



# KWG Property Holding Limited

Incorporated in the Cayman Islands with limited liability

## Annual Report 2012

Stock Code: 1813



**Build** Home with Heart 以心築家 創建未來  
Create Future with **Aspiration**



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## Corporate Information

### Directors

#### Executive Directors

Mr. Kong Jian Min (*Chairman*)  
Mr. Kong Jian Tao  
(*Chief Executive Officer*)  
Mr. Kong Jian Nan  
Mr. Li Jian Ming  
Mr. Tsui Kam Tim  
Mr. He Wei Zhi  
Mr. Yu Yao Sheng

#### Independent Non-executive Directors

Mr. Lee Ka Sze, Carmelo  
Mr. Dai Feng  
Mr. Tam Chun Fai  
Mr. Li Bin Hai

### Company Secretary

Mr. Tsui Kam Tim

### Authorised Representatives

Mr. Kong Jian Min  
Mr. Tsui Kam Tim

### Audit Committee

Mr. Tam Chun Fai (*Chairman*)  
Mr. Lee Ka Sze, Carmelo  
Mr. Dai Feng  
Mr. Li Bin Hai

### Remuneration Committee

Mr. Dai Feng (*Chairman*)  
Mr. Kong Jian Min  
Mr. Tam Chun Fai  
Mr. Li Bin Hai

### Nomination Committee

Mr. Kong Jian Min (*Chairman*)  
Mr. Tam Chun Fai  
Mr. Dai Feng  
Mr. Li Bin Hai

### Registered Office

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

### Principal Place of Business in Hong Kong

Suite 7506, Level 75  
International Commerce Centre  
1 Austin Road West  
Kowloon, Hong Kong

### Principal Share Registrar and Transfer Agent\*

Royal Bank of Canada Trust Company  
(Cayman) Limited  
4th Floor  
Royal Bank House  
24 Shedden Road, George Town  
Grand Cayman KY1-1110  
Cayman Islands

### Hong Kong Branch Share Registrar

Computershare Hong Kong Investor  
Services Limited  
17M Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

### Principal Bankers

Agricultural Bank of China Limited  
Bank of China Limited  
China Construction Bank Corporation  
China Minsheng Banking Corp. Ltd  
China Guangfa Bank Co., Ltd  
Guangzhou Rural Commercial Bank  
Industrial and Commercial Bank of  
China (Asia) Limited  
Industrial and Commercial Bank of  
China Limited  
Standard Chartered Bank  
(Hong Kong) Limited  
The Hongkong and Shanghai Banking  
Corporation Limited  
The Bank of East Asia, Limited

### Auditors

Ernst & Young

### Legal Advisors

as to Hong Kong law:  
Sidley Austin

as to Cayman Islands law:  
Conyers Dill & Pearman

### Website

[www.kwgproperty.com](http://www.kwgproperty.com)

### Stock Code

1813 (Main Board of The Stock  
Exchange of Hong Kong Limited)

\* With effect from 26 January 2013, the Company's principal share registrar and transfer agent has been changed from Butterfield Fulcrum Group (Cayman) Limited, Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman KY1-1107, Cayman Islands to Royal Bank of Canada Trust Company (Cayman) Limited 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1110, Cayman Islands.






Founded in 1995, KWG Property Holding Limited (“KWG Property” or the “Company”, together with its subsidiaries, collectively the “Group”) is now one of the leading large-scale property developers in Guangzhou. Its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (stock code: 1813) in July 2007. Since its establishment, KWG Property has been focusing on the development, sales, and management of quality properties targeting mid- to high-income groups.

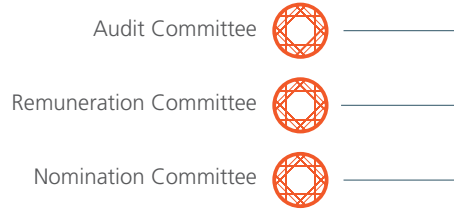
Over the past 18 years, the Group has built up a comprehensive property development system well supported by a balanced portfolio offering different types of products, including mid- to high-end residential properties, serviced apartments, villas, office buildings, hotels and shopping malls. The Group has also extended its business scope from traditional property development and sales to the areas of asset management and property management. A strategic development framework has been formed, with Guangzhou and Hainan as its hub for South China, Suzhou and Shanghai for East China, Chengdu for South-west China as well as Beijing and Tianjin for the Bohai Rim region. At present, the Group has a number of mid- to high-end projects in the above regions. All of them were well-received by consumers and posted satisfactory sales since their successful market launch.

The Group has always adhered to a prudent land bank replenishment strategy. Its current land bank is sufficient for the Group’s development in the coming 5 to 6 years.

The Group will seek deploying more resources for the establishment of a diversified development portfolio with a focus on residential properties to ensure stable development in the future. By implementing a prudent growth strategy, the Group will focus on residential properties and serviced apartments while increasing the proportion of commercial properties, such as offices, hotels and high-end shopping malls, to be held in long-term.

## Management Structure of the Group

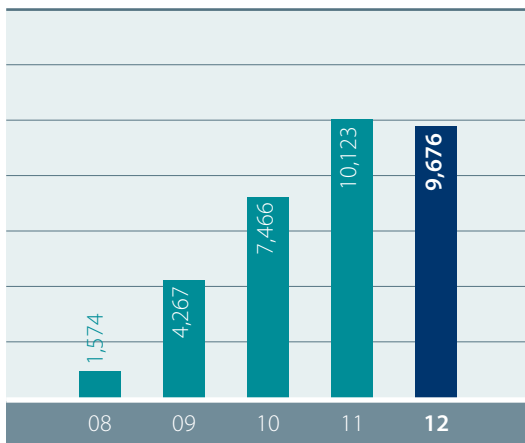
-  emphasis on a cohesive team and collaboration
-  clearly-defined division of staff and duties
-  nurturing talents and providing internal promotion



## Financial Highlights

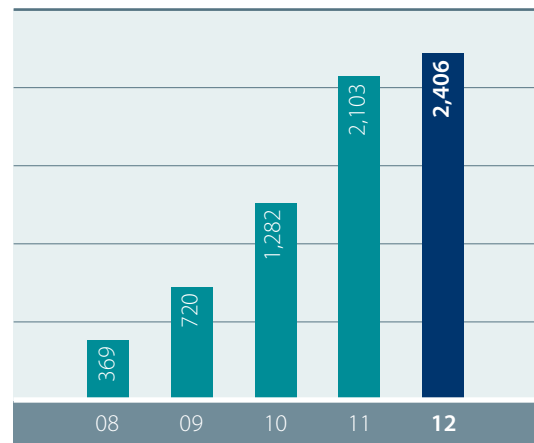
### Revenue

(in RMB Million)

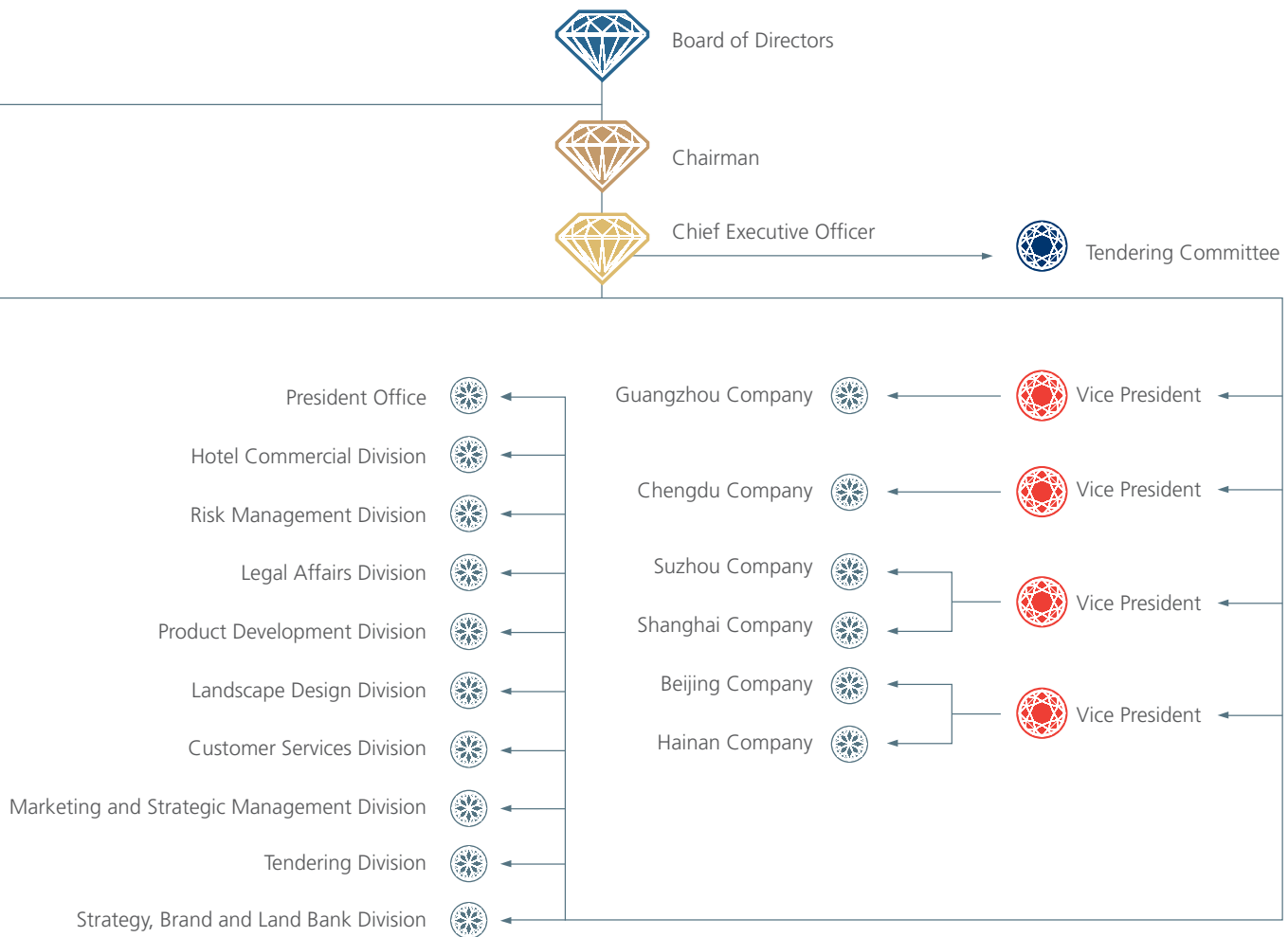


### Profit Attributable to Owners of the Company

(in RMB Million)



## Management Structure of the Group



## Financial Highlights

	Year Ended 31 December				
	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
<b>CONSOLIDATED RESULTS</b>					
Revenue	<b>9,676,422</b>	10,122,595	7,465,911	4,266,572	1,574,214
Profit attributable to owners of the Company	<b>2,406,368</b>	2,103,368	1,281,772	720,078	368,532
Earnings per share attributable to owners of the Company (RMB cents) – Basic and diluted	<b>83</b>	73	44	26	14
<b>CONSOLIDATED ASSETS AND LIABILITIES</b>					
Total assets	<b>48,864,460</b>	44,586,303	40,034,332	28,565,186	21,766,788
Total liabilities	<b>33,511,081</b>	30,893,285	28,440,060	18,156,863	12,575,577



# Major Events for 2012

## Major Events for 2012



### February

Responding actively to the “Aids from Hundred Enterprises to Hundred Villages”, a poverty relief programme avocated by the Guangzhou Municipal Government, KWG joined forces with Li Wan District Government to boost the economic development of Lu Tian Town, Cong Hua in a faster pace and improve the living conditions of local people by moving forward the construction of various municipal and civil infrastructures, such as those related to culture, education, health care and water conservancy facilities in market, in Lu Tian Town.

On 9 February, Mr. Zhang Guang Ning, a member of the Guangdong Provincial Standing Committee of the Communist Party of China (“CPC”), Mr. Wan Qing Liang, the General Secretary of Guangzhou of the CPC and representatives of enterprises met together in a conference to express sincere gratitude to the enterprises for their remarkable contribution in development of the mountain area in the north Guangzhou in the past year.



### April

The 3rd Children Drawing Competition was officially kicked off by KWG in April, opened for children of owners, tenants and staff of our 23 projects in Guangzhou, Beijing, Chengdu and Suzhou to sign up. Themed as “Creative with Heart - Green Future”, the activity promoted a green and low-carbon lifestyle concept to the children while they were encouraged to paint their green future in a creative way.



### July

A gratification banquet was hosted at Gua Lu Plaza in Zeng Ceng on 11 July 2012 for “Guangdong Poverty Relief Day and Guangzhou Charity Day 2012”, for which KWG earmarked a donation of RMB1 million to upgrade mudbrick houses in rural areas and provide social security, health care and education subsidies to disadvantaged families.

On 27 July 2012, the 5th Outstanding Chinese Real Estate Developer Parade was grandly held by the Economic Digest in Kowloon Shangri-La Hotel with an aim to give credit to 13 real estate developers in China, such as KWG.



### October

The first recruitment for Guangzhou W Hotel, the first W Hotel in China, was held at the Trend Publication Centre of Guangzhou TIT Creative Industry Zone on 12 and 13 October in a novel manner. Entitled “Midnight Audition”, the unprecedented nighttime interview in Guangzhou attracted nearly 2,000 candidates in total.

On 31 October, Mr. Ji Jian Ye, the Mayor of Nanjing, flanked by Mr. Xie Xiao Dan, the Vice Mayor of Guangzhou, led a expedition team to the KWG Group and interviewed Mr. Kong Jian Min, our Chairman, and Mr. Kong Jian Tao, our Chief Executive Officer, exchanging in-depth insight about facilitating the economic development of headquarters.







## Honours and Awards

### To the Group:

1. On 21 December 2012, Top 10 Leading Brand for Residence Group in Guangdong (Guangdong Construction News and Sedan and Cell Phone News)
2. 2012 Top 20 Most Valuable Private Property Company Brand and Top 100 Most Valuable Private Company Brand in China (Hurun.net)
3. 2012 Top 50 China Commercial Property Company (Issuing institution: Sina House)
4. 2011 Real Estate Oscar – Top 10 Rising Property Brand in the Southern China (Nanfang Daily Media Group and Nanfang Daily)
5. 2012 Netease Mailbox User's Confidence for Property Purchase – Most Credible Property Brand (Netease House)
6. Guangzhou Hejing Real Estate Development Limited: Top 500 Real Estate Companies of China for seven successive years (China Industrial Information Issuing Center)
7. Guangzhou Hejing Real Estate Development Limited: Top 500 Real Estate Companies of China (China Industrial Information Issuing Center)
8. Guangzhou Hejing Real Estate Development Limited: Outstanding Contribution Award for China Real Estate for 2011–2012 (China Industrial Information Issuing Center)

### Guangzhou:



#### The Summit:

1. 2012 Guangzhou Gold Prize for Housing Layout (Southern Metropolis Daily)
2. 2012 Annual Famous Property of China Valuable Property List (National Business Daily)
3. 2012 Favorite Property by Guangzhou White Collars (Soufun.com)



#### The Riviera:

1. Top 5 Best-Selling Property in Guangzhou by sales amount for the First Half of 2012 on the PRC Real Estate Champion List (Netease House)
2. 2011 Real Estate Oscar-Top 10 Starred Property in Guangzhou (Nanfang Daily Media Group)



## Shanghai:



### To the Company:

1. 9th China Real Estate Most Popular Company on Internet (Soufun.com)
2. 2012 Annual Fengshang Company (star.fangjia.com)



### Amazing Bay:

1. 2012 Annual Fengshang Community (star.fangjia.com)



### Shanghai Emerald:

1. 2012 Shanghai Quality Model Apartment (the Shanghai Real Estate People Congress and the Sohu Brand Services Lives Conference)
2. 10th Gold Medal for Most Popular Property in Shanghai for Model Home (Evening Times)



### Shanghai Sapphire:

1. 2012 Shanghai Real Estate Internet Marketing Driven Property (Soufun.com)

## Chengdu:



### To the Company:

1. Example of China – 2012 Top 50 Real Estate in the Western China (West China Metropolis Daily)
2. 2012 Top 25 Real Estate Company with Comprehensive Strength in Sichuan (non-local brand) (West China Metropolis Daily)
3. Top 10 Most Influential Enterprise (Chengdu Maifang)



### Chengdu Cosmos:

1. 10th Jinfurong Gold Prize for 2012 High-end Residence (Sichuan Daily Group and Chengdu Urban and Rural Real Estate Management Bureau)
2. 10th Jinfurong Gold Prize for 2012 Most Influential Property (Sichuan Daily Group and Chengdu Urban and Rural Real Estate Management Bureau)
3. 2012 Top 25 Real Estate Company with Comprehensive Strength (Non-local Company) (West China Metropolis Daily)
4. 2012 Annual Property (West China Metropolis Daily)
5. China Real Estate New Vision – Model Urban Luxury Property (Sohu Focus)



## Honours and Awards



### The Vision of the World:

1. 2012 China Value Property – Excellence in Chengdu (EChengdu and National Business Daily)
2. 4th China Real Estate Magazine League Award – 2012 Regional Model Prize (Chengdu) (Chengdu Real Estate)
3. Top 50 Sichuan Real Estate Company with Comprehensive Strength – 2012 Most Popular Property (West China Metropolis Daily)



### Chengdu Sky Ville:

1. 2012 Chengdu Model Property (Housing Weekly)
2. Top 10 Most Influential Property (Chengdu Maifang)
3. Exemplified HOPSCA in Sichuan (West China Metropolis Daily)
4. Example of China – 2012 Top 50 Real Estate in the Western China – 2012 Annual Property (West China Metropolis Daily)
5. Example of China – 2012 Top 50 Real Estate in the Western China – 2012 Most Influential China HOPSCA (West China Metropolis Daily)
6. 10th Jinfurong Gold Prize for 2012 Most Influential Property in Chengdu (cdweekly.cn)

## Suzhou:



### Suzhou Apex:

1. 2012 Most Influential Property in Suzhou (Suzhou Broadcasting Radio)
2. 2012 First Choice for House Buyer (Sina House)
3. 2012 Most Potential Property in Value in Suzhou (house365.com)
4. 2012 Top 10 Most Influential Property in Suzhou (house.qq.com)



### The Sapphire:

1. 2012 Most Interested Property in Suzhou (house365.com)
2. 2012 Most Worthy Property (Sina House)
3. 2012 Top 10 Valuable Property in Suzhou (house.qq.com)



### Suzhou Emerald:

1. 2013 Most Expectation-worthy Property (Sina House)
2. 2013 Top 10 Expectation-worthy Property (house365.com)
3. 2012 Top 10 High Quality Property in Suzhou (house.qq.com)



## Hainan:



### Pearl Coast:

1. 2011 Most Beautiful Tourism Property (China Tourism Real Estate Service Group)
2. Tourism Property of the Year 2011 (China Tourism Real Estate Service Group)
3. 2012 China Culture Collection Residence Award (Sina and China Academy of Real Estate)

## Beijing:



### Fragrant Seasons:

1. 2012 Gold Medal of China Real Estate (Beijing Youth News)
2. Model Property Award (Beijing News)
3. Influence-2012 Property Suitable for Living (Jinghua News)
4. 2012 Real Estate Leader – Best-Selling Property (Beijing Evening News)
5. 2012 Most Influential Property (focus.cn)
6. 2012 Property Brand of Strength (focus.cn)
7. 2012 Most Influential Property (Sina House)



## Chairman's Statement

Dear Shareholders:

I am pleased to present the annual results of the Group for the year ended 31 December 2012. During the year under review, the Group recorded total revenue of approximately RMB9,676.4 million. Profit attributable to Owners of the Company was approximately RMB2,406.4 million, representing an increase of 14.4% from the previous year. Earnings per share attributable to Owners of the Company amounted to RMB83 cents.

### 1) Optimising Product Mix to Meet Changing Demands

In 2012, the Government of the People Republic of China ("PRC") continued to implement property market austerity measures to further curb investment and speculative demands through policies such as the Home Purchase Restrictions and mortgage restrictions. End users' purchases were encouraged with moderate easing of bank mortgage for first home purchasers, to guide the country's property industry towards healthy development. In particular, the continued implementation of property market regulations, the curbing of speculative and investment demands and the progress of social affordable housing, have been confirmed as long-term objectives in the 18th CPC National Congress meeting and the Central Economic Work Conference.

The Group continued to closely monitor changes in government policies for the property market and made swift moves to adjust its development and sales plans accordingly. For existing projects, we sought to attract target customers through a diversified marketing strategy complemented by advertisements and promotions. For brand new projects, small size units were launched as a key feature in 2012 to cater to demand from first home purchasers under our flexible sales strategy which is optimised to be in line with market changes. For instances, smaller-size flats under 90 sq.m. in Shanghai Emerald and Shanghai Apex were launched during the first half of the year to meet the mounting demands from first home buyers and end users in the local market. During the second half of 2012, in view of the heightened level of interest, the Group launched additional small size products, such the serviced apartments of the The Summit, small residences of the The Sapphire and serviced apartments of Fragrant Seasons in Beijing in order to expand its base of potential buyers.



**Kong Jian Min**  
Chairman

In the meantime, the Group also launched mid-to high-end fitted-out flats to fulfill the needs of and attract buyers looking to upgrade their homes, such as the Riviera in Guangzhou and Chengdu Sky Ville. Striving for a proper balance between saleable commercial and residential projects, the Group also launched commercial projects that were not subject to policy restrictions to further boost sales. These different types of products have been well-received since their market debuts with the benefit of word-of-mouth commendation from a wide range of consumer groups and target customers, and steady growth in sales have been reported.

## 2) **Stepping up with Efforts to Establish Presence in Various Cities while Improving Marketing Regime**

After 18 years of development, the Group has established a business network based in Guangzhou and reaching out to Shanghai, Suzhou, Chengdu, Beijing, Tianjin and Hainan. It remains focused on mid-to high-end properties and seeks to enhance its reputation with a firm foothold in the market.

The Group's four new projects in Shanghai launched during the first half of 2012 included Shanghai Emerald, Shanghai Sapphire, Amazing Bay and Shanghai Apex. A diversified product mix was offered to customers, comprising smaller-sized flats for first-time buyers as well as mid-end products for home upgraders, all were met with enthusiastic response upon launch. The results achieved in Shanghai, where we were a relative newcomer, accounted for significant contributions to our 2012 sales. The Group's success in Shanghai has strengthened its confidence for tapping other new cities, providing clear guidance for the expansion and development of projects in other regions.

Following years of diligent efforts and development since establishing its footholds in Chengdu, Beijing and Suzhou, the Group's projects are currently accounting for stable shares of the respective local markets with increasingly solid sales. Projects such as Chengdu Cosmos, Vision of the World in Chengdu, Fragrant Seasons in Beijing, Suzhou Apex and The Sapphire have enhanced our brand name and reputation in the local markets. Chengdu Sky Ville and Suzhou Emerald, our new projects launched during the year, have achieved remarkable sales on the back of the support and recognition from new and old customers upon launch.



At Guangzhou, the city where our business originated, no new projects were launched during the year, however units remained for sale in the projects launched earlier. As the headquarters of our Group, Guangzhou continued to see the launch of new batches of existing projects, such as smaller-sized apartments and retail shops of The Summit and high-end apartments of The Riviera, with the aim to cater to a wide range demands from different consumers.

The Group's reliance on Guangzhou, has lessened year by year as a result of the growth of business development and sales in regions including the Pearl River Delta in South China, Yangtze River Delta in East China, Pan Bohai Rim in North China and South-West China.

### **3) Expediting New Projects to Accelerate Turnover and Improve Financial Performance**

To ensure sufficient stock for sale and to accelerate sales, the Group exercised stringent control over the construction progress of existing and new projects and made efforts to expedite their construction works. During the second half of the year, the Group accelerated project development in response to market recovery. Real-time monitoring of project progress was facilitated through software systems and timely adjustments were made. In particular, progress of projects with faster sales was accelerated to ensure ample sellable resources.

At the same time, the Group was watching closely the turnover of cash generated from property sales and strived to shorten the lead-time of cash inflow. Cash was collected in a faster pace as cash payments grew proportionally and one-time payments were encouraged with the offer of discounts. Meanwhile, the granting of mortgage approvals by banks in a faster pace has also resulted in faster cash collection for the Group. Moreover, the Group also tracked outstanding balances closely to secure cash inflow in the shortest possible period of time.

The Group also seeks to assure healthy development by leveraging a diverse range of financing channels, such as domestic and offshore bank borrowings and issuances of overseas debts. During the year, the Group successfully issued USD senior notes in the amount of US\$400 million, while entering into agreements with offshore banks for medium term loans. As a result, the Group has secured sufficient funds to provide strong support for its operations and developments.

### **4) Close Monitoring the Land Market for Opportunities to Acquire Premium Sites**

The Group upholds a prudent and down-to-earth approach in land development and land bank and keeps a close watch over changes in the land market. Stringent cost controls always plays a crucial role in the development of the Company.



As the land market turned active during the second half of the year, the Group completed the acquisition of several premium sites in first and second-tier cities at favourable prices, thanks to its swift response to market developments. These acquisitions, including land parcels for the Biological Island Project II in Guangzhou, Shanghai Fengxian Nanqiao Project, Suzhou Industrial Park Project, Suzhou CRH New City and Guangzhou Knowledge City, make great addition to our land bank and meet the needs of our long-term development.

## 5) Outlook

The Group plans to unveil a number of brand new projects in Guangzhou, Hainan, Beijing and Shanghai in 2013. These projects boast prestigious geographic locations in urban transportation hubs with the benefit of convenient transportation facilities and a wide range of public resources. The Group is confident that the launch of new projects will generate strong sales and brand value, thereby further enlarging its market shares and enhancing its reputation in the industry.

Meanwhile, the Group will continue to launch products in the 18 projects which are currently for sale, such as Suzhou Emerald, Chengdu Sky Ville, Shanghai Emerald and Beijing Fragrant Seasons. These existing projects, together with new ones to be launched, will provide the Group with sufficient saleable resources to be marketed in 2013 and generate stable sales, offering assurance for and serving as a growth driver in the Group's development.

The Group seeks to win the support of consumers through building up reputation for well-recognized products and enlarge its market shares on the back of the people-oriented designs, cozy living environment and dedicated services offered in its property developments.

## 6) Appreciation

The Group reported sound and stable growth in 2012 amid challenges as well as opportunities. With the unfailing trust, support and help of various parties, the Group will stride forward in firmer steps amid any difficulties and opportunities. On behalf of the Company, I would like to thank all shareholders and investors for keeping their confidence in the Group's development prospects, and to all home buyers for their strong support and recognition of our properties. Customers' support will continue to be our strongest backing as we roll forward. We, therefore, will listen to comments and feedbacks from all property purchasers as we continue to build premium properties in the course of research, design and adjustment. May I further express my sincerest gratitude to our directors and all our staff as they worked with incessant diligence, dedication and care during the past year for the fulfillment of our goals and objectives and sailed in concerted effort through good times or otherwise to facilitate the Company's development. Going forward, I firmly believe the Group will turn to a new chapter of success for an ever brighter future.





