upper Aim International Limited	8 May 2007	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Vicking International Ltd.	19 January 1994	Limited liability company	50,000 ordinary shares of US\$1	100%	Investment holding
Wickfair Investments Limited	8 October 2004	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
Year Grant Investments Limited	3 September 2001	Limited liability company	1 ordinary share of US\$1	100%	Investment holding
<b>Principal subsidiaries – incorporated and operation conducted in Hong Kong</b>					
Billion Pier Investments Limited	29 October 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Brilliant Architectural and Construction Professional Consultancy Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK\$1	100%	Consultancy services
Bonus Boom Limited	13 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding



## Notes to the Consolidated Financial Statements

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

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
<b>Principal subsidiaries – incorporated and operation conducted in Hong Kong</b> (continued)					
Charm Field Group Limited	1 August 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Clear Rise Investments Limited	8 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Daily Right Holdings Limited	7 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Excel Grand Group Limited	22 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Excel Mode Investments Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Faith Joy Investments Limited	7 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Fine Tune Investments Limited	5 June 2006	Limited liability company	1 ordinary share of HK\$1	100%	Holding of trademarks
Future Right Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Global Square Investments Limited	29 October 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Lion Kingdom Investments Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Modern Professional Architectural Design Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HK\$1	100%	Design services
Mount Profit Investments Limited	14 December 2006	Limited liability company	2 ordinary share of HK\$1	100%	Investment holding
New Sincere Investments Limited	11 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Power One Holdings Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Rich Noble Group Limited	8 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Rise Max International Limited	16 May 2007	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding

## Notes to the Consolidated Financial Statements

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

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
<b>Principal subsidiaries – incorporated and operation conducted in Hong Kong (continued)</b>					
Shimao Holdings Company Limited	3 February 1994	Limited liability company	100 million ordinary shares of HK\$1	100%	Investment holding
Swift Time Limited	18 March 2009	Limited liability company	1 ordinary share of HK\$1	100%	Investment holding
Topwise Limited	29 March 2005	Limited liability company	1 ordinary share of HK\$1	100%	Management services
<b>Associated companies – established and operation conducted in the PRC</b>					
廣州利合房地產開發有限公司 (Guangzhou Li He Property Development Co., Ltd)	5 February 2010	Foreign Investment enterprise	Registered capital HKD750,000,000	20%	Property development
<b>Associated company – established and operation conducted in the British Virgin Islands</b>					
Straits Construction Investment (Holdings) Limited	17 November 2009	Limited liability company	45,000 ordinary share of US\$10,000	49%	Investment holdings
Eagle Rights Limited	31 March 2010	Limited liability company	45,000,000 shares with no par value	33.33%	Investment holding
<b>Jointly controlled entities – established and operation conducted in the PRC</b>					
杭州世茂世盈房地產開發有限公司 (Hangzhou Shimao Shiyong Property Development Co., Ltd.)	24 January 2008	Foreign investment enterprise	Registered capital US\$249,800,000	50%	Property development
海墅房地產開發(杭州)有限公司 (Hai Shu Property Development (Hangzhou) Co., Ltd.)	25 September 2007	Foreign investment enterprise	Registered capital US\$199,880,000	50%	Property development
惠州富茂房地產有限公司 (Huizhou Fumao Property Development Co., Ltd.)	14 May 2010	Domestic enterprise	Registered capital RMB500,000,000	50%	Property development
天津津南新城房地產開發有限公司 (Tianjin Jinnan New City Property Development CO., Ltd.)	26 May 2010	Domestic enterprise	Registered capital RMB3,667,300,000	25%	Property development
天津和安投資有限公司 (Tianjin Hean Investment Co., Ltd.)	19 August 2010	Domestic enterprise	Registered capital RMB10,000,000	25%	Investment holding

## Notes to the Consolidated Financial Statements

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

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2012	Principal activities
<b>Jointly controlled entities – established and operation conducted in the PRC (continued)</b>					
青島世茂新城房地產開發有限公司 (Qingdao Shimao New City Property Development Co., Ltd)	29 April 2010	Foreign Investment enterprise	Registered capital USD99,980,000	50%	Property development
南昌世茂新發展置業有限公司 (Nanchang Shimao New Development Property Co., Ltd.)	19 October 2010	Domestic enterprise	Registered capital RMB1,200,000,000	50%	Property development
長沙世茂房地產有限公司 (Changsha Shimao Real Estate Co., Ltd.)	21 July 2010	Domestic enterprise	Registered capital RMB500,000,000	50%	Property development
成都世茂投資有限公司 (Chengdu Shimao Investment Co., Ltd.)	17 November 2009	Domestic enterprise	Registered capital RMB1,200,000,000	50%	Property development
<b>Jointly controlled entities – established and operation conducted in Hong Kong</b>					
Fast Right Investments Limited	7 May 2007	Limited liability company	2 ordinary shares of HK\$1	50%	Investment holding
Kingtron Enterprises Limited	14 June 2007	Limited liability company	2 ordinary shares of HK\$1	50%	Investment holding