**Management  
Discussion and Analysis**





## Management Discussion and Analysis



### Financial Review

#### Revenue

Revenue of the Group comprises primarily the (i) gross proceeds, net of business tax, from the sale of properties, (ii) gross recurring revenue received and receivable from investment properties, (iii) gross revenue from hotel room rentals, food and beverage sales and other ancillary services when the services are rendered and (iv) property management fee income. The revenue is primarily generated from its four business segments: property development, property investment, hotel operation and provision of property management services.

The revenue amounted to approximately RMB9,676.4 million in 2012, representing a slight decrease of 4.4% from approximately RMB10,122.6 million in 2011, primarily due to the decrease of total gross floor area ("GFA") delivered in sales of properties in 2012.

In 2012, the revenue generated from property development, property investment, hotel operation and property management services were approximately RMB9,330.2 million, RMB143.3 million, RMB83.9 million and RMB119.0 million, respectively.

#### *Property development*

Revenue generated from property development slightly decreased by 4.9% to approximately RMB9,330.2 million in 2012 from approximately RMB9,815.4 million in 2011, primarily due to a 13.2% decrease in the total GFA delivered to 796,370 sq.m. in 2012 from 917,777 sq.m. in 2011. Despite the decrease in GFA delivered, the Group maintained a high recognised average selling price at RMB11,716 per sq.m., as compared to RMB10,695 per sq.m. for 2011, reflecting a better product mix as well as an upgrade on city mix.



#### *Property investment*

Revenue generated from the property investment slightly increased by 3.4% to approximately RMB143.3 million in 2012 from approximately RMB138.6 million in 2011.

#### *Hotel operation*

Revenue generated from hotel operation increased by 19.5% to approximately RMB83.9 million in 2012 from approximately RMB70.2 million in 2011, primarily attributable to 2012 being the first full year of operation for Sheraton Guangzhou Huadu Resort since its soft launch in 2011.

#### *Provision of property management services*

Revenue generated from the provision of property management services increased by 20.9% to approximately RMB119.0 million in 2012 from approximately RMB98.4 million in 2011, primarily attributable to an increase in the number of properties under management.

#### **Cost of sales**

Cost of sales of the Group primarily represents the costs we incur directly for the Group's property development activities. The principal component of cost of sales is cost of properties sold, which includes the direct cost of construction, cost of obtaining land use rights and capitalised borrowing cost on related borrowed funds during the period of construction.

Cost of sales increased by 8.7% to approximately RMB6,140.6 million in 2012 from approximately RMB5,650.5 million in 2011, primarily due to an overall increase in cost of properties sold.

Land cost per sq.m. increased from RMB1,867 in 2011 to RMB2,337 in 2012, reflecting the upgrade on city mix with relatively higher land costs.

Construction cost per sq.m. increased from RMB3,870 in 2011 to RMB4,660 in 2012, principally due to the increase in delivery of high-end products with relatively higher construction costs.

#### **Gross profit**

Gross profit of the Group decreased by 20.9% to approximately RMB3,535.9 million in 2012 from approximately

RMB4,472.1 million in 2011. The decrease in gross profit was primarily attributable to the decrease in the total revenue in 2012. The decrease in gross profit was partially offset by the increase in average selling price as discussed. The Group reported a gross profit margin of 36.5% for 2012 as compared with 44.2% for 2011.

#### **Other income and gains, net**

Other income and gains decreased by 21.6% to approximately RMB73.7 million in 2012 from approximately RMB94.0 million in 2011, mainly comprising interest income of approximately RMB47.5 million.

#### **Selling and marketing expenses**

Selling and marketing expenses of the Group increased by 8.3% to approximately RMB251.0 million in 2012 from approximately RMB231.8 million in 2011, which is primarily due to an increase of 13.5% in advertising expenses to approximately RMB128.2 million in 2012 from approximately RMB113.0 million in 2011, which was largely attributable to increased advertising for our new projects, such as Pearl Coast in Hainan, Shanghai Emerald, Shanghai Apex and Shanghai Sapphire in Shanghai, Suzhou Apex and Suzhou Emerald in Suzhou and L7 in Guangzhou.

#### **Administrative expenses**

Administrative expenses of the Group increased by 20.7% to approximately RMB642.6 million in 2012 from approximately RMB532.6 million in 2011, primarily attributable to an increased headcount to catch up with the rapid development of the



## Management Discussion and Analysis

Group in various regional offices in order to achieve its long term goal. The Group believes that people are key elements for future growth and grasping the opportunities ahead. The Group also provided extensive training, built incentive schemes as well as a teamwork-oriented corporate culture with high sense of belonging to retain experienced employees. The soft launch of our Sheraton Guangzhou Huadu Resort in 2011 as discussed earlier also contributed to the increment in 2012.

### Other operating expenses, net

Other operating expenses of the Group was approximately RMB1.3 million in 2012 (2011: approximately RMB5.5 million), mainly comprising operating costs of facilities at our residential development such as clubhouses and dining facilities.

### Fair value gains on investment properties, net

The Group reported net fair value gains on investment properties of approximately RMB643.2 million for 2012 (2011: approximately RMB325.7 million), mainly related to various leaseable commercial properties in various regions. The fair value gains attributable to those leaseable commercial properties, including International Finance Place ("IFP"), The Summit, Chengdu Cosmos, The Sapphire, Biological Island II and J2-2 Project, were approximately RMB635.3 million for 2012.

### Finance costs

Finance costs of the Group being approximately RMB70.4 million in 2012 (2011: approximately RMB125.0 million), related to the borrowing costs on certain general corporate loans and partial senior notes. Since such borrowings were not earmarked

for project development, thus such borrowing costs have not been capitalised.

### Income tax expenses

Income tax expenses decreased by 28.9% to approximately RMB1,333.0 million in 2012 from approximately RMB1,876.0 million in 2011, primarily due to a decrease in profit before tax and provision for LAT as a result of the decrease in total GFA delivered in sales of properties in 2012.

### Profit for the year

The Group reported profit for the year of approximately RMB2,433.0 million for 2012 (2011: approximately RMB2,103.9 million). Net profit margin increased to 25.1% for 2012 from 20.8% for 2011, as a result of the cumulative effect of the foregoing factors.

## Liquidity, Financial and Capital Resources

### Cash position

As at 31 December 2012, the carrying amount of the Group's cash and bank deposits was approximately RMB6,444.4 million (31 December 2011: approximately RMB5,373.2 million), representing an increase of 19.9% as compared to that as at 31 December 2011.

Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sales proceeds received at designated bank accounts as guarantee deposits for construction of the relevant properties. As at 31 December 2012, the carrying amount of the restricted cash was approximately RMB1,517.2 million (31 December 2011: approximately RMB1,348.6 million).





### **Borrowings and charges on the Group's assets**

As at 31 December 2012, the Group's bank and other loans and senior notes were approximately RMB10,013.3 million and RMB6,177.3 million respectively. Amongst the loans, approximately RMB3,100.2 million were repayable within 1 year, approximately RMB6,174.1 million were repayable between 2 and 5 years and approximately RMB739.0 million will be repayable over 5 years. The senior notes were repayable between 2 and 5 years.

As at 31 December 2012, the Group's bank and other loans of approximately RMB9,516.7 million were secured by property, plant and equipment, land use rights, investment properties, properties under development, completed properties held for sale and time deposits of the Group with total carrying values of approximately RMB14,074.9 million and equity

interests of certain subsidiaries and an associate of the Group. The senior notes were jointly and severally guaranteed by certain subsidiaries of the Group and were secured by the pledges of their shares.

The carrying amounts of all the Group's bank and other loans were denominated in RMB except for certain loan balances with an aggregate amount of approximately HK\$1,392.4 million as at 31 December 2012 which were denominated in Hong Kong dollar. All of the Group's bank and other loans were charged at floating interest rates except for loan balances with an aggregate amount of RMB697.1 million were charged at fixed interest rates as at 31 December 2012. The Group's senior notes were denominated in U.S. dollar and charged at fixed interest rates as at 31 December 2012.

### **Gearing ratio**

The gearing ratio is measured by the net borrowings (total borrowings net of cash and cash equivalents and restricted cash) over the total equity. As at 31 December 2012, the gearing ratio was 63.5% (31 December 2011: 61.8%). The increase in gearing ratio in 2012 mainly reflecting increased cash utilisation in the ongoing property development projects.





## Management Discussion and Analysis

### Risk of exchange rate fluctuation

The Group mainly operates in the PRC, so most of its revenues and expenses are measured in RMB. The value of RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of RMB into foreign currencies, including the U.S. dollar and the Hong Kong dollar, has been based on rates set by the People's Bank of China.

During 2012, the exchange rates of RMB against the U.S. dollar and the Hong Kong dollar maintained a relatively stable level and the Board expects that any fluctuation of RMB's exchange rate will not have material adverse effect on the operation of the Group.

### Contingent Liabilities

- (i) As at 31 December 2012, the Group had the following contingent liabilities relating to guarantees in respect of mortgage facilities for certain purchasers amounting to approximately RMB4,578.4 million (31 December 2011: approximately RMB6,642.6 million). This represented the guarantees in respect of mortgage facilities granted by banks relating to the mortgage loans arranged for 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 defaulting 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 upon issuance of real estate ownership certificates which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the Board considers that in case of default in payments, the net realisable value of the related properties will be sufficient to 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 as at 31 December 2012 and 2011 for the guarantees.

- (ii) As at 31 December 2012 and 2011, the Group had provided guarantees in respect of certain bank loans for jointly controlled entities.
- (iii) As at 31 December 2012 and 2011, the Group had provided a guarantee in respect of a bank loan of RMB700.0 million for the ex-owner of The Summit in Guangzhou, PRC.

### Market Review

2012 was highlighted by the continued implementation of real estate austerity measures by the PRC Central Government. During the year, the Home Purchase Restriction policy continued to apply in 46 cities across the nation. The bank deposit reserve ratio has been lowered twice in February and May, which facilitated the relative easing of property mortgage. In July, the benchmark bank lending rate for loans over 5 years and the interest rate for housing provident loans of individuals were cut by 0.25 and 0.20-0.25 percentage points, respectively, which eased bank mortgage for first



home purchasers. These measures were designed to encourage purchases by end-users while curbing speculative and investment demands.

Since the 18th CPC National Congress meeting, the PRC Central Government has determined to implement property market austerity measures as an ongoing policy while stepping up with the construction of social affordable housing, in a bid to guide the real estate industry towards longer term healthy development.

## Business Review

During 2012, the Group launched several new projects in Shanghai, including Shanghai Emerald, Amazing Bay, Shanghai Sapphire and Shanghai Apex, through which the Group was able to establish footprint in Shanghai. This demonstrates its strong ability to execute projects in new cities beyond Guangzhou. New projects such as Chengdu Sky Ville, Pearl Coast in Hainan and Suzhou Emerald were introduced in the second half

of the year, bringing the number of sales contributing projects to 19. The Group responded to property market regulation by making additional efforts in exploring its existing regions and cities, enhancing product research and adopting timely adjustments to sales strategies and product types to accommodate market changes and customers' demands, with the aim of pursuing prudent development in cities in which it operates in.

To address changes in property market, the Group made timely adjustments to its project development strategies and schedules. While focusing on desired product types, the Group aimed at maintaining sufficient saleable resources and faster cash collection at controlled costs, in shortened development cycle and with higher efficiency and quality.

The Group accelerated sales by launching commercial projects that are not subject to the Home Purchase Restriction and mortgage restrictions. During the year, the Group made major marketing efforts to launch various products, such as The Riviera, a high-end serviced apartment project located in Pearl River New Town, Guangzhou, L7 in Guangzhou featuring modern designs, as well as Shanghai Sapphire located in the heart of Jiading, Shanghai. At the same time, the Group continued to launch commercial products within its existing projects in Guangzhou, Suzhou, Chengdu and Beijing, such as serviced apartments and retail shops catering to various consumers.





## Management Discussion and Analysis

The Group sought to meet the needs of different consumer groups by introducing products of varieties. Shanghai Emerald, a brand new project located at the centre of Jiading, Shanghai was officially launched in January 2012, featuring residences with unit area of 90 sq.m and below. The project has been well received by the market since its debut owing to its convenient location, ample facilities and surrounding transportation links. The outperforming sales of Shanghai Emerald have not only enhanced the Group's reputation and market position in Shanghai, but also serves as a solid guide and reference for the Group's strategic planning and integrated marketing. At the end of September 2012, Chengdu Sky Ville was launched around the National Day holidays, the first batch of which comprised exquisitely fitted flats of approximately 120-200 sq.m. The property won wide acclaim upon launch for its unique design and excellent facilities.

The Group continued to monitor changes in government policies for the land market during the year with a focus on cost and location, as it sought to seize the right opportunity to add premium sites to its land bank. In the second half of the year, the Group replenished its land bank with the acquisitions of 5 premium and appropriately sized land parcels in Guangzhou, Shanghai and Suzhou at reasonable prices within our land budget. As at 31 December 2012, the Group holds a land bank with an aggregate GFA of approximately 9.2 million sq.m., which should be sufficient for future development for 5-6 years.

The Group has been taking advantage of its diversified financing channels to secure new capital for future growth. In March 2012, the Group successfully issued senior notes in the amount of US\$400 million. Furthermore, the Group obtained additional loans from domestic banks with which it maintained close working relationships. In the meantime, we also worked closely with overseas banks on the latest developments and changes in the financing market in order to secure loans at more reasonable interest rates.

### Investment Properties and Hotels

For the year ended 31 December 2012, turnover of the Group from its investments in office premises and leasing of retail properties amounted to approximately RMB143.3 million (2011: approximately RMB138.6 million).

#### 1) Hotels

Sheraton Guangzhou Huadu Resort, our second hotel in Guangzhou officially commenced operation in 2011. Sheraton Guangzhou Huadu Resort, together with Four Points by Sheraton Guangzhou, Dongpu opened in 2009, featuring cozy and relaxing environments complemented by exquisite services and premium dining, have helped expanding customer base for the Group.

Our W Hotel will officially commence operation in the first half of 2013. W Hotel is a brand name for modern, luxury, and fashion under Starwood Hotels & Resorts Worldwide, Inc., and the Group's W Hotel is the first W Hotel in the Mainland China.

#### 2) *Investment properties completed and available for lease*

IFP is one of our major investment properties with a prestigious location in the Pearl River New Town, the central business district of Guangzhou. IFP is very popular with high-end customers, such as large financial institutions and offices of diplomatic institutions, who are attracted by the convenient transportation, as well as its high-quality premise and excellent property management. As at 31 December 2012, the occupancy rate of IFP stood at above 98.3%. The tenants mainly included numerous domestic and foreign banks, Guangzhou offices of multinational corporations and diplomatic establishments.

## Business Outlook

The Group plans to launch a number of brand new projects in 2013. Meanwhile, the Group will continue to step up with the launch of new phases in existing projects. The Group will continue to improve its hotel management, upgrade services provided by its hotels and the management standards of its investment properties. By offering a broader range of products and dedicated services, the Group looks to enhance its integrated corporate strengths as it strives for sound and stable corporate development in earnest devotion.



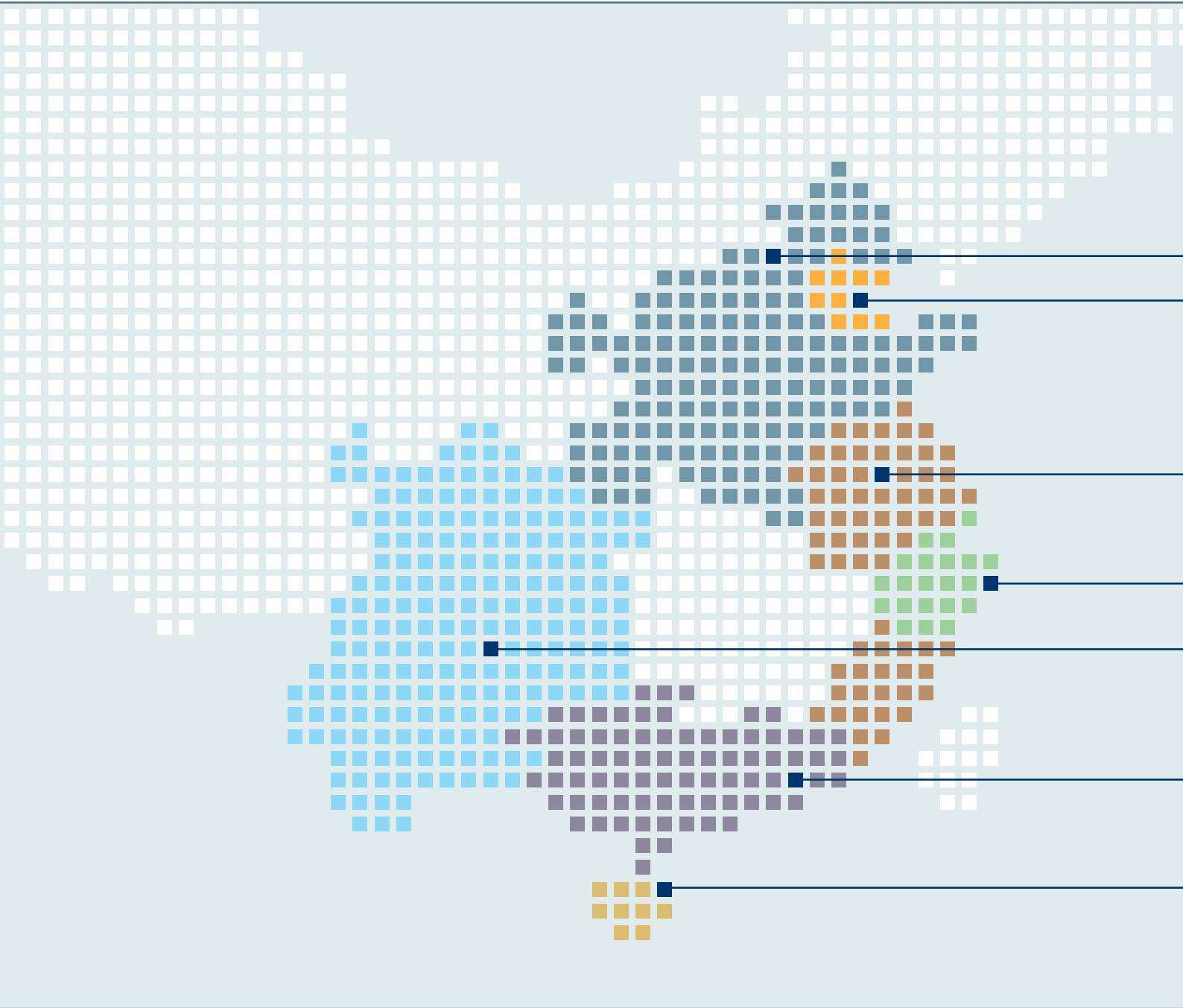
## Overview of Property Development

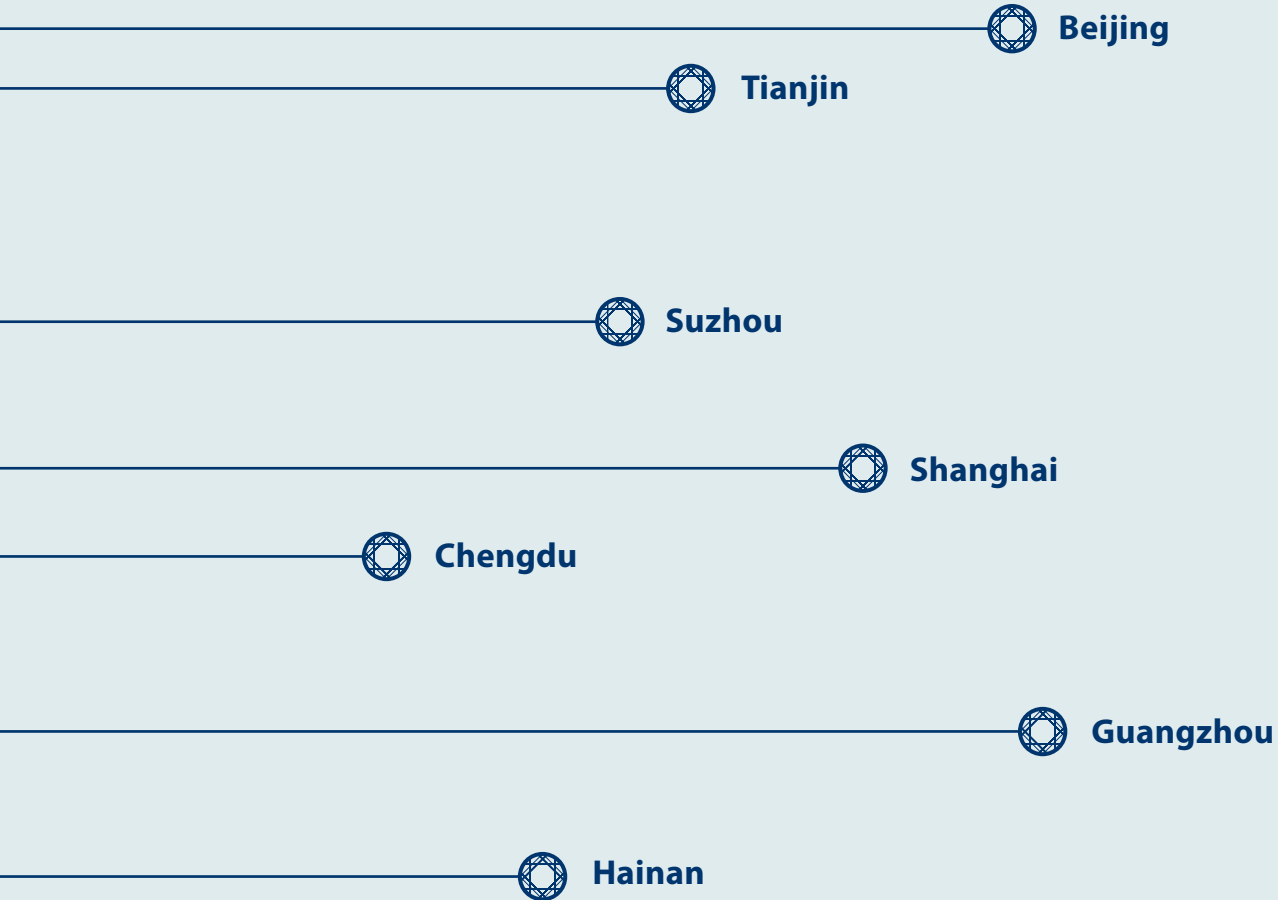
As at 31 December 2012, the Group's major projects are located in Guangzhou, Suzhou, Chengdu, Beijing, Hainan, Shanghai and Tianjin.

Project	District	Type of property	GFA	Interests
			attributable to the Group's Interest ('000 sq.m.)	attributable to the Group (%)
The Summit	Guangzhou	Residential/villas/serviced apartments/office/retail	2,376	100
L7	Guangzhou	Serviced apartments/retail	31	100
J2-2 Project	Guangzhou	Office/retail	72	50
The Riviera	Guangzhou	Serviced apartments/office/hotel/retail	133	33.3
Foshan Project	Guangzhou	Residential/retail/serviced apartments/office/hotel	560	20
Biological Island I	Guangzhou	Serviced apartments/retail	115	100
Biological Island II	Guangzhou	Serviced apartments/office/retail	84	100
Guangzhou Knowledge City	Guangzhou	Office/serviced apartments/retail/hotel	645	100
International Finance Place	Guangzhou	Office	61	100
Four Points by Sheraton Guangzhou, Dongpu	Guangzhou	Hotel	35	100
Sheraton Guangzhou Huadu Resort	Guangzhou	Hotel	25	100
W Hotel/W serviced apartments	Guangzhou	Hotel/serviced apartments	80	100
The Sapphire	Suzhou	Residential/hotel/serviced apartments/retail	374	100
Suzhou Apex	Suzhou	Residential/hotel/retail/serviced apartments	258	90
Suzhou Emerald	Suzhou	Residential/retail	160	100
Suzhou Industrial Park	Suzhou	Serviced apartments/office/retail	37	51
Suzhou CRH New City	Suzhou	Office/retail	60	100
The Vision of the World	Chengdu	Residential/serviced apartments/retail	173	100
Chengdu Cosmos	Chengdu	Residential/hotel/serviced apartments/office/retail	644	100
Chengdu Sky Ville	Chengdu	Residential/office/serviced apartments/retail/hotel	450	50
Fragrant Seasons	Beijing	Residential/villas/serviced apartments/retail	265	100
Chong Wen Men Project	Beijing	Retail	16	100
Pearl Coast	Hainan	Residential/villas/hotel	284	100
Moon Bay Project	Hainan	Residential/retail/hotel	479	100
Pudong Project	Shanghai	Office/retail	78	100
The Core of Center	Shanghai	Residential/serviced apartments/retail/office	79	50
Shanghai Apex	Shanghai	Residential/serviced apartments/retail/hotel/office	111	100
Amazing Bay	Shanghai	Residential/office/retail/hotel/serviced apartments	135	50
Shanghai Sapphire	Shanghai	Serviced apartments/hotel/retail	158	100
Shanghai Emerald	Shanghai	Residential/retail	120	100
Shanghai Fengxian Nanqiao	Shanghai	Residential/serviced apartments/retail	236	100
Jinnan New Town	Tianjin	Residential/villas/office	728	25



## China Map







## Directors and Senior Management's Profile

### Director

#### Executive Directors

**Kong Jian Min**, aged 45, is the founder of the Group and an executive director and the chairman of the Company. Mr. Kong is also a member of the remuneration committee and the chairman of the nomination committee of the Company. Mr. Kong is primarily responsible for the formulation of our development strategies, as well as supervising our project planning, business operation and sales and marketing. Mr. Kong graduated from Jinan University majoring in Computer Science in 1989. Mr. Kong has over 18 years of experience in property development and investment. Mr. Kong is a brother of Kong Jian Tao and Kong Jian Nan. Saved as disclosed above, Mr. Kong is also a director of all subsidiaries incorporated in the BVI, various subsidiaries incorporated in the PRC and two subsidiaries incorporated in Hong Kong.

**Kong Jian Tao**, aged 42, is an executive director and the chief executive officer of the Company. Mr. Kong is responsible for the overall operation of the Group's projects. He has over 18 years of experience in property development and has been a director of the Group since 1995. Mr. Kong is a brother of Kong Jian Min and Kong Jian Nan. Saved as disclosed above, Mr. Kong is also a director of all subsidiaries incorporated in the BVI, various subsidiaries incorporated in the PRC and two subsidiaries incorporated in Hong Kong.

**Kong Jian Nan**, aged 47, is an executive director and executive vice president of the Company. Mr. Kong is responsible for coordinating and managing human resources, administrative management, IT management and legal affairs of the Group. He is a graduate of China Central Radio and TV University and joined the Group in 1999. Mr. Kong is a brother of Kong Jian Min and Kong Jian Tao. Saved as disclosed above, Mr. Kong is also a director of all subsidiaries incorporated in the BVI and various subsidiaries incorporated in the PRC and three subsidiaries incorporated in Hong Kong.

**Li Jian Ming**, aged 46, is an executive director of the Company, a vice president of the operations management division and a general manager of the Southern China Region of the Group. Mr. Li graduated from South China University of Technology, majoring in industrial and civil construction. Mr. Li joined the Group in 1995 and had held the position of vice president in the engineering management division. He was appointed as an executive director of the Company in June 2007. Currently, Mr. Li is responsible for the internal operations and management of the Group and the overall operations and management of the Southern China Region. Save as disclosed above, Mr. Li is also a director of one of the subsidiaries incorporated in the PRC.

**Tsui Kam Tim**, aged 44, is an executive director, the Chief Financial Officer and the Company Secretary of the Company. Mr. Tsui is primarily responsible for the financial management and supervision of financial reporting, corporate finance, treasury, tax, risk management including internal control and other finance-related matters. Mr. Tsui graduated from Australia National University with a bachelor's degree in Commerce and he is a professional member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, he was a senior manager of an international firm of certified public accountants. Mr. Tsui joined the Group in January 2007 as the Chief Financial Officer and was appointed as an executive director of the Company in November 2007. Saved as disclosed above, Mr. Tsui is also a director of various subsidiaries incorporated in Hong Kong.



**He Wei Zhi**, aged 45, is an executive director of the Company, a vice president and a general manager of the South-western China Region of the Group. Mr. He graduated from Guangzhou University majoring in hotel management. He joined the Group in 1995 and had held the positions of manager and deputy general manager of the sales department. Since his joining of the Group, he has been responsible for project planning, design and sales planning work of the Group, gaining extensive experience in property market. Mr. He was appointed as an executive director of the Company in February 2009 and is mainly responsible for the overall operation and management of the South-western China Region. Saved as disclosed above, Mr. He is also a director of various subsidiaries incorporated in the PRC.

**Yu Yao Sheng**, aged 51, is an executive director of the Company, a vice president of the Group. Mr. Yu joined the Group in January 2009 and is responsible for the overall operations and management of the Eastern China Region. Mr. Yu was appointed as an executive director of the Company in March 2010 and he is also one of the directors of three jointly controlled entities. Mr. Yu is a senior engineer and a grade-one national registered structural engineer. He has extensive experience in architectural design, engineering management, project management, regional development, administration and human resources management. Mr. Yu graduated from Hefei University of Technology with a bachelor's degree in Architecture, and also holds a master's degree from China University of Mining and Technology. Prior to joining the Group, Mr. Yu was the head of architectural design institute, deputy director of urban construction commission and executive deputy commander-in-chief of the construction command office of National Development Zones, PRC.

### Independent Non-Executive Directors

**Lee Ka Sze, Carmelo**, aged 52, is an independent non-executive director and a member of the audit committee of the Company. Mr. Lee joined the Company in June 2007. He received a bachelor's degree in Laws and the Postgraduate Certificate in Laws from The University of Hong Kong. He is qualified as a solicitor in Hong Kong, England and Wales, Singapore and Australian Capital Territory and has been a partner of Messrs. Woo, Kwan, Lee & Lo since 1989. Mr. Lee is an independent non-executive director of Ping An Insurance (Group) Company of China, Ltd and a non-executive director of Y.T. Realty Group Limited, CSPC Pharmaceutical Group Limited, Hopewell Holdings Limited, Safety Godown Company Limited, Termbray Industries International (Holdings) Limited and Yugang International Limited, all of which are listed on the Stock Exchange. Mr. Lee is the chairman of the Listing Committee of the Stock Exchange of Hong Kong Limited. He is also a member of SFC Dual Filing Advisory Group of Securities and Futures Commission, a member of the SFC (HKEC Listing) Committee, a member of the Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants and the chairman of the Transport Tribunal of the Hong Kong Government.



## Directors and Senior Management's Profile

**Dai Feng**, aged 71, is an independent non-executive director, a member of the audit committee, the chairman of the remuneration committee (since February 28, 2012) and a member of the nomination committee of the Company. Mr. Dai joined the Company in June 2007. He is a member of the Expert Committee on Urban Planning of the Ministry of Construction (國家建設部城市規劃專家委員會), a member of the Expert Committee on Living Environment of the China Research Association on Property and Residence (中國房地產及住宅研究會人居環境委員會), and member of various other professional organizations on urban planning and research in the PRC. He is a part-time professor of Huazhong University of Science and Technology and Wuhan University of Technology and is also a fellow of the International Eurasian Academy of Sciences. Mr. Dai has over 43 years of experience in property development, specializing in urban planning, design and related information technology. Since 1985, he has won various prizes in urban planning and application of advanced technology. His achievements were highly recognized by the Ministry of Construction of China. Mr. Dai is an independent non-executive Director of Guangzhou R&F Properties Co. Ltd. which is listed on the Main Board of the Stock Exchange.

**Tam Chun Fai**, aged 50, is an independent non-executive director, the chairman of the audit committee, a member of the remuneration committee and a member of the nomination committee of the Company. Mr. Tam joined the Company in June 2007. He graduated from The Hong Kong Polytechnic University with a bachelor's degree in Accountancy. He is a member of the Hong Kong Institute of Certified Public Accountants and is also a member of Chartered Financial Analyst. Mr. Tam has over 27 years of experience in auditing and corporate advisory services as well as financial management and compliance work. He is an executive director, the chief financial officer and company secretary of Beijing Enterprises Holdings Limited, a company listed on the Main Board of the Stock Exchange and is an independent non-executive director of Hi Sun Technology (China) Limited, a company listed on the Main Board of the Stock Exchange.

**Li Bin Hai**, aged 63, is an independent non-executive director, a member of the remuneration committee, the nomination committee and the audit committee of the Company. He was appointed as an independent non-executive director with effect from 1 July 2012. He was the former chairman of Poly Real Estate Group Co., Ltd. ("Poly Real Estate," together with its subsidiaries, the "Poly Real Estate Group"), a company listed on the Shanghai Stock Exchange and retired on 31 May 2010 after 18 years at the helm of Poly Real Estate. Before his retirement, he held various positions within the Poly Real Estate Group, including the general manager of Guangzhou Poly Real Estate Development Corporation, director and deputy general manager of Poly Southern Group Co., Ltd. and chief economist of China Poly Group Corporation.



## Senior Management

**Law Siu Wo**, aged 50, is a vice president of finance of the Group. Mr. Law joined the Group in October 2008 and is responsible for the overall domestic and foreign financial budgets and analysis of the Group. He graduated from University of Wisconsin in the United States and holds a master's degree in Business Administration from University of California, Los Angeles. Mr. Law had worked for an international firm of certified public accountants for more than six years and another private equity fund for three years. He also had worked as financial controllers of several listed companies in Hong Kong and United States for more than 12 years. Mr. Law is a member of the American Institute of Certified Public Accountants and a member of Hong Kong Institute of Certified Public Accountants.

**Chen Jie Ping**, aged 40, is a director of the hotel and commerce division of the Group. Mr. Chen joined the Group in 2003 and had been responsible for the marketing and planning of the Group's projects. Currently, Mr. Chen is responsible for the planning and operations of hotel and commercial properties of the Group. Prior to joining the Group, Mr. Chen was a deputy general manager of a property agent and is experienced in the sale of properties in the PRC.

**Luo Xiao Yun**, aged 45, is a director of the legal affairs division of the Group and assistant to the Group's chairman. Ms. Luo joined the Group in November 2009 and is responsible for the overall operations and management of legal affairs. Ms. Luo graduated from Zhongshan University with a bachelor's degree in Laws and subsequently was admitted to practise in the PRC as a qualified solicitor. Ms. Luo is a practising solicitor with extensive working experience in financial investment, corporate law and civil and commercial law. Prior to joining the Group, Ms. Luo began her legal career at the Foreign Economic and Trade Cooperation Committee and was a solicitor in other law firms.

**Lin Kai Ping**, aged 39, is a general manager of Guangzhou Ningjun Property Management Limited. Ms. Lin joined the Group in April 2004 and is responsible for the overall property management of the Southern China Region. Ms. Lin graduated from the University of International Business and Economics majoring in Administration Management. Prior to joining to the Group, Ms. Lin worked in a world's leading British property management company. She has 20 years of extensive working experiences in property management.

**Liu Peng Peng**, aged 40, is a vice president and a general manager of the Northern China Region of the Group. Mr. Liu graduated from Tongji University in Shanghai with a bachelor's degree in Professional Urban Planning. He joined the Group in May 2011 and is responsible for the general operation and management of the Northern China Region and Hainan operations. Prior to joining the Group, Mr. Liu held various positions in a number of renowned domestic real estate enterprises, acquiring 17 years of extensive experience in property management.





## Directors and Senior Management's Profile

**Luo Qing**, aged 48, is general manager of the Chengdu office of the Group. Mr. Luo graduated from South China University of Technology with a bachelor's degree in Architectural Engineering and is a registered supervision engineer, possessing extensive experience in project management. Mr. Luo joined the Group in 2001 and is mainly responsible for the management and operation of the Chengdu office of the Group. Before joining the Group, Mr. Luo was a general manager of a construction supervision company.

**Chen Wen De**, aged 35, is general manager of the Suzhou office of the Group. Mr. Chen joined the Group in March 1997 as project manager and supervisor. Mr. Chen has been responsible for the management and operation of the Suzhou office of the Group since his office as the general manager of Suzhou office.

**Li Ning**, aged 48, is the director of product research and development of the Group. Mr. Li joined the Group in November 2010 and is mainly responsible for the development and design of products of the Group. Mr. Li is a grade-one national registered engineer and senior architecture design engineer. Mr. Li graduated from Murdoch University with a Master of Business Administration. Mr. Li has 24 years of experience in designing large-scaled integrated architecture and operational management.

**Chen Guang Chuan**, aged 44, is the general manager of the Hainan office of the Group. Mr. Chen graduated from Guangzhou Open University, majoring in Business Administration. Mr. Chen joined the Group in October 2009 and is mainly responsible for the management and operation of the Hainan office. Before joining the Group, Mr. Chen was a general manager of a real estate company.



## Compliance with the Code on Corporate Governance Practices

The Group believes that sound and good corporate governance practices are not only key elements in enhancing investor confidence and the Company's accountability and transparency but also important to the Company's long-term success. Key practices adopted by the Company on corporate governance are as follows:

- Develop and review the Company's policies and practices on corporate governance
- Review and monitor the training and continuous professional development of directors and senior management
- Review and monitor the Company's policies and practices on compliance with legal and regulatory requirements

The Stock Exchange has made various amendments to the Code on Corporate Governance Practices (the "Former Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and the revised code, namely Corporate Governance Code (the "New Code"), became effective on 1 April 2012. The Group, therefore, strives to attain and maintain effective corporate governance practices and procedures. The Company has adopted and complied with all the applicable code provisions of the Former Code from 1 January 2012 to 31 March 2012. The Company has also adopted and complied with all the code provisions of the New Code from 1 April 2012 to 31 December 2012, save for the deviations which are explained below.

### Code A.6.7 under New Code

Mr. Dai Feng, an independent non-executive director was unable to attend the Company's annual general meeting which was held on 8 June 2012 ("2011 AGM") due to an engagement in the PRC.

### Code E.1.2 under New Code

Mr. Kong Jian Min, the Chairman of the Board was unable to attend the 2011 AGM as he had an engagement that was important to the business of the Company.

## Board of Directors

The Board is in charge of the task of maximizing the financial performance of the Company and making decisions in the best interest of the Company. The Board is responsible for formulating business policies and strategies, directing and supervising management of the Group, adopting and monitoring internal business and management control, approving and monitoring annual budgets and business plans, reviewing operational and financial performance, considering dividend policy, reviewing and monitoring the Company's systems of financial control and risk management. The Board has delegated the day-to-day management, administration and operation of the Group and implementation and execution of Board policies and strategies to the executive directors and management of the Company.

As at 31 December 2012, the Board consists of eleven members, including seven executive directors, Mr. Kong Jian Min (Chairman), Mr. Kong Jian Tao (Chief Executive Officer), Mr. Kong Jian Nan, Mr. Li Jian Ming, Mr. Tsui Kam Tim, Mr. He Wei Zhi and Mr. Yu Yao Sheng, and four independent non-executive directors, Mr. Lee Ka Sze, Carmelo, Mr. Dai Feng, Mr. Tam Chun Fai and Mr. Li Bin Hai. Biographical details of the Directors are set out on pages 28 to 30. Messrs. Kong Jian Min, Kong Jian Tao and Kong Jian Nan are brothers. Save as disclosed above, there is no family or other material relationship among members of the Board.

All executive directors have entered into service contracts with the Company for a specific term of three years. Under the Articles of Association of the Company (the "Articles of Association"), the Board is empowered to appoint any person as a director to fill the casual vacancy on or as an additional director of the Board. The Board considers a candidate's experience, skill and knowledge and competency and ability to fulfill duty of care and diligence and fiduciary duty and/or recommendation by the Nomination Committee (if any).



In compliance with Rule 3.10 of the Listing Rules, the Company has appointed four independent non-executive directors, one of whom has appropriate professional qualifications in accounting and financial management. All independent non-executive directors have confirmed their independence of the Company and the Company considers them to be independent in accordance with the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. All independent non-executive directors have entered into letters of appointment with the Company for a specific term of one year. One third of the directors are subject to retirement from office by rotation and re-election at the annual general meeting once every three years in accordance with the Articles of Association.

All directors, including independent non-executive directors, have given sufficient time and effort to the affairs of the Group. Independent non-executive directors have provided the Board with their diversified expertise, experience and professional advice. The directors come from diverse background with varied expertise in finance, legal and business field. The Board believes that the ratio between executive directors and independent non-executive directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of shareholders and the Group. The Board also believes that the views and participation of the independent non-executive directors in the Board and committee meetings provides independent judgment on the issues relating to strategy, performance, conflict of interest and management process to ensure that the interests of all shareholders are considered and safeguarded. The Company has maintained an updated list of its Directors identifying their roles and functions on websites of the Company and the Stock Exchange. Independent Non-executive Directors are identified as such in all corporate communications that disclose the names of Directors of the Company.

All directors have full and timely access to all relevant information in relation to the Group's businesses and affairs as well as unrestricted access to the advice and services of the company secretary, who is responsible for providing directors with Board papers and related materials. The directors may seek independent professional advice at the Company's expenses in carrying out their duties and responsibilities.

The Company has subscribed appropriate and sufficient insurance coverage on directors' liabilities in respect of legal actions taken against directors arising out of corporate activities.

During the year of 2012, the Board held four meetings. At these board meetings, directors discussed and exchanged their views on significant issues and general operations of the Group, formulated business policies and strategies, reviewed the financial performance and reviewed and approved the grant of share options, the interim result and annual result. It also reviewed and approved the issuance of US\$400 million 13.25% senior notes due 2017 and the appointment of Mr. Li Bin Hai as an independent non-executive director and a member of the Remuneration Committee, the Nomination Committee and the Audit Committee of the Company. Monthly updates, were provided by the management to the board members, gave a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable them to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. In addition to Board meetings, the Chairman holds one meeting with Independent Non-executive Directors annually without the presence of Executive Directors.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the Group's internal control systems for the year ended 31 December 2011 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such systems are effective and adequate. It also, through the Audit Committee, has reviewed and monitored the Company's policies and practices on corporate governance and the relevant legal and regulatory requirements and their compliances.

Through the Remuneration Committee, the Board has reviewed remuneration policy and remuneration packages of individual executive directors, non-executive directors and members of senior management with reference to the goals and objectives of the Company.

Through the Nomination Committee, the Board has reviewed the structure, size and composition of the Board and the qualification of re-election of the directors under rotation system.



Attendances of the individual directors at the Board meetings and the 2011 AGM are set out as follows:

<b>Directors</b>	<b>Board Meetings Attended/ No. of meeting held</b>	<b>Written Resolutions</b>	<b>2011 AGM Attended/ No. of meeting held</b>
<i>Executive Directors</i>			
Kong Jian Min ( <i>Chairman</i> )	4/4	2/2	0/1
Kong Jian Tao ( <i>Chief Executive Officer</i> )	4/4	2/2	1/1
Kong Jian Nan	4/4	2/2	0/1
Li Jian Ming	4/4	2/2	0/1
Tsui Kam Tim	4/4	2/2	1/1
He Wei Zhi	4/4	2/2	0/1
Yu Yao Sheng	4/4	2/2	0/1
<i>Independent Non-Executive Directors</i>			
Lee Ka Sze, Carmelo	4/4	2/2	1/1
Dai Feng	4/4	2/2	0/1
Li Bin Hai *	2/2	0/0	0/0
Tam Chun Fai	4/4	2/2	1/1

\* Mr. Li Bin Hai was appointed as an Independent Non-executive Director on 1 July 2012.

At least 14 days' notice prior to the date of meeting is given to all directors and an agenda together with board papers are sent to all directors no less than three days before the date of meeting. All directors are given opportunity to include in the agenda any other matter that they would like to discuss in the meeting. With respect to the board committee meeting, reasonable prior notice is given to all committee members. All directors and committee members of the Board committee are urged to attend the board meeting and board committee meeting in person. For the directors and committee members, who are unable to attend the meeting, participation through electronic means will be arranged and available.

Should a director have a potential conflict of interest in a matter being considered in the board meeting, he will be abstained from voting. Independent non-executive directors with no conflict of interest will be present at meetings dealing with such conflict of interest issues.

The company secretary assists the Chairman of the Board in preparation of the agenda for the board meeting and board committee meeting and ensures that all applicable rules and regulations regarding the board meeting are followed. He also prepares and keeps detailed minutes of each board meeting and board committee meeting. Within a reasonable time after each meeting, the draft minutes are circulated to all directors or committee members for comment and the final and approved version of minutes are sent to all directors or committee members for their records. Board committees, including the audit committee, nomination committee and remuneration committee, all follow the applicable principles, practices and procedures used in board meetings.

During the year ended 31 December 2012, the Company has organized a training session on the topics of insider information and Corporate Governance Code and Associated Listing Rules Amendments for all the Directors of the Company to attend. The Company Secretary maintains records of training attended by the Directors and Mr. Tsui Kam Tim, the Company Secretary of the Company, during the year of 2012, has undertaken 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

## Chairman and Chief Executive Officer

Mr. Kong Jian Min is the Chairman of the Board and Mr. Kong Jian Tao is the Chief Executive Officer of the Company. As disclosed, Messrs. Kong Jian Min and Kong Jian Tao are brothers. Despite their relationship, the divisions of responsibilities between the Chairman of the Board and the Chief Executive Officer are clearly divided to ensure a balance of power and authority and to reinforce their independence and accountability.



## Corporate Governance Report

Mr. Kong Jian Min, being the Chairman, is responsible for providing leadership to the Board and ensuring that the Board functions effectively; that directors receive in timely manner adequate information which is complete and reliable and that all directors are properly briefed on issues arising at board meetings. The Chairman also encourages directors to participate actively in and to make a full contribution to the Board so that the Board acts in the best interest of the Company.

Mr. Kong Jian Tao, being the Chief Executive Officer, is responsible for the daily operations of the Company, execution of business policies, strategies, objectives and plans as formulated and adopted by the Board and leading the management of Company.

### Annual Remuneration payable to the members of senior management

The annual remuneration of the members of the senior management by band for the year ended 31 December 2012 is as follows:

Remuneration Bands (RMB)	Number of Individuals
0–1,000,000	1
1,000,001–2,000,000	7
2,000,001–3,000,000	1
3,000,001–4,000,000	0
4,000,001–5,000,000	0
5,000,001–6,000,000	0
6,000,001–7,000,000	0
7,000,001–8,000,000	0
8,000,001–9,000,000	0

### Compliance with Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Specific enquiries have been made with all directors of the Company regarding any non-compliance with the Model Code and all directors of the Company confirmed that they have complied with the provisions of the Model Code during the financial year ended 31 December 2012.

### Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparation of the financial statements for the financial year ended 31 December 2012 which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the applicable statutory requirements and accounting standards.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" contained in this annual report.

### Board Committees

The Board has established three board committees, namely audit committee, remuneration committee and nomination committee, to oversee the particular aspect of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties. The written terms of reference of each committee was posted on the HKEx website and the website of the Company.



## Audit Committee and Accountability

In compliance with Rule 3.21 of the Listing Rules, an audit committee was established on 11 June 2006 with written terms of reference in accordance with the New Code as set out in Appendix 14 to the Listing Rules. The audit committee comprises four members who are independent non-executive directors, namely Mr. Tam Chun Fai (the chairman), Mr. Lee Ka Sze, Carmelo, Mr. Dai Feng and Mr. Li Bin Hai. Mr. Li Bin Hai was appointed as a member of the audit committee on 1 July 2012. The audit committee reports to the Board and is delegated by the Board to assess matters related to the financial statements. Under its terms of reference, the audit committee is required to perform and make recommendation to the Board, amongst the others, the following duties:

- making recommendation to the Board on appointment, re-appointment and removal of external auditor of the Group and considering the remuneration and terms of engagement of that external auditor;
- reviewing and monitoring the external auditor's independence and effectiveness of the audit process in accordance with applicable standard;
- reviewing the Group's financial controls, internal control and risk management system;
- reviewing the Group's financial and accounting policies and practices;
- ensuring that management has fulfilled its duty to establish and maintain an effective internal control and risk management systems;
- ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, internal rules and procedures approved by the Board;
- reviewing and monitoring the integrity of the Groups' financial statements, annual reports, accounts and half-year report;
- reviewing and monitoring the Company's policies and practices on corporate governance and the relevant legal and regulatory requirements and their compliances.

The audit committee held two meetings and a written resolution of the audit committee was passed during the year and all minutes were kept by the company secretary. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited consolidated financial statement for the year ended 31 December 2011 and the unaudited condensed consolidated interim financial information for the six months ended 30 June 2012. It has also reviewed and recommended to the Board the current policies and practices on corporate governance of the Company, the Company's compliance with the Corporate Governance Code and the disclosure in the Corporate Governance Report. Further it has reviewed and monitored the training and continuous professional development of directors and senior management and the current code of conduct applicable to employees and directors and recommended the same to the Board. The audit committee reported that there was no material uncertainty that cast doubt on the Company's going concern ability. The appointment of Mr. Li Bin Hai as an audit committee member was reviewed and approved by way of resolution.

Attendance of individual members of the audit committee at meetings for the year ended 31 December 2012 is set out as follows:

Committee Members	Meetings Attended/No of meeting held	Written Resolution
Tam Chun Fai	2/2	1/1
Lee Ka Sze, Carmelo	2/2	1/1
Dai Feng	2/2	1/1
Li Bin Hai *	1/1	0/0

\* Mr. Li Bin Hai was appointed as an audit committee member on 1 July 2012.



For the year ended 31 December 2012, the external auditors' remuneration in respect of audit services provided to the Group amounted to RMB4,000,000 and fees for non-audit services amounted to an aggregate amount of approximately RMB1,307,000 (equivalent), being the service charge for the review of financial information. Non-audit services mainly consisted of advisory, review and other reporting services.

## Remuneration Committee

The remuneration committee was established with written terms of reference in accordance with the Code Provision as set out in Appendix 14 to the Listing Rules. The principal responsibilities of the remuneration committee include but not limited to formulate and make recommendations on remuneration policy and remuneration package of individual executive directors, non-executive directors and members of senior management to the Board. The remuneration committee consists four members as at 31 December 2012, of which one executive director being Mr. Kong Jian Min (being the chairman of the remuneration committee up to 27 February 2012) and three are independent non-executive directors being Mr. Tam Chun Fai, Mr. Dai Feng (the chairman of the remuneration committee from 28 February 2012) and Mr. Li Bin Hai. The Board expects the remuneration committee to exercise independent judgment and ensures that executive directors do not participate in the determination of their own remuneration.

One remuneration committee meeting was held on 23 February 2012 and a written resolution of the remuneration committee was passed on 29 June 2012. It has reviewed and formulated policies in respect of remuneration structure of all directors and senior management of the Company, reviewed the remuneration packages of individual executive directors, non-executive directors and senior management and made recommendations to the Board for its consideration and reviewed and approved the management's remuneration proposals with reference to the Board's corporate goals and objectives. The remuneration package of the director, who was appointed with effect from 1 July 2012, together with his service contract was reviewed by remuneration committee by way of resolution.

Attendance of individual members of the remuneration committee at meetings for the year ended 31 December 2012 is set out as follows:

Committee Members	Meetings Attended/No of meeting held	Written Resolution
Kong Jian Min	1/1	1/1
Tam Chun Fai	1/1	1/1
Dai Feng	1/1	1/1
Li Bin Hai *	0/0	0/0

\* Mr. Li Bin Hai was appointed as a remuneration committee member on 1 July 2012.

## Nomination Committee

The nomination committee was established on 11 June 2007. The nomination committee is responsible for, including but not limited to, reviewing the structure, size and composition of the Board, assessing the independence of the Independent Non-executive Directors and making recommendation to the Board on selection of candidates for directorships. The nomination committee comprises an executive director, namely Mr. Kong Jian Min, and three independent non-executive directors, namely Mr. Tam Chun Fai, Mr. Dai Feng and Mr. Li Bin Hai. Mr. Kong Jian Min is the chairman of the nomination committee.

One nomination committee meeting was held on 23 February 2012 and a written resolution of the nomination committee was passed on 29 June 2012. It has reviewed the structure, size and composition (including skills, knowledge and experience) of the Board; has assessed the independence of non-executive directors and the retired directors for re-election; has reviewed the experience, background and the independence of Mr. Li Bin Hai appointed as an Independent Non-executive Director; and has reviewed whether every director gives sufficient time and attention to the company's affairs. The aforesaid review and assessment was recommended to the Board. The appointment of Mr. Li Bin Hai as a nomination committee member was reviewed and approved by way of resolution.



Attendance of individual members of the nomination committee at meetings for the year ended 31 December 2012 is set out as follows:

Committee Members	Meetings Attended/No of meeting held	Written Resolution
Kong Jian Min	1/1	1/1
Tam Chun Fai	1/1	1/1
Dai Feng	1/1	1/1
Li Bin Hai *	0/0	0/0

\* Mr. Li Bin Hai was appointed as a nomination committee member on 1 July 2012.

## Internal Control

The Board is responsible for maintaining sound and effective internal control system in order to safeguard the Group's assets and shareholders' interests and reviewing and monitoring the effectiveness of the Company's internal control and risk management systems on a regular basis so as to ensure that internal control and risk management systems in place are adequate.

The Group's internal control system includes a well-established organizational structure with clear division lines of responsibility and authority. The day-to-day departmental operations is entrusted to the individual department which is accountable for its own conduct and performance and is required to operate its own department's business within the parameter of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Board from time to time. Each department is also required to keep the Board informed of material developments of the department's business and implementation of the policies and strategies set by the Board on a regular basis.

The Board conducted a review and assessment of the effectiveness of the Company's internal control systems including financial, operational and compliance controls and risk management for the year ended 31 December 2011. The assessment was made by discussions with the management of the Company, its external and internal auditors and the review performed by the audit committee. The Board believes that the existing internal control system is adequate and effective.

## Shareholder Relations

The Company understands the importance of maintaining effective mutual communication with its shareholders and values every opportunity to communicate with them. The Company has adopted a policy of disclosing clear and relevant information to shareholders through various channels in a timely manner. Annual and interim reports are printed and sent to all shareholders by post as requested. The Company has also complied with provisions of the Listing Rules by posting announcements, notices, annual reports, interim reports and shareholders' circulars on the websites of the Stock Exchange and the Company (<http://en.kwgproperty.com/En/IR.asp?ItemCode:007001>) for the designated period. Apart from these documents, press releases and newsletters are posted on the Company's website to enhance its transparency. Being constantly updated in a timely manner, the website also contains a wide range of additional information on the Company's business activities.