## 37 CONTINGENCIES

The Group had the following contingent liabilities:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Guarantees in respect of mortgage facilities for certain purchasers (note (a))	<b>8,400,117</b>	7,093,011
Guarantee in respect of borrowings (note (b))	<b>3,902,223</b>	1,822,500
	<b>12,302,340</b>	8,915,511

## Notes to the Consolidated Financial Statements

## 37 CONTINGENCIES (CONTINUED)

Note:

- (a) The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the Group obtained the "property title certificate" for the mortgagees, or when the Group obtained the "master property title certificate" upon completion of construction. The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.
- (b) The Group and other shareholders of Guangzhou Li He, an associated company, provided guarantees in proportion of their respective equity interests in Guangzhou Li He for its bank borrowings. The respective guarantees provided by the Group amounted to RMB1,570,393,000 as at 31 December 2012 (2011: RMB922,500,000).

The Group and other shareholders of Tianjin Jinnan, a jointly controlled entity, provided guarantees in proportion of their respective equity interests in Tianjin Jinnan for its borrowings from other financial institutions. As at 31 December 2012, the Group provided guarantees amounted to RMB550,000,000 (2011: RMB900,000,000), as well as the pledge of the Group's equity interest in Tianjin Jinnan.

The Group and other shareholders of Straits Construction, an associated company, provided guarantees in proportion of their respective equity interests in Straits Construction for its mezzanine facilities borrowed in January 2012. The respective guarantee provided by the Group to Straits Construction is with the amount of USD148,149,572 (equivalent to RMB931,000,000) as at 31 December 2012 (2011: Nil).

The Group provided guarantees for Nanchang New Development's bank borrowings before it became a jointly controlled entity. The respective guarantees provided by the Group amounted to RMB240,000,000 as at 31 December 2012 (2011: Nil).

The Group provided guarantees for Changsha Real Estate's bank borrowings before it became a jointly controlled entity. The respective guarantees provided by the Group amounted to RMB120,830,000 as at 31 December 2012 (2011: Nil).

The Group provided guarantees for Chengdu Investment's bank borrowings from certain banks. The respective guarantees provided by the Group amounted to RMB490,000,000 as at 31 December 2012 (2011: Nil).

## 38 COMMITMENTS

## (a) Commitments for capital and property development expenditure

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Contracted but not provided for		
– Property and equipment	<b>1,540,532</b>	1,463,953
– Land use rights (including those related to associated companies and jointly controlled entities)	<b>12,117,034</b>	14,633,073
– Properties being developed by the Group for sale	<b>14,056,391</b>	13,395,760
	<b>27,713,957</b>	29,492,786

## Notes to the Consolidated Financial Statements

## 38 COMMITMENTS (CONTINUED)

## (b) Operating lease commitments

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Within 1 year	<b>78,755</b>	77,541
Between 2 to 5 years	<b>490,334</b>	488,442
After 5 years	<b>608,263</b>	662,194
	<b>1,177,352</b>	1,228,177

## 39 RELATED PARTY TRANSACTIONS

The Group is controlled by Gemfair Investments Limited (incorporated in the British Virgin Islands), which owns 56.1% of the company's shares. The ultimate controlling party of the Group is Hui Wing Mau.

- (a) Other than those disclosed elsewhere in the financial statements, the Group had entered into the following major related party transactions during the year ended 31 December 2012.

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Operating lease rental expense charged by a related company (note)	<b>5,411</b>	3,738

Notes:

On 1 January 2012, the Group renewed a lease agreement with a wholly-owned subsidiary of Shimao International, of which certain directors of the Group are also directors, to lease part of office premises of Shimao International in Hong Kong.

## Notes to the Consolidated Financial Statements

## 39 RELATED PARTY TRANSACTIONS (CONTINUED)

## (b) Key management compensation

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Emoluments		
– Salaries and other short-term employee benefits	<b>28,416</b>	29,553
– Retirement scheme contributions	<b>122</b>	131
– Employee share option schemes	<b>2,489</b>	–
	<b>31,027</b>	29,684

## 40 SUBSEQUENT EVENTS

On 14 January 2013, the Company issued senior notes with total principal of US\$800,000,000 at a fixed interest rate of 6.625% due on 14 January 2020.

## 41 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on 26 March 2013.