In addition to publication of information, the annual general meeting of the Company provides a forum for communication between shareholders and directors. The Chairman of the Board personally chairs the annual general meeting to ensure shareholders' views are communicated to the Board. Moreover, the briefing on the Company's business and the questions and answer session at the meeting allow shareholders to stay informed of the Group's strategies and goals.

In addition to the Chairman of the Board, the chairman of the Board committees, or in their absence, other members of the respective committees and the auditors of the Company, are available to answer any queries that shareholders may have. The Chairman of the annual general meeting will propose separate resolutions for each issue to be considered at the meeting.

The annual general meeting proceedings are reviewed from time to time to ensure that the Company follows best corporate governance practices and shareholders' rights are preserved. Notice of annual general meeting is delivered to all shareholders at least 20 clear business days prior to the date of the meeting, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. At the beginning of the meeting, the procedures for demanding and conducting a poll will be explained by the Chairman of the Board. Vote results are released by way of publication of an announcement.





## Shareholders' rights

### Procedures for shareholders to convene an Extraordinary General Meeting ("EGM")

Pursuant to Article 58 of the Articles of Association, any one or more members 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 ("EGM Requisitionists") shall at all times have the right, by written requisition sent to the Board or the Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

The EGM Requisitionists can deposit the written request at the Company's principal place of business in Hong Kong ("Principal Office"), which is presently situated at Suite 7506, 75/F, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. The EGM Requisitionists must state in their request(s) the objects of the EGM, and such request must be signed by all the EGM Requisitionists, any may consist of several documents in like form, each signed by one or more of the EGM Requisitionists.

The Share Registrar will verify the EGM Requisitionists' particulars in the EGM Requisitionists' request. Promptly after confirmation from the Share Registrar that the EGM Requisitionists' request is in order, the Company Secretary will arrange the Board to convene an EGM by serving sufficient notice to all the registered Shareholders in accordance with all the relevant statutory and regulatory requirements. On the contrary, if the EGM Requisitionists' request is verified not in order, the EGM Requisitionists will be advised of this outcome and accordingly, an EGM will not be convened as requested.

If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the EGM Requisitionists' himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the EGM Requisitionists by reason of the Board's failure to duly convene an EGM shall be reimbursed to the EGM Requisitionists by the Company.

### Procedures for putting forward proposals at general meeting

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2011 Revision). However, shareholders are requested to follow Article 58 of the Company's Articles of Association for including a resolution at an EGM. The requirements and procedures are set out above. Pursuant to Article 88 of the Company's Articles of Association, no person other than a director retiring at a meeting, shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notices(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules. The procedures for shareholders of the Company to propose a person for election as director is posted on the Company's website.

### Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Investor Relations Department which contact details are as follows:

Investor Relations Department  
KWG Property Holding Limited  
Suite 7506, 75/F, International Commerce Centre,  
1 Austin Road West, Kowloon, Hong Kong

Fax: (852) 2878 7091  
Email: ir@kwgproperty.com

### Significant changes in the Company's constitutional documents

During the year ended 31 December 2012, there is no any significant change in the constitutional documents of the Company.



The directors are pleased to present their report and the audited financial statements for the year ended 31 December 2012.

## Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## Results and Dividends

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 50 to 134.

The Board of the Company has proposed the payment of a final dividend of RMB15 cents per ordinary share for the year ended 31 December 2012. The proposed final dividend, if approved by the shareholders at the forthcoming annual general meeting, will be paid on or before 5 July 2013 to the shareholders on the Register of Members on 18 June 2013.

## Summary Financial Information

A financial summary of the Group is set out on page 136. This summary does not form part of the audited financial statements.

## Property, Plant and Equipment and Investment Properties

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements, respectively. Further details of the Group's major investment properties are set out on page 135.

## Properties under Development

Details of the properties under development of the Group during the year are set out in note 20 to the financial statements. Further details of the Group's major properties under development are set out on page 135.

## Completed Properties Held for Sale

Details of the completed properties held for sale of the Group during the year are set out in note 21 to the financial statements. Further details of the Group's major completed properties held for sale are set out on page 135.

## Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in notes 31 and 32 to the financial statements.

## Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## Purchase, Redemption or Sale of Listed Securities of the Company

During the year, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.



## Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity respectively.

## Distributable Reserves

At 31 December 2012, the Company's reserves available for distribution, calculated in accordance with articles 146 of the Articles of Association of the Company, amounted to approximately RMB6,420,235,000, of which approximately RMB433,973,000 has been proposed as a final dividend for the year.

## Charitable Donations

The charitable donations made by the Group during the year amounted to approximately RMB2,582,000.

## Major Customers and Suppliers

For the year ended 31 December 2012, sales to the Group's five largest customers accounted for less than 30% of the Group's revenue in the year.

In the year under review, payments attributable to the Group's largest contractor and five largest contractors amounted to approximately 6.4% and 24.0% respectively, of the total payments under construction contracts for the year. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 12.4% and 33.8% respectively, of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest contractors and suppliers.

## Directors

The directors of the Company during the year and up to the date of this report were:

### Executive Directors:

Mr. Kong Jian Min (*Chairman*)  
Mr. Kong Jian Tao (*Chief Executive Officer*)  
Mr. Kong Jian Nan  
Mr. Li Jian Ming  
Mr. Tsui Kam Tim  
Mr. He Wei Zhi  
Mr. Yu Yao Sheng

### Independent Non-executive Directors:

Mr. Lee Ka Sze, Carmelo  
Mr. Dai Feng  
Mr. Tam Chum Fai  
Mr. Li Bin Hai

In accordance with articles 86(3), 87(1) and 87(2) of the Company's Articles of Association, Messrs. Kong Jian Nan, Li Jian Ming, Dai Feng, Tam Chun Fai and Li Bin Hai will retire from office as executive directors or independent non-executive directors of the Company by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are appointed for a period of one year.



The Company has received annual confirmations of independence from Messrs. Lee Ka Sze, Carmelo, Dai Feng, Tam Chun Fai and Li Bin Hai, and as at the date of this report still considers them to be independent.

## Directors' and Senior Management's Biographical Details

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 28 to 32 of the annual report.

## Changes in Information of Directors

Pursuant to Rule 13.51 (B) of the Listing Rules, there are changes in the information required to be disclosed pursuant to paragraph (a) to (e) and (g) of Rule 13.51 (2) of the Listing Rules during the course of the directors' term of office. The changes of information on Directors are as follows:

- (1) Mr. Dai Feng, one of the Independent Non-executive Director of the Company, replaced Mr. Kong Jian Min as the chairman of Remuneration Committee on 28 February 2012. Mr. Kong Jian Min remained as a member of such committee.
- (2) Mr. Dai Feng resigned as an Independent Director of Guangzhou Donghua Enterprises Co., Ltd. on 3 May 2012, which is listed on the Shanghai Stock Exchange.
- (3) Annual director's fee of all Directors of the Company was increased from HK\$300,000 to HK\$400,000 from 1 March 2012.
- (4) Mr. Lee Ka Sze, Carmelo was appointed as the Chairman of the Listing Committee of the Stock Exchange on 4 May 2012 and as a member of the SFC (HKEX Listing) Committee from 1 April 2012 to 31 March 2013.
- (5) Mr. Lee Ka Sze, Carmelo resigned as a non-executive director and a member of the audit committee of The Cross-Harbour (Holdings) Limited with effect from 31 December 2012.

## Directors' Service Contracts

Each of Messrs. Kong Jian Min, Kong Jian Tao, Kong Jian Nan, Li Jian Ming, Tsui Kam Tim, He Wei Zhi and Yu Yao Sheng has a service contract with the Company for a term of three years and each of these service contracts is subject to termination by either party giving not less than three months' written notice.

Each of the independent non-executive director has entered into a letter of appointment with the Company for a term of one year and is subject to termination by either party giving not less than three months' written notice.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## Directors' Remuneration

The directors' emoluments are subject to the recommendations of the remuneration committee and the Board's approval. The emoluments are determined by the Board with reference to directors' duties, responsibilities and performances and the results of the Group.



## Interests and Short Positions of the Directors and Chief Executive in Shares and Underlying Shares

At 31 December 2012, the interests and short positions of the directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows or as disclosed under the section headed "Share Option Scheme" on page 46:

### Long positions in ordinary shares of the Company:

Name of Director	Long position/ Short position	Nature of interests	Number of shares held (Note 1)	Approximate percentage of shareholding
Kong Jian Min (Notes 2, 3 and 4)	Long Position	Interest of controlled corporations	1,714,441,500	59.26%
	Long Position	Beneficial owner	35,639,500	1.23%
Kong Jian Tao (Notes 2 and 3)	Long Position	Interest of controlled corporations	1,687,500,000	58.33%
	Long Position	Beneficial owner	1,000,000	0.035%
Kong Jian Nan (Notes 2 and 3)	Long Position	Interest of controlled corporations	1,687,500,000	58.33%
He Wei Zhi (Note 5)	Long Position	Interest of spouse	10,000	0.00035%
Yu Yao Sheng	Long Position	Beneficial owner	275,000	0.0095%

Notes:

- Share(s) of HK\$0.10 each in the capital of the Company.
- Plus Earn Consultants Limited ("**Plus Earn**") is legally and beneficially owned as to 76.5% by Kong Jian Min, as to 15% by Kong Jian Tao and as to 8.5% by Kong Jian Nan. Therefore, Kong Jian Min, Kong Jian Tao and Kong Jian Nan are deemed to be interested in 1,612,500,000 Shares through their interests in Plus Earn. Each of Kong Jian Min, Kong Jian Tao and Kong Jian Nan is a director of Plus Earn.
- Right Rich Consultants Limited ("**Right Rich**") is legally and beneficially owned as to 76.5% by Kong Jian Min, as to 15% by Kong Jian Tao and as to 8.5% by Kong Jian Nan. Therefore, Kong Jian Min, Kong Jian Tao and Kong Jian Nan are deemed to be interested in 75,000,000 Shares through their interests in Right Rich. Each of Kong Jian Min, Kong Jian Tao and Kong Jian Nan is a director of Right Rich.
- Hero Fine Group Limited ("**Hero Fine**") is legally and beneficially owned as to 100% by Kong Jian Min and Kong Jian Min is therefore deemed to be interested in 26,941,500 Shares through his interest in Hero Fine. Kong Jian Min is the sole director of Hero Fine.
- These Shares are held and beneficially owned by Wang Yanlei, the spouse of He Wei Zhi.

### Long positions in shares and underlying shares of associated corporations:

Name of Director	Associated Corporations	Number of shares held in associated corporations	Approximate percentage of shareholding in associated corporations
Kong Jian Min	Plus Earn	765	76.50%
	Right Rich	765	76.50%
Kong Jian Tao	Plus Earn	150	15.00%
	Right Rich	150	15.00%
Kong Jian Nan	Plus Earn	85	8.50%
	Right Rich	85	8.50%

Save as disclosed above or under the section headed "Share Option Scheme" on page 46, as at 31 December 2012, none of the Directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

### Interests and Short Positions of Shareholders Disclosable under the SFO

So far as is known to any directors or chief executive of the Company, as at 31 December 2012, other than the interests and short positions of the directors or the chief executive of the Company as disclosed in the Section "Interests and Short Positions of the directors and the chief executive in Shares and Underlying Shares" above and the Section "Share Option Scheme" below, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

### Interests and Short Positions of Substantial Shareholder(s) in the Shares and Underlying Shares of the Company

#### Long positions in the shares of the Company:

Name	Capacity	Number of shares held (Note 1)	Percentage of issued share capital
Plus Earn (Note 2)	Beneficial owner	1,612,500,000	55.74%

Notes:

- Share(s) of HK\$0.10 each in the capital of the Company.
- Plus Earn is legally and beneficially owned as to 76.5% by Kong Jian Min, as to 15% by Kong Jian Tao and as to 8.5% by Kong Jian Nan.



## Report of the Directors

Save as disclosed above, as at 31 December 2012, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

### Share Option Scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to the shareholders' resolution passed on 11 June 2007. Details of the Scheme are set out in note 32 to the financial statements.

During the year ended 31 December 2012, no share options were granted, exercised or lapsed.

Details of the share options movement pursuant to the Scheme were as follows:

Name of grantee	Number of share options granted as at 1 January 2012	Number of share options granted/ (cancelled) during the year (Note 1)	Number of share options outstanding as at 31 December 2012	Date of grant (Notes 3 and 4)	Period during which share options are exercisable (Note 1)	Exercise price per share (HK\$)
Li Jian Ming	619,000	–	619,000	18 December 2009	18 December 2010– 17 December 2014	6.24
	619,000	–	619,000	26 August 2011	26 August 2012– 25 August 2016	4.49
He Wei Zhi	619,000	–	619,000	18 December 2009	18 December 2010– 17 December 2014	6.24
	619,000	–	619,000	26 August 2011	26 August 2012– 25 August 2016	4.49
Yu Yao Sheng	619,000	–	619,000	18 December 2009	18 December 2010– 17 December 2014	6.24
	619,000	–	619,000	26 August 2011	26 August 2012– 25 August 2016	4.49
Tsui Kam Tim	619,000	–	619,000	18 December 2009	18 December 2010– 17 December 2014	6.24
	1,238,000	–	1,238,000	26 August 2011	26 August 2012– 25 August 2016	4.49
Tam Chung Fai	30,000	–	30,000	18 December 2009	18 December 2009– 17 December 2014	6.24
	30,000	–	30,000	26 August 2011	26 August 2011– 25 August 2016	4.49
Lee Ka Sze, Carmelo	30,000	–	30,000	18 December 2009	18 December 2009– 17 December 2014	6.24
	30,000	–	30,000	26 August 2011	26 August 2011– 25 August 2016	4.49
Dai Feng	30,000	–	30,000	18 December 2009	18 December 2009– 17 December 2014	6.24
	30,000	–	30,000	26 August 2011	26 August 2011– 25 August 2016	4.49
Other employees of the Group	3,305,000	–	3,305,000	18 December 2009	18 December 2010– 17 December 2014	6.24
Other employees of the Group	4,063,000	(241,000)	3,822,000	26 August 2011	26 August 2012– 25 August 2016	4.49



Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise periods.
2. Details of the exercise period of the share option are set out in note 32 to the financial statements.
3. The closing price of the Company's shares immediately before the date on which options granted on 18 December 2009 was HK\$6.23.
4. The closing price of the Company's shares immediately before the date on which options granted on 26 August 2011 was HK\$4.45.

## Valuation of Share Options

The Company has been using the Black-Scholes Model and Binomial Model (the "Models") to value the share options granted. Details of the key parameters used in the Models and the corresponding fair values of the options granted under the Scheme are set out in note 32 to the financial statements.

## Contract of Significance

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

## Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report.

## Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, the Board confirms that the Company has maintained a sufficient public float as required by the Listing Rules during the year under review.

## Directors' Interests in a Competing Business

During the year and up to the date of this report, none of the directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

## Auditors

Ernst & Young retire and a resolution for the re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.





## Disclosures Pursuant to Rule 13.21 of the Listing Rules

A jointly-controlled entity in which the Group owns 50% equity interest, Hines Shanghai New Jiangwan Development Co. Ltd., entered into an agreement for a bank loan of HK\$1.4 billion (the "Loan Agreement I") on 29 June 2011. The Loan Agreement I includes a condition imposing specific performance obligations on Mr. Kong Jian Min ("Mr. Kong"), the controlling shareholder of the Company. Mr. Kong is interested in approximately 60.49% of the issued share capital of the Company as at 31 December 2012. It will be an event of default in the event that Mr. Kong ceases to (i) hold directly or indirectly an aggregate beneficial ownership of not less than 30% in the issued share capital of the Company; (ii) be directly or indirectly the single largest shareholder of the Company; or (iii) exercise or to be entitled to exercise management control over the Company, and in such event (amongst other things), the Loan Agreement I may be terminated by the lenders and the loan may become immediately due and repayable. Further details of the transaction are disclosed in the announcement of the Company dated 29 June 2011.

A jointly-controlled entity in which the Group owns 28.57% equity interest, Total Champ Limited, entered into an agreement for a term loan of HK\$1,075,000,000 (the "Loan Agreement II") on 4 November 2011. The Loan Agreement II includes the similar condition as in Loan Agreement I imposing specific performance obligations on Mr. Kong. It will be an event of default in the event that Mr. Kong ceases to (i) be the single largest shareholder of the Company; (ii) hold directly or indirectly not less than 30% of the beneficial interest in the issued share capital of the Company; or (iii) have the right to determine the composition of the majority of the Board or equivalent body of the Company, and in such event (amongst other things), the Loan Agreement II may be terminated by the lenders and the facility may become immediately due and repayable. Further details of the transaction are disclosed in the announcement of the Company dated 4 November 2011.

On 28 September 2012, the Company entered into a facility agreement in respect of a term loan of HK\$250,000,000 (the "Facility Agreement I"). The Facility Agreement I includes conditions imposing specific performance obligations on Mr. Kong. It will be an event of default if Mr Kong ceases to (i) continue to hold, whether directly or indirectly through any person beneficially, at least thirty five per cent. (35%) of the issued share capital of the Company; (ii) remain as chairman of the board of directors of the Company; and (iii) remain the single largest shareholder of the issued share capital of the Company, and in such event (amongst other things), the Facility Agreement I may be terminated by the lender and the facility may become immediately due and repayable.

On 28 September 2012, the Company entered into a facility Agreement in respect of a term loan of HK\$500,000,000 (the "Facility Agreement II"). The Facility Agreement II includes conditions imposing specific performance obligations on Mr. Kong, Mr. Kong Jian Tao and Mr. Kong Jian Nan (collectively called "Kong's family"). Kong's family is collectively interested in approximately 60.53% of the issued share capital of the Company as at 31 December 2012. It will be an event of default if (i) Kong's family shall not together continue to control the Company; and (ii) Mr. Kong shall not remain as chairman of the board of directors of the Company. "Control" under the Facility Agreement II means (a) (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) the power to appoint and/or remove all or a majority of the members of the board of directors or other governing body of the Company or otherwise control or has the power of control over the affairs and policies of the Company; and (b) to hold, whether directly or indirectly through any person beneficially, at least thirty per cent (30%) of the issued share capital of the Company. Upon the occurrence of an event of default, the Facility Agreement II may be terminated by the lender and the facility may become immediately due and repayable.

ON BEHALF OF THE BOARD

**Kong Jian Min**

*Chairman*

Hong Kong  
25 March 2013



**To the shareholders of KWG Property Holding Limited**  
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of KWG Property Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 50 to 134, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Directors' responsibility for the consolidated financial statements**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the 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.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made 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 auditors' 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 auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**  
*Certified Public Accountants*  
22/F CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong  
25 March 2013



# Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
<b>REVENUE</b>	5	<b>9,676,422</b>	10,122,595
Cost of sales		<b>(6,140,564)</b>	(5,650,499)
Gross profit		<b>3,535,858</b>	4,472,096
Other income and gains, net	5	<b>73,709</b>	94,014
Selling and marketing expenses		<b>(250,981)</b>	(231,813)
Administrative expenses		<b>(642,557)</b>	(532,574)
Other operating expenses, net		<b>(1,318)</b>	(5,545)
Fair value gains on investment properties, net	15	<b>643,153</b>	325,656
Finance costs	7	<b>(70,375)</b>	(124,979)
Share of profits and losses of:			
Associates		<b>(1,877)</b>	(4,608)
Jointly-controlled entities		<b>480,375</b>	(12,312)
<b>PROFIT BEFORE TAX</b>	6	<b>3,765,987</b>	3,979,935
Income tax expenses	10	<b>(1,333,017)</b>	(1,876,028)
<b>PROFIT FOR THE YEAR</b>		<b>2,432,970</b>	2,103,907
Attributable to:			
Owners of the Company	11	<b>2,406,368</b>	2,103,368
Non-controlling interests		<b>26,602</b>	539
		<b>2,432,970</b>	2,103,907
<b>Earnings per share attributable to owners of the Company</b>			
– Basic and diluted	13	<b>RMB83 cents</b>	RMB73 cents

Details of the dividends proposed for the year are disclosed in note 12 to the financial statements.

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
<b>PROFIT FOR THE YEAR</b>	<b>2,432,970</b>	2,103,907
<b>OTHER COMPREHENSIVE INCOME</b>		
Exchange differences on translation of foreign operations	<b>7,045</b>	102,698
Share of exchange differences on translation of associates	<b>2,938</b>	34,538
Share of exchange differences on translation of jointly-controlled entities	<b>7,394</b>	16,247
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<b>17,377</b>	153,483
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>2,450,347</b>	2,257,390
Attributable to:		
Owners of the Company	<b>2,423,745</b>	2,256,851
Non-controlling interests	<b>26,602</b>	539
	<b>2,450,347</b>	2,257,390



# Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	<b>2,688,047</b>	1,778,937
Investment properties	15	<b>5,254,772</b>	4,234,290
Land use rights	16	<b>1,055,911</b>	1,060,030
Long term prepayments		<b>251,870</b>	–
Interests in associates	18	<b>641,975</b>	1,998,766
Interests in jointly-controlled entities	19	<b>8,306,895</b>	6,508,942
Deferred tax assets	29	<b>966,263</b>	881,880
Total non-current assets		<b>19,165,733</b>	16,462,845
<b>CURRENT ASSETS</b>			
Properties under development	20	<b>17,950,793</b>	17,933,719
Completed properties held for sale	21	<b>3,987,615</b>	3,022,634
Trade receivables	22	<b>86,414</b>	60,772
Prepayments, deposits and other receivables	23	<b>1,094,206</b>	1,574,683
Due from a jointly-controlled entity	19	–	43,713
Taxes recoverable	24(a)	<b>135,273</b>	114,748
Restricted cash	25	<b>1,517,229</b>	1,348,580
Cash and cash equivalents	25	<b>4,927,197</b>	4,024,609
Total current assets		<b>29,698,727</b>	28,123,458
<b>CURRENT LIABILITIES</b>			
Trade payables	26	<b>3,107,723</b>	2,934,780
Other payables and accruals	27	<b>6,858,708</b>	7,684,208
Due to associates	18	–	1,081,720
Due to jointly-controlled entities	19	<b>2,454,234</b>	589,631
Interest-bearing bank and other borrowings	28	<b>3,100,173</b>	3,409,572
Taxes payable	24(b)	<b>3,374,145</b>	3,290,594
Total current liabilities		<b>18,894,983</b>	18,990,505
<b>NET CURRENT ASSETS</b>		<b>10,803,744</b>	9,132,953
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>29,969,477</b>	25,595,798
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	28	<b>13,090,415</b>	10,424,816
Deferred tax liabilities	29	<b>814,683</b>	766,964
Deferred revenue	30	<b>711,000</b>	711,000
Total non-current liabilities		<b>14,616,098</b>	11,902,780
<b>NET ASSETS</b>		<b>15,353,379</b>	13,693,018

## Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	31	<b>280,485</b>	280,485
Reserves	33(a)	<b>14,567,073</b>	12,573,827
Proposed final dividends	12	<b>433,973</b>	636,493
		<b>15,281,531</b>	13,490,805
<b>Non-controlling interests</b>		<b>71,848</b>	202,213
<b>TOTAL EQUITY</b>		<b>15,353,379</b>	13,693,018

**Kong Jian Min**  
Director

**Kong Jian Tao**  
Director



# Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Notes	Attributable to owners of the Company									Non-controlling interests	Total equity
		Issued capital	Share premium account	Reserve funds	Exchange fluctuation reserve	Equity-settled share option reserve	Capital reserve	Retained profits	Proposed final dividends	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011		280,485	6,615,724	396,752	(64,492)	20,657	(24,134)	4,041,027	318,247	11,584,266	10,006	11,594,272
Profit for the year		-	-	-	-	-	-	2,103,368	-	2,103,368	539	2,103,907
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations		-	-	-	102,698	-	-	-	-	102,698	-	102,698
Share of exchange differences on translation of associates		-	-	-	34,538	-	-	-	-	34,538	-	34,538
Share of exchange differences on translation of jointly-controlled entities		-	-	-	16,247	-	-	-	-	16,247	-	16,247
Total comprehensive income for the year		-	-	-	153,483	-	-	2,103,368	-	2,256,851	539	2,257,390
Acquisition of non-controlling interests	35(c)	-	-	-	-	-	(33,412)	-	-	(33,412)	(9,988)	(43,400)
Contributions from non-controlling interests		-	-	-	-	-	-	-	-	-	201,656	201,656
Share option expenses	32	-	-	-	-	1,347	-	-	-	1,347	-	1,347
Final 2010 dividend declared		-	-	-	-	-	-	-	(318,247)	(318,247)	-	(318,247)
Transfer to reserves	33(a)	-	-	184,370	-	-	-	(184,370)	-	-	-	-
Proposed final 2011 dividend	12	-	-	-	-	-	-	(636,493)	636,493	-	-	-
At 31 December 2011		280,485	6,615,724 <sup>*</sup>	581,122 <sup>*</sup>	88,991 <sup>*</sup>	22,004 <sup>*</sup>	(57,546) <sup>*</sup>	5,323,532 <sup>*</sup>	636,493	13,490,805	202,213	13,693,018

## Consolidated Statement of Changes in Equity

Year ended 31 December 2012

Notes	Attributable to owners of the Company										Non-controlling interests	Total equity
	Issued capital	Share premium account	Reserve funds	Exchange fluctuation reserve	Equity-settled share option reserve	Capital reserve	Retained profits	Proposed final dividends	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2012	280,485	6,615,724	581,122	88,991	22,004	(57,546)	5,323,532	636,493	13,490,805	202,213	13,693,018	
Profit for the year	-	-	-	-	-	-	2,406,368	-	2,406,368	26,602	2,432,970	
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	-	-	-	7,045	-	-	-	-	7,045	-	7,045	
Share of exchange differences on translation of associates	-	-	-	2,938	-	-	-	-	2,938	-	2,938	
Share of exchange differences on translation of jointly-controlled entities	-	-	-	7,394	-	-	-	-	7,394	-	7,394	
Total comprehensive income for the year	-	-	-	17,377	-	-	2,406,368	-	2,423,745	26,602	2,450,347	
Derecognition of a subsidiary	-	-	-	-	-	-	-	-	-	(176,967)	(176,967)	
Contributions from non-controlling interests	-	-	-	-	-	-	-	-	-	20,000	20,000	
Share option expenses	32	-	-	-	3,474	-	-	-	3,474	-	3,474	
Final 2011 dividend declared	-	-	-	-	-	-	-	(636,493)	(636,493)	-	(636,493)	
Transfer to reserves	33(a)	-	-	26,680	-	-	-	(26,680)	-	-	-	
Proposed final 2012 dividend	12	-	-	-	-	-	-	(433,973)	433,973	-	-	
At 31 December 2012	280,485	6,615,724 <sup>*</sup>	607,802 <sup>*</sup>	106,368 <sup>*</sup>	25,478 <sup>*</sup>	(57,546) <sup>*</sup>	7,269,247 <sup>*</sup>	433,973	15,281,531	71,848	15,353,379	

\* These reserve accounts comprise the consolidated reserves of approximately RMB14,567,073,000 (2011: RMB12,573,827,000) in the consolidated statement of financial position.





# Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>3,765,987</b>	3,979,935
Adjustments for:			
Finance costs	7	<b>70,375</b>	124,979
Share of profits and losses of associates		<b>1,877</b>	4,608
Share of profits and losses of jointly-controlled entities		<b>(480,375)</b>	12,312
Interest income	5	<b>(47,530)</b>	(45,726)
Loss on disposal of investment properties, net	6	<b>697</b>	4,950
Loss on disposal of items of property, plant and equipment	6	<b>31</b>	98
Depreciation	6	<b>76,399</b>	35,983
Amortisation of land use rights	6	<b>4,499</b>	1,415
Changes in fair values of investment properties, net	15	<b>(643,153)</b>	(325,656)
Equity-settled share options expenses	32	<b>3,474</b>	1,347
		<b>2,752,281</b>	3,794,245
(Increase)/decrease in properties under development		<b>1,123,417</b>	(1,408,384)
Increase in completed properties held for sale		<b>(1,356,606)</b>	(468,876)
Increase in trade receivables		<b>(25,859)</b>	(13,085)
(Increase)/decrease in prepayments, deposits and other receivables		<b>(774,263)</b>	643,446
Decrease in an amount due from a jointly-controlled entity		<b>43,713</b>	2,442
(Increase)/decrease in restricted cash		<b>(168,649)</b>	179,412
Increase in trade payables		<b>292,613</b>	1,251,584
Increase/(decrease) in other payables and accruals		<b>1,037,299</b>	(2,338,998)
Increase/(decrease) in amounts due to associates		<b>(1,081,720)</b>	639,338
Increase in amounts due to jointly-controlled entities		<b>1,864,603</b>	516,177
Cash generated from operations		<b>3,706,829</b>	2,797,301
Interest received		<b>47,530</b>	45,726
Interest paid		<b>(1,594,994)</b>	(1,356,003)
Corporate income tax paid		<b>(834,621)</b>	(745,062)
Land appreciation tax paid		<b>(313,899)</b>	(275,716)
Net cash flows from operating activities		<b>1,010,845</b>	466,246

## Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Net cash flows from operating activities		<b>1,010,845</b>	466,246
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of items of property, plant and equipment		<b>(1,016,922)</b>	(451,804)
Acquisition of land use rights		–	(79,036)
Proceeds from disposal of investment properties		<b>11,572</b>	26,821
Acquisition of subsidiaries	35(b)	–	(62,650)
Derecognition of a subsidiary	35(a)	<b>(218,496)</b>	–
Acquisition of jointly-controlled entities		–	(538,642)
Proceeds from disposals of property, plant and equipment		<b>5,403</b>	818
Investments in jointly-controlled entities		<b>(988,821)</b>	(386,923)
(Advance to)/repayment from associates		<b>(27,750)</b>	10,975
(Advance to)/repayment from jointly-controlled entities		<b>119,473</b>	(176,996)
Net cash flows used in investing activities		<b>(2,115,541)</b>	(1,657,437)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of senior notes		<b>2,454,609</b>	2,163,019
New bank loans		<b>5,359,480</b>	2,414,047
Repayment of bank loans		<b>(4,540,575)</b>	(3,192,797)
Repayment of trust financing arrangements		<b>(649,859)</b>	(1,107,260)
Dividend paid		<b>(636,493)</b>	(318,247)
Acquisition of non-controlling interests	35(c)	–	(43,400)
Contributions from non-controlling interests		<b>20,000</b>	53,000
Net cash flows from/(used in) financing activities		<b>2,007,162</b>	(31,638)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		<b>4,024,609</b>	5,275,609
Effect of foreign exchange rate changes, net		<b>122</b>	(28,171)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
		<b>4,927,197</b>	4,024,609
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		<b>2,982,307</b>	1,514,026
Non-pledged time deposits with original maturity of less than three months when acquired	25	<b>1,944,890</b>	2,510,583
Cash and cash equivalents		<b>4,927,197</b>	4,024,609



# Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	2,385	1,110
Interests in subsidiaries	17	10,203,062	7,976,327
Advances to associates	18	298,828	271,130
Interests in jointly-controlled entities	19	2,191,235	1,795,251
Total non-current assets		12,695,510	10,043,818
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables	23	94,082	102,967
Amount due from a subsidiary	17	1,275,148	800,000
Cash and cash equivalents	25	332,805	279,046
Total current assets		1,702,035	1,182,013
<b>CURRENT LIABILITIES</b>			
Other payables and accruals	27	245,342	144,324
Due to jointly-controlled entities	19	548,195	–
Interest-bearing bank and other borrowings	28	78,399	280,206
Total current liabilities		871,936	424,530
<b>NET CURRENT ASSETS</b>		<b>830,099</b>	757,483
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>13,525,609</b>	10,801,301
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	28	6,824,889	3,828,212
Total non-current liabilities		6,824,889	3,828,212
Net assets		6,700,720	6,973,089
<b>EQUITY</b>			
Issued capital	31	280,485	280,485
Reserves	33(b)	5,986,262	6,056,111
Proposed final dividends	12	433,973	636,493
Total equity		6,700,720	6,973,089

**Kong Jian Min**  
Director

**Kong Jian Tao**  
Director

## 1. Corporate Information

KWG Property Holding Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities in the People's Republic of China (the "PRC"):

- property development
- property investment
- hotel operation
- provision of property management services

In the opinion of the directors, the immediate and ultimate holding company of the Company is Plus Earn Consultants Limited, which is incorporated in the British Virgin Islands.

### 2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.



## 2.1 Basis of Preparation *(continued)*

### Basis of consolidation *(continued)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income ("OCI") is reclassified to profit or loss or retained profits, as appropriate.

## 2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

Other than as further explained below regarding the impact of amendments to HKAS 12, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

The HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. Prior to the adoption of the amendments, deferred tax with respect to the Group's investment properties was provided on the basis that the carrying amount will be recovered through use, and accordingly the profits tax rate had been applied to the calculation of deferred tax arising on the revaluation of the Group's investment properties.

The presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale has been rebutted by the Group as the Group's investment properties are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly deferred tax has been determined on the basis of recovery through use. The adoption of the amendments did not have any impact on the financial position or performance of the Group.

## 2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i> <sup>2</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> <sup>2</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>4</sup>
HKFRS 10	<i>Consolidated Financial Statements</i> <sup>2</sup>
HKFRS 11	<i>Joint Arrangements</i> <sup>2</sup>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> <sup>2</sup>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i> <sup>2</sup>
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i> <sup>3</sup>
HKFRS 13	<i>Fair Value Measurement</i> <sup>2</sup>
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> <sup>1</sup>
HKAS 19 (2011)	<i>Employee Benefits</i> <sup>2</sup>
HKAS 27 (2011)	<i>Separate Financial Statements</i> <sup>2</sup>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> <sup>2</sup>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> <sup>3</sup>
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> <sup>2</sup>
<i>Annual Improvements 2009–2011 Cycle</i>	Amendments to a number of HKFRSs issued in June 2012 <sup>2</sup>

1 Effective for annual periods beginning on or after 1 July 2012

2 Effective for annual periods beginning on or after 1 January 2013

3 Effective for annual periods beginning on or after 1 January 2014

4 Effective for annual periods beginning on or after 1 January 2015

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.



## 2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards

(continued)

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

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analysis performed, HKFRS 10 is not expected to have any impact on the currently held investments by the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

## 2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards

(continued)

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

The HKAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to setoff” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvements to HKFRSs 2009–2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group’s policies are as follows:

- (a) *HKAS 1 Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.





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## 2.3 Issued but Not Yet Effective Hong Kong Financial Reporting Standards

(continued)

- (b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

## 2.4 Summary of Significant Accounting Policies

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.



## 2.4 Summary of Significant Accounting Policies *(continued)*

### Jointly-controlled entities

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

The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

### Jointly-controlled operations

Joint venture arrangements which involve the use of the assets and other reserves of the Group and other parties, without the establishment of a separate entity, are referred to as jointly-controlled operations. Under this arrangement, assets remain under the ownership and control of each party. Revenue and expenses incurred in common are shared by the parties according to the contractual arrangement.

Assets that the Group controls and liabilities that it incurs in relation to jointly-controlled operations are recognised in the Group's consolidated statement of financial position on an accrual basis and are classified according to the nature of the items. The Group's share of the income that it earns from jointly-controlled operations, together with the expenses that it incurs, is included in the Group's consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to the Group.

### Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associate is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.



## 2.4 Summary of Significant Accounting Policies *(continued)*

### Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development, completed properties held for sale, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).



## 2.4 Summary of Significant Accounting Policies *(continued)*

### Property, plant and equipment and depreciation

Property, plant and equipment, other than assets under construction, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3% to 5%
Leasehold improvements	Over the shorter of the lease term and 20%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	10% to 20%
Motor vehicles	10% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Assets under construction represent properties under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, amortised land use rights and capitalised borrowing costs on related borrowed funds during the period of construction. Assets under construction are reclassified to appropriate category of property, plant and equipment when completed and ready for use.

### Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of each reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from properties under development to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Operating leases

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

Land use rights under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

### Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

### Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

### Investments and other financial assets

#### *Initial recognition and measurement*

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.



## 2.4 Summary of Significant Accounting Policies *(continued)*

### Investments and other financial assets *(continued)*

#### *Subsequent measurement*

The subsequent measurement of loans and receivables is as follows:

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

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. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## 2.4 Summary of Significant Accounting Policies *(continued)*

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

#### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

### Financial liabilities

#### *Initial recognition and measurement*

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.





## 2.4 Summary of Significant Accounting Policies *(continued)*

### Financial liabilities *(continued)*

#### *Subsequent measurement*

The subsequent measurement of financial liabilities depending on their classification is as follows:

#### *Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

#### *Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the financial guarantee contract, except when such a contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of each reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

### **Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### **Fair values of financial instruments**

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted in use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in OCI or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



## 2.4 Summary of Significant Accounting Policies *(continued)*

### **Income tax** *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

### **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. It is recognised as income on a systematic basis over the period that the costs which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset or over the benefits received by the Group related to such assets.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and instalments received in respect of properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities;
- (b) rental income, on a time proportion basis over the lease terms;

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Revenue recognition *(continued)*

- (c) hotel revenue from room rentals, food and beverage sales and other ancillary services, when the services are rendered;
- (d) property management fee income, when the related management services have been provided; and
- (e) interest income, on an accrual basis using the effective interest rate method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

### Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes Model and Binomial Model (the "Models"), further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.



## 2.4 Summary of Significant Accounting Policies *(continued)*

### Other employee benefits

#### *Pension schemes*

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

The employees of the Group’s subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate has been applied to the expenditure on the individual assets.

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### Foreign currencies

The Company’s functional currency is Hong Kong dollar while the presentation currency of these financial statements is RMB. In the opinion of the directors, as the Group’s operations are mainly in the PRC, the use of RMB as the presentation currency is more appropriate for the presentation of the Group’s results and financial position. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement translation of monetary items are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in OCI or profit or loss is also recognised in OCI or profit or loss, respectively).

## 2.4 Summary of Significant Accounting Policies *(continued)*

### Foreign currencies *(continued)*

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## 3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosure, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### *Operating lease commitments – Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

#### *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 an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.



### 3. Significant Accounting Judgements and Estimates *(continued)*

#### Judgements *(continued)*

##### *Transfer from properties under development and completed properties held for sale to investment properties*

Properties under development and completed properties held for sale are transferred to investment properties when there is a change in use with sufficient evidence. The Group determines whether a change in use has occurred based on assessment of all relevant facts and circumstances, which include but are not limited to: (a) a business plan that reflects the future rental income generated by the property; (b) the resources to hold and manage an investment property; (c) legal permissibility for the change in use; (d) the commencement of development if the property requires further development for the change in use. Any excess of fair value over the original carrying amount of such properties at the date of transfer was recognised immediately in the consolidated income statement. During the year ended 31 December 2012, properties under development with a total carrying amount of approximately RMB766,526,000 (2011: approximately RMB478,444,000) were transferred to investment properties due to a change in use, giving rise to a net fair value gain of approximately RMB377,465,000 (2011: approximately RMB233,056,000) in the consolidated income statement. During the year ended 31 December 2012, the investment properties excluding those newly transferred from properties under development and completed properties held for sale give rise to a net fair value gain of approximately RMB265,688,000 (2011: approximately RMB92,600,000) in the consolidated income statement.

##### *Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets relating to recognised tax losses at 31 December 2012 was approximately RMB71,812,000 (2011: approximately RMB22,607,000). Further details are contained in note 29 to the financial statements.

#### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

##### *Corporate income taxes*

The Group is subject to corporate income taxes ("CIT") in the PRC. As a result of the fact that certain matters relating to the corporate income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcomes of these matters are different from the amounts originally recorded, the differences will impact on the CIT and tax provision in the period in which the differences realise.

##### *PRC land appreciation taxes*

The Group is subject to land appreciation taxes ("LAT") in the PRC. The provision of LAT is based on management's best estimates according to its understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Group has not finalised its LAT calculations and payments with the tax authorities for certain property development projects. The final outcome could be different from the amounts that were initially recorded, and any differences will impact the LAT expenses and the related provision in the period in which the differences realise.

### 3. Significant Accounting Judgements and Estimates *(continued)*

#### Estimation uncertainty *(continued)*

##### *Withholding tax arising from the distribution of dividends*

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

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the jurisdictions of the immediate holding company of the PRC subsidiaries is subject to judgement on the timing of the payment of the dividends. The Group considered that the applicable withholding tax rate is 5%.

##### *Estimation of fair value of investment properties*

Investment properties including completed investment properties and investment properties under construction are revalued at the end of each reporting period based on the appraised market value provided by independent professionally qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, information from current prices in an active market for similar properties is considered and assumptions that are mainly based on market conditions existing at the end of each reporting period are used.

##### *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of the reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

##### *Recognition and allocation of construction cost on properties under development*

Development costs of properties are recorded as properties under development during the construction stage and will be transferred to completed properties held for sale upon completion. Apportionment of these costs will be recognised in the income statement upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate.

When developing properties, the Group may divide the development projects into phases. Specific costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to phases are allocated to individual phases based on the estimated saleable area of the entire project.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.





31 December 2012

#### 4. Segment Information

For management purposes, the Group is organised into four reportable operating segments as follows:

- (a) Property development: Sale of properties
- (b) Property investment: Leasing of properties
- (c) Hotel operation: Operation of hotels
- (d) Property management: Provision of property management services

The property development projects undertaken by the Group during the year are all located in the PRC.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, as well as head office and corporate income and expenses are excluded from such measurement.

The Group's revenue from external customers is derived solely from its operations in the PRC, and no non-current assets of the Group are located outside the PRC.

Segment assets exclude deferred tax assets, tax recoverable, restricted cash, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Other than the segment information disclosed below, the directors considered that other segment information is not reporting segment information used by the chief operating decision makers of the Group.

During the year, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

#### 4. Segment Information *(continued)*

Year ended 31 December 2012

	Property development RMB'000	Property investment RMB'000	Hotel operation RMB'000	Property management RMB'000	Total RMB'000
<b>Segment revenue:</b>					
Sales to external customers	9,330,231	143,315	83,886	118,990	9,676,422
<b>Segment results</b>	3,500,751	784,963	(6,309)	11,049	4,290,454
<i>Reconciliation:</i>					
Interest income and unallocated income					73,709
Unallocated expenses					(527,801)
Finance costs					(70,375)
Profit before tax					3,765,987
Income tax expenses					(1,333,017)
Profit for the year					2,432,970
<b>Assets and liabilities:</b>					
Segment assets	35,290,885	5,394,892	346,582	45,839	41,078,198
<i>Reconciliation:</i>					
Unallocated assets					7,786,262
Total assets					48,864,460
Segment liabilities	28,557,185	125,501	100,379	10,259	28,793,324
<i>Reconciliation:</i>					
Unallocated liabilities					4,717,757
Total liabilities					33,511,081
<b>Other segment information:</b>					
Depreciation and amortisation	40,379	2,565	37,304	650	80,898
Fair value gains on investment properties, net	-	643,153	-	-	643,153
Share of profits and losses of:					
Associates	(1,877)	-	-	-	(1,877)
Jointly-controlled entities	480,375	-	-	-	480,375



31 December 2012

#### 4. Segment Information *(continued)*

*Year ended 31 December 2011*

	Property development RMB'000	Property investment RMB'000	Hotel operation RMB'000	Property management RMB'000	Total RMB'000
<b>Segment revenue:</b>					
Sales to external customers	9,815,408	138,616	70,236	98,335	10,122,595
<b>Segment results</b>					
	3,975,954	458,449	14,797	8,353	4,457,553
<i>Reconciliation:</i>					
Interest income and unallocated income					94,014
Unallocated expenses					(446,653)
Finance costs					(124,979)
Profit before tax					3,979,935
Income tax expenses					(1,876,028)
Profit for the year					2,103,907
<b>Assets and liabilities:</b>					
Segment assets	33,313,085	4,271,475	337,951	24,344	37,946,855
<i>Reconciliation:</i>					
Unallocated assets					6,639,448
Total assets					44,586,303
Segment liabilities	24,857,786	389,986	42,587	5,398	25,295,757
<i>Reconciliation:</i>					
Unallocated liabilities					5,597,528
Total liabilities					30,893,285
<b>Other segment information:</b>					
Depreciation and amortisation	16,332	2,553	18,181	332	37,398
Fair value gains on investment properties, net	–	325,656	–	–	325,656
Share of losses of:					
Associates	(4,608)	–	–	–	(4,608)
Jointly-controlled entities	(12,312)	–	–	–	(12,312)

## 5. Revenue, Other Income and Gains, Net

Revenue, which is also the Group's turnover, represents the gross proceeds, net of business tax, from the sale of properties, gross rental income received and receivable from investment properties, gross revenue from hotel operation and property management fee income during the year.

An analysis of revenue, other income and gains, net is as follows:

	2012 RMB'000	2011 RMB'000
<b>Revenue</b>		
Sale of properties	<b>9,330,231</b>	9,815,408
Gross rental income	<b>143,315</b>	138,616
Hotel operation income	<b>83,886</b>	70,236
Property management fees	<b>118,990</b>	98,335
	<b>9,676,422</b>	10,122,595
<b>Other income and gains, net</b>		
Bank interest income	<b>47,530</b>	45,726
Foreign exchange differences, net	-	33,998
Others	<b>26,179</b>	14,290
	<b>73,709</b>	94,014



## Notes to Financial Statements

31 December 2012

## 6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2012 RMB'000	2011 RMB'000
Cost of properties sold		<b>6,110,846</b>	5,680,748
Less: Government grant released*	27(b)	<b>(49,528)</b>	(88,316)
		<b>6,061,318</b>	5,592,432
Depreciation	14	<b>76,399</b>	35,983
Amortisation of land use rights	16	<b>29,662</b>	21,508
Less: Amount capitalised in assets under construction		<b>(25,163)</b>	(20,093)
		<b>4,499</b>	1,415
Minimum lease payments under operating leases of land and buildings		<b>14,925</b>	14,003
Auditors' remuneration		<b>4,000</b>	4,000
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		<b>332,803</b>	266,115
Pension scheme contributions**		<b>23,776</b>	16,691
Equity-settled share option expense/(reversal)		<b>1,649</b>	(868)
Less: Amount capitalised in assets under construction, properties under development and investment properties under development		<b>(106,924)</b>	(91,790)
		<b>251,304</b>	190,148
Loss on disposal of investment properties, net***		<b>697</b>	4,950
Loss on disposal of items of property, plant and equipment		<b>31</b>	98
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		<b>26,227</b>	27,721

\* There are no unfulfilled conditions or contingencies relating to this government grant.

\*\* At 31 December 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2011: Nil).

\*\*\* The loss on disposal of investment properties, net is included in "Other operating expenses, net" in the consolidated income statement.

## 7. Finance Costs

	2012 RMB'000	2011 RMB'000
Interest on bank and other borrowings	<b>1,618,184</b>	1,165,699
Less: Interest capitalised	<b>(1,547,809)</b>	(1,040,720)
	<b>70,375</b>	124,979

## 8. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2012 RMB'000	2011 RMB'000
Fees	<b>3,272</b>	2,490
Other emoluments:		
Salaries, allowances and benefits in kind	<b>15,219</b>	16,899
Equity-settled share option expense	<b>1,825</b>	2,215
Pension scheme contributions	<b>274</b>	527
	<b>17,318</b>	19,641
	<b>20,590</b>	22,131

For the year ended 31 December 2012, no directors and chief executive were granted share options.

For the year ended 31 December 2011, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.



## Notes to Financial Statements

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**8. Directors' and Chief Executive's Remuneration** (continued)**(a) Independent non-executive directors**

	Fees RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
<b>2012</b>			
Independent non-executive directors:			
Mr. Lee Ka Sze, Carmelo	311	10	321
Mr. Dai Feng	311	10	321
Mr. Tam Chun Fai	311	10	321
Mr. Li Bin Hai (appointed on 1 July 2012)	162	-	162
	<b>1,095</b>	<b>30</b>	<b>1,125</b>
<b>2011</b>			
Independent non-executive directors:			
Mr. Lee Ka Sze, Carmelo	249	8	257
Mr. Dai Feng	249	8	257
Mr. Tam Chun Fai	249	8	257
	747	24	771

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

**(b) Executive directors and chief executive**

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
<b>2012</b>					
Executive directors:					
Mr. Kong Jian Min	311	2,400	-	45	2,756
Mr. Kong Jian Tao	311	2,400	-	45	2,756
Mr. Kong Jian Nan	311	1,920	-	45	2,276
Mr. Li Jian Ming	311	1,602	391	45	2,349
Mr. Tsui Kam Tim	311	4,386	622	11	5,330
Mr. He Wei Zhi	311	1,464	391	38	2,204
Mr. Yu Yao Sheng	311	1,047	391	45	1,794
	<b>2,177</b>	<b>15,219</b>	<b>1,795</b>	<b>274</b>	<b>19,465</b>
<b>2011</b>					
Executive directors:					
Mr. Kong Jian Min	249	2,968	-	86	3,303
Mr. Kong Jian Tao	249	2,968	-	86	3,303
Mr. Kong Jian Nan	249	2,368	-	86	2,703
Mr. Li Jian Ming	249	1,517	487	86	2,339
Mr. Tsui Kam Tim	249	3,757	730	20	4,756
Mr. He Wei Zhi	249	2,049	487	77	2,862
Mr. Yu Yao Sheng	249	1,272	487	86	2,094
	1,743	16,899	2,191	527	21,360

There was no arrangement under which a director or chief executive waived or agreed to waive any remuneration during the year (2011: Nil).

## 9. Five Highest Paid Employees

The five highest paid employees for the year ended 31 December 2012 included five (2011: five) directors, details of whose remuneration are set out in note 8 above.

## 10. Income Tax Expenses

	Note	2012 RMB'000	2011 RMB'000
Current – PRC			
CIT		<b>804,665</b>	1,057,807
LAT		<b>605,867</b>	994,266
Deferred	29	<b>1,410,532</b> <b>(77,515)</b>	2,052,073 (176,045)
Total tax charge for the year		<b>1,333,017</b>	1,876,028

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the majority of the Company's subsidiaries are domiciled to the tax charge at the effective tax rate, is as follows:

	2012 RMB'000	2011 RMB'000
Profit before tax	<b>3,765,987</b>	3,979,935
At statutory income tax rate of 25.0% (2011: 25.0%)	<b>941,497</b>	994,984
Income not subject to tax	<b>(1,811)</b>	(6,233)
Expenses not deductible for tax	<b>13,847</b>	12,150
Effect of withholding tax on the distributable profits of the Company's PRC subsidiaries	–	82,967
Profits and losses attributable to associates	<b>469</b>	1,152
Profits and losses attributable to jointly-controlled entities	<b>(120,094)</b>	3,078
LAT	<b>605,867</b>	994,266
Effect of LAT	<b>(151,467)</b>	(248,567)
Others	<b>44,709</b>	42,231
Tax charge at the Group's effective rate of 35.4% (2011: 47.1%)	<b>1,333,017</b>	1,876,028

For the year ended 31 December 2012, the share of CIT expense and LAT attributable to the jointly-controlled entities amounting to approximately RMB162,910,000 (2011: CIT credit of approximately RMB3,796,000) and approximately RMB205,859,000 (2011: approximately RMB748,000), respectively, are included in "Share of profits and losses of jointly-controlled entities" on the face of the consolidated income statement.

For the year ended 31 December 2012, the share of CIT credit attributable to the associates amounting to approximately RMB622,000 (2011: approximately RMB1,532,000), is included in "Share of profits and losses of associates" on the face of the consolidated income statement.





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## 10. Income Tax Expenses *(continued)*

### Hong Kong profits tax

No Hong Kong profits tax has been provided because the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2012 and 2011.

### PRC corporate income tax

PRC CIT in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the years ended 31 December 2012 and 2011, based on existing legislation, interpretations and practices in respect thereof.

### PRC land appreciation tax

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of the land value, being the proceeds of sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

## 11. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2012 includes a profit of approximately RMB359,780,000 (2011: approximately RMB631,696,000) which has been dealt with in the financial statements of the Company (note 33(b)).

## 12. Dividends

	2012 RMB'000	2011 RMB'000
Proposed final – RMB15 cents (2011: RMB22 cents) per ordinary share	<b>433,973</b>	636,493

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

### 13. Earnings Per Share Attributable to Owners of the Company

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 2,893,150,000 (2011: 2,893,150,000) in issue during the year.

For the year ended 31 December 2012, the calculation of diluted earnings per share amounts is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation of 2,893,150,000 plus the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares of 7,637.

No adjustment had been made to the basic earnings per share amount presented for the year ended 31 December 2011 in respect of a dilution as the share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

The calculation of basic and diluted earnings per share is based on:

	2012 RMB'000	2011 RMB'000
<b>Earnings</b>		
Profit attributable to owners of the Company	<b>2,406,368</b>	2,103,368
	<b>Number of shares</b>	
	<b>2012</b>	2011
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	<b>2,893,150,000</b>	2,893,150,000
Effect of dilution – share options	<b>7,637</b>	–
Weighted average number of ordinary shares used in diluted earnings per share calculation	<b>2,893,157,637</b>	2,893,150,000



## Notes to Financial Statements

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## 14. Property, Plant and Equipment

## Group

	Buildings RMB'000	Leasehold improve- ments RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Assets under construction RMB'000	Total RMB'000
<b>31 December 2012</b>							
At 31 December 2011 and 1 January 2012:							
Cost	436,358	4,456	3,188	52,664	59,926	1,327,767	1,884,359
Accumulated depreciation	(54,887)	(1,843)	(3,095)	(22,874)	(22,723)	-	(105,422)
Net carrying amount	381,471	2,613	93	29,790	37,203	1,327,767	1,778,937
At 1 January 2012, net of accumulated depreciation	381,471	2,613	93	29,790	37,203	1,327,767	1,778,937
Additions	123,341	1,474	-	216,737	16,966	683,567	1,042,085
Transfer	484,281	-	-	21	1,678	(484,281)	1,699
Derecognition of a subsidiary (note 35(a))	-	-	-	(27)	(390)	(52,424)	(52,841)
Disposals	-	-	-	(5,244)	(190)	-	(5,434)
Depreciation provided during the year	(39,974)	(1,213)	(1)	(26,085)	(9,126)	-	(76,399)
At 31 December 2012, net of accumulated depreciation	949,119	2,874	92	215,192	46,141	1,474,629	2,688,047
At 31 December 2012:							
Cost	1,043,980	5,930	3,188	263,486	78,374	1,474,629	2,869,587
Accumulated depreciation	(94,861)	(3,056)	(3,096)	(48,294)	(32,233)	-	(181,540)
Net carrying amount	949,119	2,874	92	215,192	46,141	1,474,629	2,688,047
<b>31 December 2011</b>							
At 1 January 2011:							
Cost	436,358	2,998	3,188	37,035	52,207	885,530	1,417,316
Accumulated depreciation	(34,038)	(2,083)	(3,019)	(16,655)	(17,620)	-	(73,415)
Net carrying amount	402,320	915	169	20,380	34,587	885,530	1,343,901
At 1 January 2011, net of accumulated depreciation	402,320	915	169	20,380	34,587	885,530	1,343,901
Additions	-	3,410	-	17,100	9,188	442,237	471,935
Disposals	-	(688)	-	(124)	(104)	-	(916)
Depreciation provided during the year	(20,849)	(1,024)	(76)	(7,566)	(6,468)	-	(35,983)
At 31 December 2011, net of accumulated depreciation	381,471	2,613	93	29,790	37,203	1,327,767	1,778,937
At 31 December 2011:							
Cost	436,358	4,456	3,188	52,664	59,926	1,327,767	1,884,359
Accumulated depreciation	(54,887)	(1,843)	(3,095)	(22,874)	(22,723)	-	(105,422)
Net carrying amount	381,471	2,613	93	29,790	37,203	1,327,767	1,778,937

## 14. Property, Plant and Equipment *(continued)*

### Company

	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>31 December 2012</b>				
At 31 December 2011 and 1 January 2012:				
Cost	809	355	482	1,646
Accumulated depreciation	(99)	(70)	(367)	(536)
Net carrying amount	710	285	115	1,110
At 1 January 2012, net of accumulated depreciation	710	285	115	1,110
Additions	1,474	366	–	1,840
Depreciation provided during the year	(468)	(34)	(63)	(565)
At 31 December 2012, net of accumulated depreciation	1,716	617	52	2,385
At 31 December 2012:				
Cost	2,283	721	482	3,486
Accumulated depreciation	(567)	(104)	(430)	(1,101)
Net carrying amount	1,716	617	52	2,385
<b>31 December 2011</b>				
At 1 January 2011:				
Cost	–	101	482	583
Accumulated depreciation	–	(50)	(285)	(335)
Net carrying amount	–	51	197	248
At 1 January 2011, net of accumulated depreciation	–	51	197	248
Additions	809	254	–	1,063
Depreciation provided during the year	(99)	(20)	(82)	(201)
At 31 December 2011, net of accumulated depreciation	710	285	115	1,110
At 31 December 2011:				
Cost	809	355	482	1,646
Accumulated depreciation	(99)	(70)	(367)	(536)
Net carrying amount	710	285	115	1,110

At 31 December 2012, certain items of the Group's property, plant and equipment with an aggregate net carrying amount of approximately RMB323,494,000 (2011: approximately RMB232,140,000) were pledged to secure general banking facilities granted to the Group (note 37(a)).



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## 15. Investment Properties

### Group

	Completed investment properties RMB'000	2012 Investment properties under construction RMB'000	Total RMB'000	Completed investment properties RMB'000	2011 Investment properties under construction RMB'000	Total RMB'000
Carrying amount at 1 January	3,522,790	711,500	4,234,290	3,461,980	–	3,461,980
Transfers from properties under development (note 20)	–	766,526	766,526	–	478,444	478,444
Transfers	615	–	615	(19)	–	(19)
Disposals	(12,269)	–	(12,269)	(31,771)	–	(31,771)
Gain from a fair value adjustment	196,906	446,247	643,153	92,600	233,056	325,656
Derecognition of a subsidiary (note 35(a))	–	(377,543)	(377,543)	–	–	–
Carrying amount at 31 December	3,708,042	1,546,730	5,254,772	3,522,790	711,500	4,234,290

The Group's investment properties are situated in the PRC and the related land is held under the lease terms of 10 to 50 years.

The Group's investment properties were revalued on 31 December 2012 by CB Richard Ellis Limited, independent professionally qualified valuers, at approximately RMB5,254,772,000 (2011: approximately RMB4,234,290,000) on an open market, existing use basis. Certain of the Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(a). The gross rental income received and receivable by the Group and the direct expenses in respect of these investment properties are summarised as follows:

	2012 RMB'000	2011 RMB'000
Gross rental income	143,315	138,616
Direct expenses	(26,227)	(27,721)
Net rental income	117,088	110,895

At 31 December 2012, the Group's investment properties with an aggregate carrying amount of approximately RMB3,671,041,000 (2011: approximately RMB3,178,418,000) were pledged to secure general banking facilities granted to the Group (note 37(a)).

At 31 December 2012, the Group has not yet obtained the real estate ownership certificates of the Group's investment properties with a net carrying amount of approximately RMB1,623,986,000 (2011: RMB783,090,000) from the relevant government authorities.

Further particulars of the Group's major investment properties are included on page 135 of the annual report.

## 16. Land Use Rights

	Group	
	2012 RMB'000	2011 RMB'000
At 1 January	1,081,538	880,390
Additions	103,767	222,656
Amortisation recognised during the year	(29,662)	(21,508)
Reclassification	21,409	–
Derecognition of a subsidiary (note 35(a))	(93,683)	–
At 31 December	1,083,369	1,081,538
Current portion included in prepayments, deposits and other receivables	(27,458)	(21,508)
Non-current portion	1,055,911	1,060,030

The Group's land use rights are located in the PRC and held under the lease terms of 10 to 70 years. An analysis of the lease term is as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Analysed by type:		
Held under long term lease	117,700	98,369
Held under medium term lease	965,669	983,169
	1,083,369	1,081,538

Certain of the Group's land use rights with an aggregate net carrying amount of approximately RMB105,620,000 (2011: approximately RMB282,449,000) were pledged to banks to secure general banking facilities granted to the Group (note 37(a)).

At 31 December 2012, the Group has not yet obtained the land use right certificates of certain lands with an aggregate net carrying amount of approximately RMB10,304,000 (2011: approximately RMB10,718,000) from the relevant government authorities. The Group has not fully settled the purchase considerations in accordance with the terms of the relevant land use rights grant contracts. The directors of the Company consider that the relevant land use right certificates will be obtained upon the full payments of the purchase considerations.

## 17. Interests in Subsidiaries

	Company	
	2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	300,306	300,306
Due from subsidiaries	9,892,377	7,668,616
Capital contribution in respect of employee share-based compensation	10,379	7,405
	10,203,062	7,976,327

The amounts due from subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and not repayable within 12 months.

The amount due from a subsidiary included in the Company's current assets of approximately RMB1,275,148,000 (2011: RMB800,000,000) is unsecured, interest-free and has no fixed terms of repayment.



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**17. Interests in Subsidiaries** *(continued)*

Particulars of the principal subsidiaries as at 31 December 2012 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Happy Clear Consultants Limited <sup>β</sup>	British Virgin Islands/ Hong Kong	US\$1,000	100	–	Investment holding
Reach Luck Consultants Limited <sup>β</sup>	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Boom Faith International Limited <sup>β</sup>	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Rising Wave Enterprises Limited <sup>β</sup>	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Good Excel Enterprises Limited <sup>β</sup>	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Prime Way Enterprises Limited <sup>β</sup>	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Hugeluck Investments Limited <sup>β</sup>	British Virgin Islands/ Hong Kong	US\$1	–	100	Investment holding
Guangzhou Hejing Real Estate Development Limited ("Guangzhou Hejing")* <sup>β</sup>	PRC	US\$99,000,000	–	100	Property development
Guangzhou Hejing Meifu Real Estate Development Limited <sup>β</sup>	PRC	US\$12,930,000	–	100	Property development
Guangzhou Hejing Yingfu Real Estate Development Limited <sup>β</sup>	PRC	RMB35,000,000	–	100	Property development
Guangzhou Xinhengchang Enterprise Development Limited* <sup>β</sup>	PRC	RMB792,000,000	–	100	Property development
Guangzhou Zhongtianying Real Estate Development Limited* <sup>β</sup>	PRC	US\$198,000,000	–	100	Property development
Guangzhou Tianjian Real Estate Co., Ltd* <sup>β</sup>	PRC	RMB1,617,000,000	–	100	Property development
Guangzhou Fuxin Property Management Limited* <sup>β</sup>	PRC	RMB7,000,000	–	100	Property management
Guangzhou Ningjun Property Management Limited* <sup>β</sup>	PRC	RMB7,000,000	–	100	Property management
Guangzhou Junzhao Property Operation Limited* <sup>β</sup>	PRC	RMB7,000,000	–	100	Property management
Chengdu Zhongtianying Real Estate Development Limited <sup>β</sup>	PRC	RMB550,000,000	–	100	Property development
Guangzhou Liangyu Investment Limited ("Guangzhou Liangyu") <sup>β</sup>	PRC	RMB30,000,000	–	100	Property development
Hainan New World Property Development (HK) Limited* <sup>β</sup>	PRC	HK\$772,000,000	–	100	Property development
Suzhou Hejing Real Estate Development Limited ("Suzhou Hejing") <sup>β</sup>	PRC	RMB1,290,000,000	–	100	Property development
Guangzhou Conghua Hejing Real Estate Development Limited* <sup>β</sup>	PRC	US\$99,000,000	–	100	Property development

## 17. Interests in Subsidiaries *(continued)*

Particulars of the principal subsidiaries as at 31 December 2012 are as follows: *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Hejing Real Estate Development Limited ("Beijing Hejing")#β	PRC	RMB70,000,000	–	100	Property development
Chengdu Zhaojing Real Estate Development Limited*#β	PRC	HK\$767,000,000	–	100	Property development
Kunshan Baicheng Real Estate Development Limited*#β	PRC	US\$29,900,000	–	100	Property development
Guangzhou Hejing Chuangzhan Hotel Limited#β	PRC	RMB30,000,000	–	100	Hotel operation
Guangzhou Wanhui Real Estate Development Limited ("Guangzhou Wanhui")#β(i)	PRC	RMB330,000,000	–	100	Property development
Guangzhou Lihe Property Development Limited ("Guangzhou Lihe")#β	PRC	RMB640,000,000	–	100	Property development
Chengdu Kaiyu Property Development Limited#β	PRC	RMB100,000,000	–	100	Property development
Tianjin Hejing Property Development Limited#β	PRC	RMB50,000,000	–	100	Property development
Hainan Hejing Property Development Limited#β	PRC	RMB70,000,000	–	100	Property development
Shanghai Hejing Real Estate Development Company Limited ("Shanghai Hejing")#β	PRC	RMB100,000,000	–	100	Property development
Shanghai Deyu Real Estate Development Limited ("Shanghai Deyu")#β	PRC	RMB100,000,000	–	100	Property development
Shanghai Jinyi Real Estate Limited ("Shanghai Jinyi")#β	PRC	RMB30,000,000	–	100	Property development
Shanghai Hongyu Real Estate Development Limited#β	PRC	RMB100,000,000	–	100	Property development
Beijing Hong'en Real Estate Development Limited Liability Company#β	PRC	RMB50,000,000	–	100	Property development
Shanghai Zhaojing Real Estate Development Limited#β	PRC	RMB100,000,000	–	100	Property development
Suzhou City Yujing Real Estate Development Limited#β	PRC	RMB100,000,000	–	100	Property development
Guangzhou City Huijing Real Estate Development Limited*#β	PRC	US\$49,000,000	–	100	Property development
Guangzhou City Chuangjing Real Estate Development Limited*#β^	PRC	US\$11,620,000	–	100	Property development
Suzhou City Junjing Real Estate Development Limited#β^	PRC	RMB50,000,000	–	100	Property development
Shanghai Langhe Real Estate Development Limited#β^	PRC	RMB887,000,000	–	100	Property development
Shanghai Jingdong Property Development Limited ("Shanghai Jingdong")#β (iii)	PRC	RMB1,350,000,000	–	100	Property development
Guangzhou City Hejing Fengjingyuan Hotel Limited#β	PRC	RMB30,000,000	–	100	Hotel operation





## Notes to Financial Statements

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### 17. Interests in Subsidiaries *(continued)*

- \* These entities are registered as wholly-foreign-owned enterprises under PRC law.
- β The statutory financial statements of these subsidiaries are not audited by Ernst & Young Hong Kong or another member firm of the Ernst & Young global network.
- # The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of those companies, as no English names have been registered.
- ^ These companies were newly established during the year.

Note:

- (i) Guangzhou Wanhui was a wholly-owned subsidiary of Guangzhou Hejing (a subsidiary of the Group) established on 26 October 2009 in the PRC with registered capital of RMB30,000,000. Guangzhou Wanhui is a company engaged in a property development project in Guangzhou, namely L7 (formerly known as the D3-4 project). In January 2010, CITIC Trust Co., Ltd. ("CITIC") and Guangzhou Hejing entered into an equity transfer agreement (the "Equity Transfer Agreement") whereby Guangzhou Hejing used its 100% equity interest in Guangzhou Wanhui as consideration to acquire the S1 type unit trust ("S1 Unit") under a trust administrated by CITIC (the "CITIC Trust"). Guangzhou Hejing also used its RMB135,000,000 debt receivable from Guangzhou Wanhui as a consideration to acquire the S2 type unit ("S2 Unit") of the CITIC Trust. The term of the Trust is 18 months, while CITIC can early terminate the CITIC Trust after one year. The CITIC Trust consists of three types of trust units, including 30,000,000 units of the S1 Unit, 135,000,000 units of the S2 Unit and 300,000,000 units of priority units. The subscription price for each unit of the CITIC Trust is RMB1. The priority units are sold to public investors in the PRC. Priority units are entitled to a return calculated based on the amount invested, the number of days invested and a pre-determined return rate. Upon dissolution of the CITIC Trust, beneficiaries of the S1 Unit and the S2 Unit are subordinate to those of priority units in receiving CITIC Trust income and asset distribution of the CITIC Trust. After the distribution of the principal amount and pre-determined return of the priority units, and miscellaneous legal and administrative expenses, the S1 Unit and the S2 Unit can enjoy the residual benefit of the CITIC Trust. CITIC can decide the form of assets to be distributed to the S1 Unit and the S2 Unit (either in cash or other assets), particularly, CITIC may distribute the RMB135,000,000 receivable balance from Guangzhou Wanhui to the S2 Unit holders. The S1 Unit and the S2 Unit are not transferrable, except within the Group.

CITIC, as trustee, applied the fund from the CITIC Trust to inject RMB300,000,000 into Guangzhou Wanhui as registered capital. The registered capital of Guangzhou Wanhui was then increased to RMB330,000,000 and CITIC held 100% equity interest in Guangzhou Wanhui (the "Equity Interest") after this capital injection (the "Capital Injection").

Pursuant to the Equity Transfer Agreement, Guangzhou Hejing has the pre-emptive right (the "Pre-emptive Right") to acquire the Equity Interest from CITIC, and Guangzhou Hejing agrees to pay CITIC the fee ("Pre-emptive Right Fee") to maintain its Pre-emptive Right.

Upon 18 months after the effective date of the Equity Transfer Agreement, pursuant to the Equity Transfer Agreement, Guangzhou Hejing can acquire the Equity Interest from CITIC should all the following conditions be met:

- (a) Guangzhou Hejing has promptly paid the Pre-emptive Right Fee and the consideration for acquisition of the Equity Interest (the "Consideration") in full;
- (b) The relevant guarantee agreements as mentioned in the Equity Transfer Agreement are effective and remain effective (these guarantee agreements mainly include the corporate guarantee provided by the Company and the pledge of Guangzhou Hejing's 94.5% equity interest in one of its subsidiaries, Guangzhou Liangyu, for Guangzhou Hejing's fulfillment of its obligations as mentioned in the Equity Transfer Agreement);
- (c) Relevant agreements entered into between CITIC and Guangzhou Hejing and the guarantors pursuant to the Equity Transfer Agreement are effective and remain effective, and there is no material breach of the contracts; and
- (d) Application for transfer of relevant land use rights under L7 to Guangzhou Wanhui has been submitted to the relevant government bureau within 60 business days after the effective date of the Equity Transfer Agreement (the transfer of the relevant land use rights has been completed in March 2010).

Furthermore, Guangzhou Hejing can early exercise its Pre-emptive Right upon 12 months after the effective date of the Equity Transfer Agreement, provided that all the above four conditions have been met.

## 17. Interests in Subsidiaries *(continued)*

Note: *(continued)*

(i) *(continued)*

Within the above timeframe, if (a) the above conditions have not been met; or (b) Guangzhou Hejing has not notified CITIC in written form to exercise its Pre-emptive Right; or (c) Guangzhou Hejing defaults on the payment of the Consideration and the Pre-emptive Right Fee, then CITIC can issue a written notice to Guangzhou Hejing to request that Guangzhou Hejing to acquire the Equity Interest and settle the Consideration and the Pre-emptive Right Fee within three days.

If (a) Guangzhou Hejing notifies CITIC, in written form, that it would not acquire the Equity Interest; or (b) Guangzhou Hejing defaults to settle the Consideration and the Pre-emptive Right Fee within three days, then the Pre-emptive Right is forfeited and CITIC can sell the Equity Interest to others.

CITIC can request Guangzhou Hejing to unconditionally acquire the Equity Interest if any of the following conditions exists:

- (a) Guangzhou Hejing delays on the payment of the Pre-emptive Right Fee and still cannot fully settle the Pre-emptive Right Fee within three days after issuance of a demand notice from CITIC;
- (b) Guangzhou Hejing has not requested CITIC to sell the Equity Interest to Guangzhou Hejing within 18 months after the effective date of the Equity Transfer Agreement;
- (c) The guarantee agreements as stipulated in the Equity Transfer Agreement are not effective;
- (d) Application for transfer of certain land use rights to Guangzhou Wanhui has not been submitted to the relevant government bureau within 60 business days after the effective date of the Equity Transfer Agreement;
- (e) The title of the relevant land use right certificates under L7 cannot be transferred to Guangzhou Wanhui within 11 months after the effective date of the Equity Transfer Agreement;
- (f) Within 18 months after the effective date of the Equity Transfer Agreement, Guangzhou Wanhui has no retained earnings for distribution or the amount of retained earnings available for distribution is less than RMB330,000,000; or
- (g) 18 months lapses after the effective date of the Equity Transfer Agreement.

Further to the Equity Transfer Agreement, CITIC, Guangzhou Hejing and Industrial and Commercial Bank of China - Guangzhou Branch ("ICBC (Guangzhou)") entered into an entrustment agreement in January 2010, whereby CITIC entrusted (a) Guangzhou Hejing to operate and manage the Equity Interest; and (b) ICBC (Guangzhou) to safeguard the land use rights and other relevant certificates of L7.

Upon the completion of the Capital Injection, Guangzhou Wanhui continues to be a subsidiary of the Company as the Company has unilateral control over Guangzhou Wanhui.

In the prior year, the above trust financing arrangement expired and the Group repaid RMB300,000,000 to CITIC and the related 100% equity interest in Guangzhou Wanhui was returned to the Group.



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## 17. Interests in Subsidiaries *(continued)*

Note: *(continued)*

- (ii) On 24 December 2009, China Construction Bank Corporation – Suzhou Branch (“CCB (Suzhou)”) (as settler and beneficiary) and Jiangxi International Trust Co., Ltd. (as the trustee) entered into a trust agreement (the “Trust Agreement”) where a trust (the “CCB Trust”) was set up with a maximum trust capital (the “Trust Capital”) of RMB901,000,000, which comprises 901,000,000 trust units of RMB1 each. Pursuant to the terms of the Trust Agreement, the Trust Capital shall be used to increase the registered capital of Suzhou City Kaiyu Real Estate Development Company Limited (“Suzhou Kaiyu”), a then 90%-owned subsidiary established by the Group in December 2009 to engage in a property development project in Xiaoxinqu, Suzhou. The Trust Capital was raised through the sale of an investment product (the “RMB Financing Product”) by CCB (Suzhou). The RMB Financing Product comprises 900,000,000 senior trust units (“CCB Senior Units”) and 1,000,000 junior trust units (“CCB Junior Units”), both at a subscription price of RMB1 each unit. All CCB Senior Units are open for subscription by the public and all CCB Junior Units were subscribed by Suzhou Hejing. The term of the RMB Financing Product is 1.5 years starting from the date when the CCB Trust was established (the “Trust Establishment Date”), which is 24 December 2009, subject to early termination upon the occurrence of certain events. Early redemption of the CCB Senior Units or CCB Junior Units is not allowed.

In connection with the CCB Trust, the following agreements were entered into on 24 December 2009:

- (a) The Trustee, Suzhou Hejing and Suzhou Jinzhu Property Development Co., Ltd. (“Suzhou Jinzhu”) entered into a capital increase agreement, pursuant to which the registered capital of Suzhou Kaiyu was increased from RMB400,000,000 to RMB1,500,000,000 by the capital injection (the “Capital Injection”) of (i) RMB901,000,000 by the Trustee; (ii) RMB89,000,000 by Suzhou Hejing; and (iii) RMB110,000,000 by Suzhou Jinzhu. Immediately before the completion of the Capital Injection, Suzhou Kaiyu is owned as to 90% and 10% by Suzhou Hejing and Suzhou Jinzhu, respectively. Upon completion of the Capital Injection, Suzhou Kaiyu is owned as to 60.06%, 29.94% and 10.00% by the CCB Trust, Suzhou Hejing and Suzhou Jinzhu, respectively.
- (b) Suzhou Hejing and CCB (Suzhou) entered into a product units option agreement (the “Product Units Option Agreement”), pursuant to which CCB (Suzhou) is entitled to exercise an option requiring Suzhou Hejing to acquire all the CCB Senior Units at a consideration equivalent to an amount determined as “Number of CCB Senior Units of RMB1 each X (1 + 11.5% X number of investment days in the CCB Senior Units/360)”, to CCB (Suzhou) upon the occurrence of certain material adverse events (the “Material Adverse Events”). If no Material Adverse Event occurs, Suzhou Hejing is entitled to acquire all the CCB Senior Units upon expiry of one year after the Trust Establishment Date. Suzhou Hejing should complete the acquisition of all the CCB Senior Units and pay the remaining consideration no later than one day before the expiry of 1.5 years after the Trust Establishment Date.
- (c) Suzhou Hejing and CCB (Suzhou) entered into a pledge agreement, pursuant to which Suzhou Hejing pledged all its equity interest in Suzhou Kaiyu to CCB (Suzhou) to secure the performance and obligations of Suzhou Hejing under the Product Units Option Agreement as mentioned in (b) above.
- (d) The Company and Guangzhou Hejing, a wholly-owned subsidiary of the Group entered into guarantee agreements with CCB (Suzhou), pursuant to which the Company and Guangzhou Hejing provided guarantees to CCB (Suzhou) to secure the performance and obligations of Suzhou Hejing under the Product Units Option Agreement as mentioned in (b) above.
- (e) The trustee, CCB (Suzhou), Suzhou Hejing, Suzhou Jinzhu and Suzhou Kaiyu entered into a supervision agreement (the “Supervision Agreement”), pursuant to which the Trust Capital should be deposited to the custodian bank account maintained with and managed by CCB (Suzhou) in accordance with the Supervision Agreement.

Upon the completion of the Capital Injection, Suzhou Kaiyu became an associate of the Group as the Group has no unilateral control over Suzhou Kaiyu, but is able to exercise significant influence over Suzhou Kaiyu.

In the prior year, the above trust financing arrangement expired and the Group repaid RMB900,000,000 to CCB (Suzhou) and the related 60.06% equity interest in Suzhou Kaiyu was returned to the Group. As a result, the Group regained the controls over Suzhou Kaiyu and Suzhou Kaiyu was then accounted for as a subsidiary of the Group as at 31 December 2011.

The board of directors of Suzhou Kaiyu consisted of 5 members, 4 of which were appointed by the Group, 1 of which was appointed by the non-controlling shareholder. During the year, a board resolution was passed to amend the articles of association of Suzhou Kaiyu, under which all major decisions of Suzhou Kaiyu require an unanimous agreement from all directors, hence the Group no longer has sole control, but has joint-control over Suzhou Kaiyu, and accordingly, Suzhou Kaiyu is accounted for as a jointly-controlled entity thereafter.

## 17. Interests in Subsidiaries *(continued)*

Note: *(continued)*

- (iii) Guangzhou Hejing holds a project company, Shanghai Jingdong with injected capital of RMB50,000,000 through its wholly-owned subsidiary, Guangzhou City Wanjing Property Development Limited ("Guangzhou Wanjing"), and Shanghai Hejing with 50% equity interest each. The purpose of setting up Shanghai Jingdong is for the development of a property project in Shanghai.

On 29 September 2010, Guangzhou Hejing, Shanghai Hejing and Guangzhou Wanjing entered into an co-operation agreement (the "New China Co-operation Agreement") with New China Trust Company Limited ("New China Trust"), pursuant to which, New China Trust has agreed to inject RMB650,000,000 to Guangzhou Wanjing as share capital. Upon the completion of the capital injection, Guangzhou Hejing's equity interest in Guangzhou Wanjing was diluted to 4.41% and New China Trust became a 95.59% shareholder of Guangzhou Wanjing. This equity interest held by New China Trust was transferred to a trust scheme (the "New China Trust Scheme"), which is set up and managed by New China Trust. The funds raised by New China Trust of RMB650,000,000 from the senior unit investors in the New China Trust Scheme were then injected into Shanghai Jingdong as share capital through Guangzhou Wanjing. At the same time, Shanghai Hejing injected cash of RMB650,000,000 to Shanghai Jingdong as share capital. Accordingly, the increase in share capital in Shanghai Jingdong of RMB1,300,000,000 included RMB650,000,000 from New China Trust and RMB650,000,000 from Shanghai Hejing. Upon the completion of the New China Co-operation Agreement, the Group effectively held a 52.21% equity interest in Shanghai Jingdong. The remaining 47.79% effective equity interest in Shanghai Jingdong was held by the New China Trust Scheme through its equity interest in Guangzhou Wanjing.

Although the Group holds a 4.41% equity interest in Guangzhou Wanjing and a 52.21% equity interest in Shanghai Jingdong, the Group is not able to control the board of directors in both Guangzhou Wanjing and Shanghai Jingdong even though the Group can appoint a majority of the board members in Guangzhou Wanjing and Shanghai Jingdong, as New China Trust has the veto power to disapprove the major decisions at board meetings of Guangzhou Wanjing and Shanghai Jingdong. Since the Group had lost control but retained a significant influence on the decisions of Guangzhou Wanjing and Shanghai Jingdong, Guangzhou Wanjing and Shanghai Jingdong was then accounted for as associates of the Group.

During the year, the above trust financing arrangement expired and the Group repaid RMB650,000,000 to New China Trust and the related 95.59% and 47.79% equity interests in Guangzhou Wanjing and Shanghai Jingdong, respectively, were returned to the Group. As a result, the Group regained the controls over Guangzhou Wanjing and Shanghai Jingdong, and they were then accounted for as subsidiaries of the Group.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 18. Interests in Associates/Balances with Associates

	<b>Group</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	<b>RMB'000</b>
Share of net assets	<b>44,568</b>	1,429,109
Advances to associates	<b>597,407</b>	569,657
	<b>641,975</b>	1,998,766
	<b>Company</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	<b>RMB'000</b>
Advances to associates	<b>298,828</b>	271,130

The advances to associates as shown above are unsecured, interest-free and not repayable within 12 months.

As at 31 December 2011, the amounts due to associates included in the Group's current liabilities of approximately RMB1,081,720,000 were unsecured, interest-free and had no fixed terms of repayment.



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## 18. Interests in Associates/Balances with Associates *(continued)*

Particulars of the principal associates as at 31 December 2012 are as follows:

<b>Name</b>	<b>Particulars of issued shares held</b>	<b>Place of registration/ incorporation</b>	<b>Percentage of ownership interest attributable to the Group</b>	<b>Principal activity</b>
Lyntondale Holdings Limited ("Lyntondale") <sup>β</sup> (i)	Ordinary shares of US\$1 each	British Virgin Islands	20.00%	Investment holding
Foshan City Xinsheng Real Estate Development Company Limited ("Foshan Xinsheng") <sup>#β</sup> (i)	Registered capital of RMB1 each	PRC	20.00%	Property development
Foshan City Xinfeng Real Estate Development Company Limited ("Foshan Xinfeng") <sup>#β</sup> (i)	Registered capital of RMB1 each	PRC	20.00%	Property development
Foshan City Xinjin Real Estate Development Company Limited ("Foshan Xinjin") <sup>#β</sup> (i)	Registered capital of RMB1 each	PRC	20.00%	Property development
Bonserry Investments Limited ("Bonserry") <sup>β</sup> (i)	Ordinary shares of US\$1 each	British Virgin Islands	20.00%	Investment holding
Foshan City Xinjun Real Estate Development Company Limited ("Foshan Xinjun") <sup>#β</sup> (i)	Registered capital of RMB1 each	PRC	20.00%	Property development
Foshan City Xinhao Real Estate Development Company Limited ("Foshan Xinhao") <sup>#β</sup> (i)	Registered capital of RMB1 each	PRC	20.00%	Property development
Foshan City Xinhui Real Estate Development Company Limited ("Foshan Xinhui") <sup>#β</sup> (i)	Registered capital of RMB1 each	PRC	20.00%	Property development
Foshan City Xinjing Real Estate Development Company Limited ("Foshan Xinjing") <sup>#β</sup> (i)	Registered capital of RMB1 each	PRC	20.00%	Property development

## 18. Interests in Associates/Balances with Associates *(continued)*

Particulars of the principal associates as at 31 December 2012 are as follows: *(continued)*

# The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of these companies, as no English names have been registered.

β Not audited by Ernst & Young Hong Kong or another member firm of the Ernst & Young global network.

The above investments in associates are indirectly held by the Company through wholly-owned subsidiaries.

Note:

(i) On 17 March 2010, the Group entered into two cooperation agreements with Sun Hung Kai Development (China) Limited for the acquisition of a 20% equity interest in Lyntondale which holds a 100% equity interest in Foshan Xinsheng, Foshan Xinfeng and Foshan Xinjin, and a 20% equity interest in Bonserry which holds a 100% equity interest in Foshan Xinjun, Foshan Xinhao, Foshan Xinhui and Foshan Xinjing. Further details of the acquisitions are included in the announcement of the Company dated 17 March 2010.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The following table illustrates the summarised financial information of the Group's associates:

	2012 RMB'000	2011 RMB'000
Assets	<b>4,470,427</b>	5,261,312
Liabilities	<b>(4,247,585)</b>	(3,690,921)
Revenue	<b>213</b>	1,042
Expense	<b>(9,327)</b>	(17,356)



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## 19. Interests in Jointly-controlled Entities/Balances with Jointly-controlled Entities

	<b>Group</b>	
	<b>2012</b> <b>RMB'000</b>	2011 RMB'000
Share of net assets	<b>7,003,020</b>	4,833,724
Advances to jointly-controlled entities	<b>1,303,875</b>	1,675,218
	<b>8,306,895</b>	6,508,942
	<b>Company</b>	
	<b>2012</b> <b>RMB'000</b>	2011 RMB'000
Interests in jointly-controlled entities	<b>1,446,074</b>	1,436,693
Advances to jointly-controlled entities	<b>745,161</b>	358,558
	<b>2,191,235</b>	1,795,251

The advances to jointly-controlled entities as shown above are unsecured, interest-free and not repayable within 12 months.

As at 31 December 2011, the amount due from a jointly-controlled entity included in the Group's current assets of approximately RMB43,713,000 was unsecured, interest-free and had no fixed term of repayment.

The amounts due to jointly-controlled entities included in the Group's current liabilities of approximately RMB2,454,234,000 (2011: approximately RMB589,631,000) are unsecured, interest-free and have no fixed terms of repayment.

As at 31 December 2012, the amounts due to jointly-controlled entities included in the Company's current liabilities of approximately RMB548,195,000 (2011: Nil) were unsecured, interest-free and had no fixed terms of repayment.



## 19. Interests in Jointly-controlled Entities/Balances with Jointly-controlled Entities *(continued)*

Particulars of the principal jointly-controlled entities as at 31 December 2012 are as follows:

Name	Particulars of issued shares held	Place of registration/ incorporation	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Guangzhou Weibai Real Estate Development Limited#β	Registered capital of RMB1 each	PRC	50	50	50	Property development
Precious Wave Investments Limitedβ	Ordinary shares of US\$1 each	British Virgin Islands	50	50	50	Investment holding
Quality Express Limitedβ	Ordinary shares of HK\$1 each	Hong Kong	50	50	50	Investment holding
Guangzhou Fujing Real Estate Development Limited#β	Registered capital of HK\$1 each	PRC	33.3	33.3	33.3	Property development
Shanghai Zhendong Real Estate Company Limited#β	Registered capital of RMB1 each	PRC	50	50	50	Property development
Tianjin Jinnan New Town Property Development Company Limited ("Tianjin Jinnan")#β (i)	Registered capital of RMB1 each	PRC	25	25	25	Property development
Tianjin He'an Investments Limited ("Tianjin He'an")#β(i)	Registered capital of RMB1 each	PRC	25	25	25	Property development
Shanghai Chengtou Yuecheng Real Estate Company Limited ("Shanghai Chengtou Yuecheng")#β(ii)	Registered capital of RMB1 each	PRC	50	50	50	Property development
Chengdu City Hongyu Real Estate Development Limited#β(iii)	Registered capital of RMB1 each	PRC	50	50	50	Property development
Great Command Investments Limitedβ	Ordinary shares of HK\$1 each	Hong Kong	28.6	28.6	28.6	Investment holding
Total Champ Limitedβ	Ordinary shares of HK\$1 each	Hong Kong	28.6	28.6	28.6	Investment holding
Suzhou Kaiyu#β(iv)	Registered capital of RMB1 each	PRC	90	90	90	Property development
Guangzhou City Huizhao Business Services Company Limited#β	Registered capital of RMB1 each	PRC	50	50	50	Property development
Guangzhou City Zhongyu Property Development Company Limited#β	Registered capital of RMB1 each	PRC	50	50	50	Property development

# The English names of these companies referred to in these financial statements represent management's best effort to translate the Chinese names of these companies, as no English names have been registered.

β Not audited by Ernst & Young Hong Kong or another member of the Ernst & Young global network.





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## 19. Interests in Jointly-controlled Entities/Balances with Jointly-controlled Entities *(continued)*

Note:

- (i) On 25 August 2010, Beijing Hejing, entered into a shareholders' agreement with three independent third parties (collectively the "4 Parties"), for the development of a property project in Tianjin by setting up a project company, Tianjin Jinnan. Each of the 4 Parties held a 25.00% equity interest in Tianjin Jinnan upon the execution of the shareholders' agreement and Tianjin Jinnan is considered as a jointly-controlled entity held by Beijing Hejing. Further details of the acquisition are included in the Company's announcement dated 25 August 2010.

On 17 September 2010, the 4 Parties entered into an equity transfer agreement with 平安信託有限責任公司 ("Ping An Trust") to transfer their 98.16% (i.e. 24.54% each) equity interests in Tianjin Jinnan to Ping An Trust for a total cash consideration of RMB3,600,000,000 (i.e. RMB900,000,000 each) and the 98.16% equity interests were then transferred to a trust scheme (the "Ping An Trust Scheme"), set up and managed by Ping An Trust. The sales proceeds paid by the Ping An Trust Scheme was financed by the issuance of 3,600,000,000 units of senior units by Ping An Trust Scheme to certain investors for the total proceeds of RMB3,600,000,000. The sale proceeds of RMB3,600,000,000 received by the 4 Parties were then advanced to Tianjin Jinnan through Tianjin He'an (unilaterally controlled by the 4 Parties with 25.00% each), and the loan receivables from Tianjin Jinnan of RMB3,600,000,000 were then used by Tianjin He'an to subscribe for 3,600,000,000 junior units ("Ping An Junior Units") in the Ping An Trust Scheme pursuant to the requirements set out in a framework agreement entered into by the 4 Parties, Tianjin Jinnan and Ping An Trust in August 2010.

The effective period of the Ping An Trust Scheme is 18 months with a guaranteed return of 13% per annum to the Ping An Trust. At the end of the trust period, the Ping An Trust will be repaid with the subscription money of RMB3,600,000,000 plus a total guaranteed return of RMB702,000,000, and the holders of the Ping An Junior Units will be entitled to the 98.16% equity interest in Tianjin Jinnan. In addition, the 4 Parties granted Ping An Trust with an option to acquire a maximum of 16.00% equity interest in Tianjin Jinnan for a predetermined consideration upon the end of the trust period. This option was revalued on 17 September 2010, 31 December 2010 and 31 December 2011 by CB Richard Ellis Limited, independent qualified valuers. In the opinion of the directors, the fair value of this option is considered not significant.

During the Ping An Trust Scheme period, Tianjin Jinnan continues to be accounted for as a jointly-controlled entity of the Group as Tianjin Jinnan is jointly-controlled by the 4 Parties and Ping An Trust.

Further details of the above transactions are included in the Company's announcement dated 17 September 2010.

During the year, the above trust financing arrangement expired and the Group repaid RMB900,000,000 to Ping An Trust and the related 24.54% equity interests in Tianjin Jinnan was returned to the Group.

- (ii) On 5 November 2010, the Group entered into a share purchase agreement with Guangzhou R&F Properties Co, Ltd. ("Guangzhou R&F") for the acquisition of the entire issued and paid-up share capital of Hines Shanghai New Jiangwan Development Co. Ltd., a company incorporated in the Cayman Islands, and Hines Shanghai New Jiangwan Development Co. Ltd. holds a 70.00% interest in the registered capital of Shanghai Chengtou Yuecheng, which holds the four parcels of land located in Shanghai and the properties developed and being developed thereon for a consideration of US\$353,500,000. Further details of the acquisition are included in the announcement of the Company dated 5 November 2010.

On 20 January 2011, Shanghai R&F Real Estate Development Co., Ltd. ("Shanghai R&F"), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of Guangzhou R&F, and Shanghai Hejing, as the purchasers, have entered into an equity transfer agreement with Shanghai Chengtou Cityland (Group) Co., Ltd. ("SCC"), a company incorporated in the PRC, as the seller, pursuant to which Shanghai R&F and Shanghai Hejing have agreed to acquire 30% of the registered capital of Shanghai Chengtou Yuecheng from SCC. Further details of the acquisition are included in the announcement of the Company dated 20 January 2011.

- (iii) Details of the joint venture arrangement are included in the Company's announcement dated 10 November 2010.

This company is also known as Chengdu Premium Property Development Company Limited in the Company's announcement dated 4 November 2011.

- (iv) Details of the joint venture arrangement are included in note 17(ii) to the financial statement.



## 19. Interests in Jointly-controlled Entities/Balances with Jointly-controlled Entities *(continued)*

The above investments in jointly-controlled entities are indirectly held by the Company through wholly-owned subsidiaries, except for Shanghai Chengtou Yuecheng, which is a subsidiary of a directly held jointly-controlled entity.

The above table lists the jointly-controlled entities of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2012 RMB'000	2011 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	<b>267,239</b>	939,464
Current assets	<b>17,231,932</b>	9,373,343
Current liabilities	<b>(6,870,074)</b>	(2,849,566)
Non-current liabilities	<b>(3,626,077)</b>	(2,629,517)
Net assets	<b>7,003,020</b>	4,833,724
Share of the jointly-controlled entities' results:		
Revenue and other income	<b>1,465,635</b>	6,284
Total expenses	<b>(616,491)</b>	(21,644)
Tax	<b>(368,769)</b>	3,048
Profit/(loss) after tax	<b>480,375</b>	(12,312)



## 20. Properties Under Development

	<b>2012</b> <b>RMB'000</b>	<b>Group</b> 2011 RMB'000
Properties under development expected to be recovered:		
Within one year	<b>12,320,717</b>	15,379,943
After more than one year	<b>5,630,076</b>	2,553,776
	<b>17,950,793</b>	17,933,719

The Group's properties under development were located in the PRC.

During the year ended 31 December 2012, certain of the Group's properties under development with aggregate carrying value of approximately RMB766,526,000 (2011: approximately RMB478,444,000) (note 15) were transferred to investment properties.

Certain of the Group's properties under development with an aggregate carrying amount of approximately RMB9,411,937,000 (2011: approximately RMB5,568,201,000) were pledged to secure general banking facilities granted to the Group (note 37(a)).

Included in the Group's properties under development as at 31 December 2012 were land costs with an aggregate net carrying amount of approximately RMB654,510,000 (2011: approximately RMB1,631,965,000) in which the Group has not yet obtained land use right certificates from the relevant government authorities. The Group has not fully settled the purchase consideration in accordance with the terms of the relevant land use rights grant contracts. The directors of the Company consider that the relevant land use right certificates will be obtained upon the full payment of the purchase consideration.

Further particulars of the Group's major properties under development are set out on page 135 of the annual report.

## 21. Completed Properties Held for Sale

The Group's completed properties held for sale are located in the PRC. All completed properties held for sale are stated at cost.

At 31 December 2012, certain of the Group's completed properties held for sale with an aggregate carrying amount of approximately RMB161,619,000 (2011: approximately RMB152,961,000) were pledged to secure general banking facilities granted to the Group (note 37(a)).

Further particulars of the Group's major completed properties held for sale are set out on page 135 of the annual report.

## 22. Trade Receivables

Trade receivables mainly consist of receivables from the sale of properties, rentals under operating leases and provision of property management services. The payment terms of the sale of properties are stipulated in the relevant sale and purchase agreements. An ageing analysis of the trade receivables as at the end of the reporting period is as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Within 3 months	41,359	47,949
4 to 6 months	8,482	2,490
7 to 12 months	19,899	2,540
Over 1 year	16,674	7,793
	<b>86,414</b>	60,772

An ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	49,841	50,439
1 to 6 months past due	36,573	10,333
	<b>86,414</b>	60,772

The Group's trade receivables relate to a large number of diversified customers. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there was no recent history of default and the balances are still considered fully recoverable.



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## 23. Prepayments, Deposits and Other Receivables

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Prepayments	<b>297,740</b>	319,405	<b>18,778</b>	27,232
Deposits and other receivables	<b>796,466</b>	1,255,278	<b>75,304</b>	75,735
	<b>1,094,206</b>	1,574,683	<b>94,082</b>	102,967

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

## 24. Taxes Recoverable/Taxes Payable

### (a) Taxes recoverable

	Group	
	2012 RMB'000	2011 RMB'000
Prepaid CIT	<b>59,715</b>	42,350
Prepaid LAT	<b>75,558</b>	72,398
	<b>135,273</b>	114,748

### (b) Taxes payable

	Group	
	2012 RMB'000	2011 RMB'000
CIT payable	<b>802,449</b>	947,599
LAT payable	<b>2,571,696</b>	2,342,995
	<b>3,374,145</b>	3,290,594

## 25. Cash and Cash Equivalents and Restricted Cash

	Notes	Group		Company	
		2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Cash and bank balances		<b>4,499,536</b>	2,862,606	<b>324,506</b>	279,046
Time deposits		<b>1,944,890</b>	2,510,583	<b>8,299</b>	–
		<b>6,444,426</b>	5,373,189	<b>332,805</b>	279,046
Less: Restricted cash	(a)	<b>(1,517,229)</b>	(1,348,580)	–	–
Cash and cash equivalents		<b>4,927,197</b>	4,024,609	<b>332,805</b>	279,046
Denominated in RMB	(b)	<b>5,384,215</b>	4,712,981	<b>6,112</b>	238,931
Denominated in other currencies		<b>1,060,211</b>	660,208	<b>326,693</b>	40,115
		<b>6,444,426</b>	5,373,189	<b>332,805</b>	279,046

Notes:

- (a) Pursuant to relevant regulations in the PRC, certain property development companies of the Group are required to place a certain amount of pre-sale proceeds received at designated bank accounts as guarantee deposits for the construction of the relevant properties. As at 31 December 2012, such guarantee deposits amounted to approximately RMB1,116,069,000 (2011: approximately RMB1,348,020,000).

At 31 December 2012, certain of the Group's time deposits of RMB401,160,000 (2011: RMB560,000) were pledged to secure general banking facilities granted to the Group (note 37(a)).

- (b) The RMB is not freely convertible into other currencies, however, subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for one day to one month and earn interest at the respective short term time deposit rates.

## 26. Trade Payables

An ageing analysis of the trade payables as at the end of the reporting period is as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Due within one year or on demand	<b>3,107,723</b>	2,934,780

The trade payables are non-interest-bearing and are normally settled on terms of three to six months.



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## 27. Other Payables and Accruals

	Notes	Group		Company	
		2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Deposits received and receipts in advance		<b>4,124,778</b>	5,369,300	–	–
Other payables and accruals	(a)	<b>2,718,749</b>	2,250,199	<b>245,342</b>	144,324
Deferred income	(b)	<b>15,181</b>	64,709	–	–
		<b>6,858,708</b>	7,684,208	<b>245,342</b>	144,324

- (a) As at 31 December 2011, other payables included the financial obligations of RMB650,000,000 and RMB900,000,000 and the related interest payables arising from the trust financing arrangements related to New China Trust and Ping An Trust, respectively. Details of the trust financing arrangements are set out in notes 17(iii) and 19(i) to the financial statements.
- (b) The deferred income is related to a government grant of RMB203,700,000 received in 2009 for a project in an economic and technological development zone in Guangzhou, Guangdong Province, the PRC. During the year, approximately RMB49,528,000 (2011: approximately RMB88,316,000) had been credited to the cost of sales.

Other payables are non-interest-bearing and are normally settled on terms of three to six months.

## 28. Interest-bearing Bank and Other Borrowings

	Group					
	2012			2011		
	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
<b>Current</b>						
Bank loans						
– secured	<b>5.54–8.31</b>	<b>2013</b>	<b>1,292,761</b>	5.60–8.31	2012	1,988,035
– unsecured	–	–	–	5.60–6.65	2012	70,000
– denominated in HK\$, unsecured	–	–	–	HIBOR+3.00	2012	242,670
Current portion of long- term bank loans						
– secured	<b>5.54–13.50</b>	<b>2013</b>	<b>1,317,596</b>	4.86–13.50	2012	412,480
– denominated in HK\$, secured	<b>HIBOR+1.25– HIBOR+4.60</b>	<b>2013</b>	<b>439,963</b>	HIBOR+1.25– HIBOR+4.00	2012	499,465
– unsecured	<b>5.85–6.65</b>	<b>2013</b>	<b>49,853</b>	5.60–5.85	2012	159,386
– denominated in HK\$, unsecured	–	–	–	HIBOR+4.60	2012	37,536
			<b>3,100,173</b>			<b>3,409,572</b>
<b>Non-current</b>						
Bank loans						
– secured	<b>5.94–11.00</b>	<b>2014–2022</b>	<b>5,777,330</b>	4.86–13.50	2013–2019	5,900,569
– denominated in HK\$, secured	<b>HIBOR+1.25– HIBOR+5.00</b>	<b>2014–2015</b>	<b>689,052</b>	HIBOR+1.25	2013–2014	200,285
– unsecured	<b>6.71–7.32</b>	<b>2014</b>	<b>446,750</b>	5.60–7.32	2013–2014	495,750
– denominated in HK\$, unsecured	–	–	–	HIBOR+4.60	2014	118,384
Senior notes						
– denominated in US\$, secured (i)	<b>12.50–13.25</b>	<b>2016–2017</b>	<b>6,177,283</b>	12.50–12.75	2016–2017	3,709,828
			<b>13,090,415</b>			<b>10,424,816</b>
			<b>16,190,588</b>			<b>13,834,388</b>





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## 28. Interest-bearing Bank and Other Borrowings *(continued)*

	Company					
	2012			2011		
	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
<b>Current</b>						
Bank loans						
– denominated in HK\$, unsecured	–	–	–	HIBOR+3.00	2012	242,670
Current portion of long-term bank loans						
– denominated in HK\$, secured	<b>HIBOR+4.60</b>	<b>2013</b>	<b>78,399</b>	–	–	–
– denominated in HK\$, unsecured	–	–	–	HIBOR+4.60	2012	37,536
			<b>78,399</b>			<b>280,206</b>
<b>Non-current</b>						
Bank loans						
– denominated in HK\$, secured	<b>HIBOR+4.30– HIBOR+5.00</b>	<b>2014–2015</b>	<b>647,606</b>	–	–	–
– denominated in HK\$, unsecured	–	–	–	HIBOR+4.60	2014	118,384
Senior notes						
– denominated in US\$, secured (i)	<b>12.50–13.25</b>	<b>2016–2017</b>	<b>6,177,283</b>	12.5–12.75	2016–2017	3,709,828
			<b>6,824,889</b>			<b>3,828,212</b>
			<b>6,903,288</b>			<b>4,108,418</b>

**28. Interest-bearing Bank and Other Borrowings** *(continued)*

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	<b>3,100,173</b>	3,409,572	<b>78,399</b>	280,206
In the second year	<b>3,007,081</b>	3,654,750	<b>140,825</b>	78,923
In the third to fifth years, inclusive	<b>3,167,051</b>	2,497,238	<b>506,781</b>	39,461
Beyond five years	<b>739,000</b>	563,000	–	–
	<b>10,013,305</b>	10,124,560	<b>726,005</b>	398,590
Senior notes repayable:				
In the third to fifth years, inclusive	<b>6,177,283</b>	2,165,091	<b>6,177,283</b>	2,165,091
Beyond five years	–	1,544,737	–	1,544,737
	<b>6,177,283</b>	3,709,828	<b>6,177,283</b>	3,709,828
	<b>16,190,588</b>	13,834,388	<b>6,903,288</b>	4,108,418

Certain of the Group's borrowings are secured by the Group's assets, details of which are disclosed in note 37.

Except for the above mentioned borrowings denominated in HK\$ and US\$, all borrowings were denominated in RMB as at the end of the reporting period.

In the opinion of the directors of the Company, the carrying amounts of the Group's borrowings approximate to their fair values.

Note:

- (i) On 11 August 2010, the Company issued 12.5% senior notes with a nominal value of US\$250,000,000 (equivalent to approximately RMB1,693,123,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 18 August 2017. The senior notes carry interest at a rate of 12.5% per annum, which is payable semi-annually in arrears on 18 February and 18 August of each year commencing on 18 February 2011. For further details on the senior notes, please refer to the related announcements of the Company dated 12 August 2010 and 19 August 2010.

On 23 March 2011, the Company issued 12.75% senior notes with a nominal value of US\$350,000,000 (equivalent to approximately RMB2,296,035,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 30 March 2016. The senior notes carry interest at a rate of 12.75% per annum, which is payable semi-annually in arrears on 30 March and 30 September of each year commencing on 30 September 2011. For further details on the senior notes, please refer to the related announcements of the Company dated 23 March 2011, 24 March 2011 and 30 March 2011.

On 22 March 2012, the Company issued 13.25% senior notes with a nominal value of US\$400,000,000 (equivalent to approximately RMB2,520,160,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 22 March 2017. The senior notes carry interest at a rate of 13.25% per annum, which is payable semi-annually in arrears on 22 March and 22 September of each year commencing on 22 September 2012. For further details on the senior notes, please refer to the related announcements of the Company dated 14 March 2012, 16 March 2012 and 23 March 2012.



## Notes to Financial Statements

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## 29. Deferred Tax

The movements in deferred tax liabilities and assets during the year are as follows:

### Deferred tax liabilities

Group

	2012				
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Revaluation of investment properties RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2012	30,330	38,214	693,885	139,720	902,149
Deferred tax charged to the income statement during the year (note 10)	6,472	–	158,574	–	165,046
Derecognition of a subsidiary (note 35(a))	–	–	(4,440)	–	(4,440)
Gross deferred tax liabilities at 31 December 2012	36,802	38,214	848,019	139,720	1,062,755

### Deferred tax assets

Group

	2012					
	Depreciation in excess of related depreciation allowance RMB'000	Provision of LAT RMB'000	Losses available for offsetting against future taxable profits RMB'000	Accruals RMB'000	Government grant RMB'000	Total RMB'000
At 1 January 2012	1,659	721,197	22,607	255,425	16,177	1,017,065
Deferred tax credited/(charged) to the income statement during the year (note 10)	518	151,466	48,462	54,497	(12,382)	242,561
Transfer	–	–	743	–	–	743
Derecognition of a subsidiary (note 35(a))	–	(25,956)	–	(20,078)	–	(46,034)
Gross deferred tax assets at 31 December 2012	2,177	846,707	71,812	289,844	3,795	1,214,335
Net deferred tax recognised at 31 December 2012						151,580

## 29. Deferred Tax *(continued)*

### Deferred tax liabilities

Group

	2011				Total RMB'000
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Revaluation of investment properties RMB'000	Withholding taxes RMB'000	
At 1 January 2011	24,447	38,214	615,912	56,753	735,326
Deferred tax charged to the income statement during the year (note 10)	5,883	–	77,973	82,967	166,823
Gross deferred tax liabilities at 31 December 2011	30,330	38,214	693,885	139,720	902,149

### Deferred tax assets

Group

	2011					Total RMB'000
	Depreciation in excess of related depreciation allowance RMB'000	Provision of LAT RMB'000	Losses available for offsetting against future taxable profits RMB'000	Accruals RMB'000	Government grant RMB'000	
At 1 January 2011	1,014	472,630	4,556	153,262	38,256	669,718
Deferred tax credited/(charged) to the income statement during the year (note 10)	645	248,567	13,572	102,163	(22,079)	342,868
Transfer	–	–	4,479	–	–	4,479
Gross deferred tax assets at 31 December 2011	1,659	721,197	22,607	255,425	16,177	1,017,065
Net deferred tax recognised at 31 December 2011						114,916



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## 29. Deferred Tax *(continued)*

For the purpose of the presentation of the statement of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	Group	
	2012 RMB'000	2011 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	<b>966,263</b>	881,880
Net deferred tax liabilities recognised in the consolidated statement of financial position	<b>(814,683)</b>	(766,964)
	<b>151,580</b>	114,916

The Group has unutilised tax losses of approximately RMB627,781,000 (2011: approximately RMB144,064,000) that can be carried forward for five years for offsetting against future taxable profits of the entities in which the losses arose. Deferred tax assets have not been recognised in respect of the tax losses amounting to approximately RMB340,533,000 (2011: approximately RMB53,636,000) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. As at 31 December 2012, unremitted earnings that are subjected to withholding taxes of the Group's subsidiaries established in PRC of approximately RMB2,080,301,000 (2011: approximately RMB933,334,000) have not been recognised for withholding taxes.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 30. Deferred Revenue

The Group entered into an agreement with the vendor (the "Vendor A") on 17 September 2009, pursuant to which the Group should pay a cash consideration of RMB100,000,000, and transfer certain apartments and the Group's entire equity interest in a new company to be established by the Group under the laws of the PRC, which will hold certain properties to be built by the Group on a portion of the land of Guangzhou Lihe (collectively, the "Transfer Properties A") of RMB700,000,000 to the Vendor A, in exchange for the entire equity interest in Guangzhou Lihe. The exchange of the Transfer Properties A is accounted for as a transaction which generates revenue. As at 31 December 2012, the Transfer Properties A were still under construction and had not been transferred to the Vendor A. Accordingly, the above revenue is deferred and will be recognised upon the delivery of the Transfer Properties A.

The Group entered into another agreement with another vendor (the "Vendor B") on 7 July 2011, pursuant to which the Group should pay a cash consideration of RMB43,400,000, and transfer certain apartments and car parking spaces (collectively, the "Transfer Properties B") of RMB11,000,000 to Vendor B, in exchange for the 10% equity interest in Shanghai Deyu. The exchange of the Transfer Properties B is accounted for as a transaction which generates revenue. As at 31 December 2012, the Transfer Properties B were still under construction and had not been transferred to Vendor B. Accordingly, the above revenue is deferred and will be recognised upon the delivery of the Transfer Properties B.

## 31. Share Capital

### Shares

	2012 RMB'000	2011 RMB'000
Authorised: 8,000,000,000 (2011: 8,000,000,000) ordinary shares of HK\$0.10 each	<b>786,113</b>	786,113
Issued and fully paid: 2,893,150,000 (2011: 2,893,150,000) ordinary shares of HK\$0.10 each	<b>280,485</b>	280,485

## 32. Share Option Scheme

Pursuant to a written resolution of the shareholders of the Company on 11 June 2007, the Scheme was conditionally approved. On 3 July 2007, the aforesaid approval of the Scheme became unconditional and effective as the Company's shares were listed on the Stock Exchange. The Scheme is for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Group's directors, including independent non-executive directors, any full-time or part-time employees of the Group, suppliers, customers, advisers, consultants and agents to the Group. Upon becoming effective, the Scheme will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme must not in aggregate exceed 10% of the shares of the Company in issue immediately following completion of the global offering and the capitalisation issue of the Company's shares in 2007. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme at any time shall not exceed 30% of the shares in issue from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5,000,000 or such other sum as may be from time to time provided under the Listing Rules, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders' approval in advance in a general meeting.

An option may be exercised in accordance with the terms of the Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the board of directors of the Company in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company.



## 32. Share Option Scheme *(continued)*

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 18 December 2009, 30 March 2010 and 26 August 2011, the Company granted 8,457,000, 8,000,000 and 7,351,000 share options, respectively, to the grantees, including the board of directors of the Company and certain employees of the Group. Total of 241,000 (2011: 10,689,000) share options were forfeited during the year and subsequently cancelled and none of the share options were exercised by the grantees as at the date of approval of these financial statements. All the share options granted on 30 March 2010 were forfeited in the prior year and had been subsequently cancelled as at 31 December 2011.

The exercise prices of the outstanding share options granted on 18 December 2009 and 26 August 2011 were HK\$6.24 and HK\$4.49 per share, respectively.

The closing prices of the Company's shares on 18 December 2009 and 26 August 2011, the dates of grant, were HK\$6.23 and HK\$4.32 per share, respectively.

The share options granted to the executive directors of the Company and employees of the Company and its subsidiaries are exercisable during the following periods:

### Share options granted on 18 December 2009

- (i) up to 25% of the share options granted to each grantee at any time after the expiration of 12 months from 18 December 2009;
- (ii) up to 25% of the share options granted to each grantee at any time after the expiration of 24 months from 18 December 2009;
- (iii) up to 25% of the share options granted to each grantee at any time after the expiration of 36 months from 18 December 2009;
- (iv) all the remaining share options granted to each grantee at any time after the expiration of 48 months from 18 December 2009;

and in each case, not later than 17 December 2014.

The share options granted to the independent non-executive directors of the Company are exercisable at any time prior to 17 December 2014.

### Share options granted on 26 August 2011

- (i) up to 25% of the share options granted to each grantee at any time after the expiration of 12 months from 26 August 2011;
- (ii) up to 25% of the share options granted to each grantee at any time after the expiration of 24 months from 26 August 2011;
- (iii) up to 25% of the share options granted to each grantee at any time after the expiration of 36 months from 26 August 2011;
- (iv) all the remaining share options granted to each grantee at any time after the expiration of 48 months from 26 August 2011;

and in each case, not later than 25 August 2016.

### 32. Share Option Scheme *(continued)*

The share options granted to the independent non-executive directors of the Company are exercisable at any time prior to 25 August 2016.

HK\$1.00 is payable for acceptance of grant of share options by each grantee.

The fair values of the share options granted on 18 December 2009 and 26 August 2011 determined at the date of grant using the Models were approximately RMB19,938,000 and RMB6,696,000, respectively. The Group recognised a share option expense of approximately RMB3,474,000 (2011: approximately RMB1,347,000) during the year ended 31 December 2012.

The following inputs were used to calculate the fair values of the share options granted:

	<b>Options granted on 26 August 2011</b>	<b>Options granted on 18 December 2009</b>
Grant date share price	HK\$4.32	HK\$6.23
Exercise price	HK\$4.49	HK\$6.24
Expected life	5 years	5 years
Expected volatility	66%	63%–69%
Expected dividend yield (%)	3.11%	1.48%
Risk-free interest rate (%)	0.79%	0.72%–1.21%

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The Models have been used to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the share options.

At each reporting date, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in the income statement, with a corresponding adjustment to the equity-settled share option reserve.

As at 31 December 2012, the Company had 12,878,000 (2011: 13,119,000) share options outstanding under the Scheme, which had a weighted average exercise price of HK\$5.29 (2011: HK\$5.27) per share. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 12,878,000 additional ordinary shares of the Company and additional share capital of approximately HK\$1,288,000 (equivalent to approximately RMB1,044,000) and share premium of approximately HK\$66,809,000 (equivalent to approximately RMB54,172,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 12,878,000 share options outstanding under the Scheme, which represented approximately 0.45% of the Company's shares in issue at that date.





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### 33. Reserves

#### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Pursuant to the relevant laws and regulations in the PRC, the Company's subsidiaries which are registered in the PRC shall appropriate a certain percentage of profit for the year (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds which are restricted as to use. During the year ended 31 December 2012, the Group appropriated approximately RMB26,680,000 (2011: approximately RMB184,370,000) to these reserve funds in accordance with the relevant laws and regulations in the PRC.

#### (b) Company

	Note	Share premium account RMB'000	Contributed surplus RMB'000	Exchange fluctuation reserve RMB'000	Equity- settled share option reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2011		6,615,724	308,006	(768,329)	20,657	110,511	6,286,569
Share option expense	32	-	-	-	1,347	-	1,347
Profit for the year		-	-	-	-	631,696	631,696
Exchange realignment		-	-	(227,008)	-	-	(227,008)
Proposed final 2011 dividend	12	-	-	-	-	(636,493)	(636,493)
At 31 December 2011 and 1 January 2012		6,615,724	308,006	(995,337)	22,004	105,714	6,056,111
Share option expense	32	-	-	-	<b>3,474</b>	-	<b>3,474</b>
Profit for the year		-	-	-	-	<b>359,780</b>	<b>359,780</b>
Exchange realignment		-	-	<b>870</b>	-	-	<b>870</b>
Proposed final 2012 dividend	12	-	-	-	-	<b>(433,973)</b>	<b>(433,973)</b>
At 31 December 2012		<b>6,615,724</b>	<b>308,006</b>	<b>(994,467)</b>	<b>25,478</b>	<b>31,521</b>	<b>5,986,262</b>

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation of the Group in preparation for the listing of the Company, over the nominal value of the Company's shares in exchange therefor.

The equity-settled share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

### 34. Investments in Jointly-Controlled Operations

The Group has entered into three (2011: three) joint venture arrangements in the form of jointly-controlled operations with certain parties, to jointly undertake three (2011: three) property development projects located in Guangzhou Guangdong Province, the PRC. As at 31 December 2012, the aggregate amounts of assets and liabilities recognised in respect of these jointly-controlled operations were as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Assets	<b>1,779,974</b>	1,256,700
Liabilities	<b>(119,491)</b>	(102,855)

### 35. Notes to the Consolidated Statement of Cash Flows

#### (a) Derecognition of a subsidiary

During the year, the Group lost sole control of Suzhou Kaiyu, and Suzhou Kaiyu was derecognised as a subsidiary of the Group, further details of which are disclosed in note 17(ii) to the financial statements.

The net assets of Suzhou Kaiyu as at the date of derecognition were as follows:

	2012 RMB'000
Cash and bank balance	<b>218,496</b>
Properties under development	<b>789,516</b>
Completed properties held for sale	<b>391,625</b>
Trade receivables	<b>217</b>
Prepayment, deposits and other receivables	<b>1,305,830</b>
Property, plant and equipment	<b>52,841</b>
Investment properties	<b>377,543</b>
Land use rights	<b>93,683</b>
Deferred tax assets	<b>46,034</b>
Trade payables	<b>(119,676)</b>
Other payables and accruals	<b>(281,353)</b>
Tax payables	<b>(198,986)</b>
Interest-bearing bank and other borrowings	<b>(901,658)</b>
Deferred tax liabilities	<b>(4,440)</b>
Net assets value derecognised	<b>1,769,672</b>



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### 35. Notes to the Consolidated Statement of Cash Flows *(continued)*

#### (a) Derecognition of a subsidiary *(continued)*

An analysis of the net cash outflow of cash and cash equivalent respect of the derecognition of Suzhou Kaiyu is as follows:

	2012 RMB'000
Cash and bank balances derecognised	218,496
Net cash outflow of cash and cash equivalent in respect of the derecognition of Suzhou Kaiyu	218,496

#### (b) Acquisition of subsidiaries

During the year ended 31 December 2011, the Group acquired a 100% equity interest in Shanghai Jinyi through a 90% owned subsidiary. Shanghai Jinyi is principally engaged in property development. The purchase consideration for the acquisition was approximately RMB66,148,000, which was fully paid on the acquisition date.

The fair values of the identifiable assets and liabilities of Shanghai Jinyi as at the date of acquisition were as follows:

	2011 RMB'000
Cash and bank balances	3,498
Properties under development	257,650
Other payables and accruals	(195,000)
	66,148
Satisfied by:	
Cash	66,148

The analysis of the net cash outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2011 RMB'000
Cash consideration	66,148
Cash and bank balances acquired	(3,498)
Net cash outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	62,650

### 35. Notes to the Consolidated Statement of Cash Flows *(continued)*

#### (c) Acquisition of additional interests in Shanghai Deyu

During the year ended 31 December 2011, the Group acquired an additional 10% equity interest in Shanghai Deyu, increasing its ownership to 100%. A cash consideration of RMB43.4 million was paid to the then shareholder. The carrying amount of the non-controlling interest acquired was approximately RMB10.0 million. The difference of approximately RMB33.4 million between the consideration paid and the carrying amount of the non-controlling interest acquired was recognised in the capital reserve within equity.

### 36. Contingent Liabilities

At the end of the reporting period, contingent liabilities of the Group not provided for in the financial statements were as follows:

	Notes	Group	
		2012 RMB'000	2011 RMB'000
Guarantees given to banks in connection with mortgage granted to certain purchasers of the Group's properties	(a)	<b>4,578,445</b>	6,642,562
Guarantees given to a bank in connection with bank loans granted to jointly-controlled entities		<b>3,350,175</b>	2,610,915
Guarantee given to a bank in connection with a bank loan granted to the Vendor A	(b)	<b>700,000</b>	700,000
		<b>8,628,620</b>	9,953,477

Notes:

- (a) As at 31 December 2012 and 2011, the Group provided guarantees to certain banks in respect of mortgage granted by banks relating to the mortgage loans arranged for 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 for repaying the outstanding mortgage principal together with the accrued interest and penalty owed by the defaulting purchasers to the banks and the Group is entitled but not limited to take over the legal titles and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon issuance of real estate ownership certificates which will generally be available within one to two years after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the board of directors of the Company considers that in case of default in payments, the net realisable value of the related properties will be sufficient to 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 years ended 31 December 2012 and 2011 for the guarantees.



## Notes to Financial Statements

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### 36. Contingent Liabilities *(continued)*

Notes: *(continued)*

- (b) Prior to entering into the agreement in respect of the transfer of the equity interest of Guangzhou Lihe, the Vendor A had obtained a bank loan in the amount of RMB700,000,000. The land use right of Guangzhou Lihe had been pledged to the bank for this bank facility. The Group has agreed to provide a guarantee in favour of the bank to secure this bank loan so as to procure the discharge of the pledge of the land use right held by Guangzhou Lihe.

Pursuant to the aforementioned agreement, (i) the Group is not obligated to transfer the properties to the Vendor A in the event that the Vendor A fails to deliver the land use right certificates of Guangzhou Lihe upon the discharge of the pledge of Guangzhou Lihe's land; and (ii) the Group is entitled to deduct from the balance of the consideration of RMB700,000,000 on a dollar-to-dollar basis any loss or damage suffered by it as a result of the Vendor A's failure or inability to repay the bank loan for more than three months. In such an event, the shareholding of the new company to be transferred or the gross floor area of the apartments to be built on Guangzhou Lihe's land will be adjusted downward accordingly. Based on these agreed terms, the board of directors of the Company considers that the chance of the Group suffering loss is minimal and therefore no provision has been made in the financial statements for the years ended 31 December 2012 and 2011 for the guarantee.

As at 31 December 2012, the Company had contingent liabilities not provided for in the financial statements in respect of guarantees given to certain banks for loans granted to subsidiaries amounting to approximately RMB2,640,583,000 (2011: approximately RMB4,281,640,000).

### 37. Pledge of Assets

- (a) At the end of the reporting period, the following assets of the Group were pledged to certain banks to secure general banking facilities granted to the Group:

	Notes	Group	
		2012 RMB'000	2011 RMB'000
Buildings	14	<b>323,494</b>	42,641
Assets under construction	14	–	189,499
Investment properties	15	<b>3,671,041</b>	3,178,418
Land use rights	16	<b>105,620</b>	282,449
Properties under development	20	<b>9,411,937</b>	5,568,201
Completed properties held for sale	21	<b>161,619</b>	152,961
Time deposits	25	<b>401,160</b>	560
		<b>14,074,871</b>	9,414,729

- (b) As at 31 December 2012 and 2011, the equity interests of certain subsidiaries and an associate of the Group were pledged to certain banks for the loans granted to the Group.
- (c) As at 31 December 2012 and 2011, the senior notes were jointly and severally guaranteed by certain subsidiaries of the Group and were secured by the pledges of their equity interests.

### 38. Operating Lease Arrangements

#### (a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Within one year	97,982	127,229
In the second to fifth years, inclusive	126,000	166,514
After five years	17,704	42,817
	<b>241,686</b>	336,560

#### (b) As lessee

The Group and the Company lease certain of their office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 5 years.

At 31 December 2012, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Within one year	13,125	13,843	1,992	2,447
In the second to fifth years, inclusive	4,792	16,714	-	1,992
	<b>17,917</b>	30,557	<b>1,992</b>	4,439

### 39. Commitments

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2012 RMB'000	2011 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	369,914	869,658
Properties being developed by the Group for sale	3,363,737	2,988,798
Investment properties	186,541	-
	<b>3,920,192</b>	3,858,456
Authorised but not contracted for:		
Capital contributions payable to jointly-controlled entities	-	33,516



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### 39. Commitments *(continued)*

In addition, the Group's share of the jointly-controlled entities' own capital commitments, which are not included in the above, is as follows:

	<b>2012</b> <b>RMB'000</b>	<b>Group</b> 2011 RMB'000
Contracted, but not provided for	<b>2,106,368</b>	1,842,936

The Company did not have any significant capital commitment at the end of the reporting period.

### 40. Related Party Transactions

**(a) Outstanding balances with related parties:**

Details of the Group's balances with its associates and jointly-controlled entities are included in notes 18 and 19 to the financial statements, respectively.

**(b) Other transactions with related parties**

Details of guarantees given by the Group and the Company to banks in connection with bank loans granted to jointly-controlled entities are included in note 36 to the financial statements.

**(c) Compensation of key management personnel of the Group:**

	<b>2012</b> <b>RMB'000</b>	2011 RMB'000
Short term employee benefits	<b>28,697</b>	29,447
Equity-settled share option expense	<b>589</b>	2,215
Post-employment benefits	<b>1,825</b>	1,179
Total compensation paid to key management personnel	<b>31,111</b>	32,841

Further details of directors' and chief executive's emoluments are included in note 8 to the financial statements.

## 41. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

### Financial assets – Loans and receivables

	Group	
	2012 RMB'000	2011 RMB'000
Trade receivables (note 22)	<b>86,414</b>	60,772
Financial assets included in prepayments, deposits and other receivables (note 23)	<b>796,466</b>	1,255,278
Advances to associates (note 18)	<b>597,407</b>	569,657
Advances to jointly-controlled entities (note 19)	<b>1,303,875</b>	1,675,218
Due from a jointly-controlled entity (note 19)	–	43,713
Restricted cash (note 25)	<b>1,517,229</b>	1,348,580
Cash and cash equivalents (note 25)	<b>4,927,197</b>	4,024,609
	<b>9,228,588</b>	8,977,827

### Financial liabilities – Financial liabilities at amortised cost

	Group	
	2012 RMB'000	2011 RMB'000
Trade payables (note 26)	<b>3,107,723</b>	2,934,780
Financial liabilities included in other payables and accruals (note 27)	<b>2,718,749</b>	2,250,199
Due to associates (note 18)	–	1,081,720
Due to jointly-controlled entities (note 19)	<b>2,454,234</b>	589,631
Interest-bearing bank and other borrowings (note 28)	<b>16,190,588</b>	13,834,388
	<b>24,471,294</b>	20,690,718





## Notes to Financial Statements

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**41. Financial Instruments by Category** *(continued)***Financial assets – Loans and receivables**

	<b>Company</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
Due from subsidiaries (note 17)	<b>9,892,377</b>	7,668,616
Advances to associates (note 18)	<b>298,828</b>	271,130
Advances to jointly-controlled entities (note 19)	<b>745,161</b>	358,558
Financial assets included in prepayments, deposits and other receivables (note 23)	<b>75,304</b>	75,735
Due from a subsidiary (note 17)	<b>1,275,148</b>	800,000
Cash and cash equivalents (note 25)	<b>332,805</b>	279,046
	<b>12,619,623</b>	9,453,085

**Financial liabilities – Financial liabilities at amortised cost**

	<b>Company</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
Financial liabilities included in other payables and accruals (note 27)	<b>245,342</b>	144,324
Due to jointly-controlled entities (note 19)	<b>548,195</b>	–
Interest-bearing bank and other borrowings (note 28)	<b>6,903,288</b>	4,108,418
	<b>7,696,825</b>	4,252,742

## 42. Financial Risk Management Objectives and Policies

The financial assets of the Group mainly include cash and cash equivalents, restricted cash, trade receivables, deposits and other receivables, and advances to/amounts due from associates and jointly-controlled entities. The financial liabilities of the Group mainly include trade payables, other payables and accruals, bank and other borrowings and amounts due to associates and jointly-controlled entities.

The carrying amounts of the Group's financial instruments approximated to their fair values as at the end of each reporting period. Fair value estimates are made at a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are business risk, interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below:

### Business risk

The Group conducts its operations in the PRC, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, the influence of national authorities over pricing and the financing regulations in the property development industry.

### Interest rate risk

The Group has no significant interest-bearing assets. The Group's exposure to changes in market interest rates relates primarily to the Group's bank loans with floating interest rates. The Group has not used any interest rate swaps to hedge its cash flow interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Group Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
<b>2012</b>			
RMB	<b>200</b>	<b>(149,408)</b>	–
Hong Kong dollar	<b>200</b>	<b>(18,233)</b>	–
RMB	<b>(200)</b>	<b>149,408</b>	–
Hong Kong dollar	<b>(200)</b>	<b>18,233</b>	–



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## 42. Financial Risk Management Objectives and Policies *(continued)*

### Interest rate risk *(continued)*

	Increase/ (decrease) in basis points	Group Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2011			
RMB	200	(162,059)	–
Hong Kong dollar	200	(10,838)	–
RMB	(200)	162,059	–
Hong Kong dollar	(200)	10,838	–

\* Excluding retained profits

### Foreign currency risk

The Group's businesses are located in the PRC and the transactions are mainly conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB except for certain bank loans and bank balances denominated in Hong Kong dollars and senior notes denominated in United States dollars. The Group has not hedged its foreign exchange rate risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar and Hong Kong dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in HK\$ rate %	Group Increase/ (decrease) in US\$ rate %	Increase/ (decrease) in profit before tax RMB'000
<b>2012</b>			
If RMB weakens against Hong Kong dollar	<b>(5)</b>	<b>N/A</b>	<b>(21,174)</b>
If RMB strengthens against Hong Kong dollar	<b>5</b>	<b>N/A</b>	<b>21,174</b>
If RMB weakens against United States dollar	<b>N/A</b>	<b>(5)</b>	<b>(291,130)</b>
If RMB strengthens against United States dollar	<b>N/A</b>	<b>5</b>	<b>291,130</b>

## 42. Financial Risk Management Objectives and Policies *(continued)*

### Foreign currency risk *(continued)*

	Increase/ (decrease) in HK\$ rate %	Group Increase/ (decrease) in US\$ rate %	Increase/(decrease) in profit before tax RMB'000
2011			
If RMB weakens against Hong Kong dollar	(5)	N/A	(24,155)
If RMB strengthens against Hong Kong dollar	5	N/A	24,155
If RMB weakens against United States dollar	N/A	(5)	(183,243)
If RMB strengthens against United States dollar	N/A	5	183,243

### Credit risk

The Group has no concentration of credit risk. The Group's cash and cash equivalents are mainly deposits with state-owned banks in the PRC and high-credit rating banks in Hong Kong.

The carrying amounts of trade and other receivables and cash and cash equivalents included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure the obligations of these purchasers for repayments. Detailed disclosure of these guarantees is made in note 36.

### Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents through the sales proceeds generating from the sale of the properties and having available funding through an adequate amount of credit facilities to meet the Group's construction commitments. The board of directors of the Company expects that the Group's net cash flows from operating activities and additional bank loans will be available to finance the Group's existing and future property development projects. The Group has a number of alternative plans to mitigate the potential impacts on the Group's working capital should there be any significant adverse changes in the economic environment. The directors consider that the Group will be able to maintain sufficient financial resources to meet its operation needs.



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## 42. Financial Risk Management Objectives and Policies *(continued)*

### Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

*Group*

	2012					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Interest-bearing bank and other borrowings	–	646,742	3,888,288	15,514,675	823,817	20,873,522
Trade payables	3,107,723	–	–	–	–	3,107,723
Other payables and accruals	2,718,749	–	–	–	–	2,718,749
Due to jointly-controlled entities	2,454,234	–	–	–	–	2,454,234
Guarantees given to banks in connection with mortgage granted to certain purchasers of the Group's properties	4,578,445	–	–	–	–	4,578,445
Guarantee given to a bank in connection with bank loans granted to jointly-controlled entities	3,350,175	–	–	–	–	3,350,175
Guarantee given to a bank in connection with a bank loan granted to the Vendor A	700,000	–	–	–	–	700,000
	<b>16,909,326</b>	<b>646,742</b>	<b>3,888,288</b>	<b>15,514,675</b>	<b>823,817</b>	<b>37,782,848</b>

	2011					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Interest-bearing bank and other borrowings	364,791	889,889	3,220,200	10,603,162	2,282,407	17,360,449
Trade payables	2,934,780	–	–	–	–	2,934,780
Other payables and accruals	668,671	900,000	681,528	–	–	2,250,199
Due to associates	1,081,720	–	–	–	–	1,081,720
Due to jointly-controlled entities	589,631	–	–	–	–	589,631
Guarantees given to banks in connection with mortgage granted to certain purchasers of the Group's properties	6,642,562	–	–	–	–	6,642,562
Guarantee given to a bank in connection with bank loans granted to jointly-controlled entities	2,610,915	–	–	–	–	2,610,915
Guarantee given to a bank in connection with a bank loan granted to the Vendor A	700,000	–	–	–	–	700,000
	15,593,070	1,789,889	3,901,728	10,603,162	2,282,407	34,170,256

## 42. Financial Risk Management Objectives and Policies *(continued)*

### Liquidity risk *(continued)*

Company

	2012					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Interest-bearing bank and other borrowings	–	255,239	688,427	9,380,949	–	10,324,615
Other payables and accruals	245,342	–	–	–	–	245,342
Due to a jointly-controlled entity	548,195	–	–	–	–	548,195
Guarantees given to banks in connection with bank loans granted to subsidiaries	2,640,583	–	–	–	–	2,640,583
	<b>3,434,120</b>	<b>255,239</b>	<b>688,427</b>	<b>9,380,949</b>	<b>–</b>	<b>13,758,735</b>

	2011					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Interest-bearing bank and other borrowings	–	125,815	650,269	4,029,485	1,672,089	6,477,658
Other payables and accruals	144,324	–	–	–	–	144,324
Guarantees given to banks in connection with bank loans granted to subsidiaries	4,281,640	–	–	–	–	4,281,640
	4,425,964	125,815	650,269	4,029,485	1,672,089	10,903,622



## 42. Financial Risk Management Objectives and Policies *(continued)*

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

The Group monitors capital using a gearing ratio, which is the net borrowings (total bank and other borrowings net of cash and cash equivalents and restricted cash) divided by total equity. The Group's policy is to maintain a stable gearing ratio. Capital includes share capital and reserves attributable to the owners of the Company. The gearing ratios as at the end of the reporting periods were as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Net borrowings	<b>9,746,162</b>	8,461,199
Total equity	<b>15,353,379</b>	13,693,018
Gearing ratio	<b>63.5%</b>	61.8%

## 43. Subsequent Event

On 29 January 2013, the Company issued 8.625% senior notes with a nominal value of US\$300,000,000 (equivalent to approximately RMB1,885,530,000). The senior notes are redeemable at the option of the Company at certain predetermined prices in certain specific periods prior to the maturity date of 5 February 2020. The senior notes carry interest at a rate of 8.625% per annum, which is payable semi-annually in arrears on 5 February and 5 August of each year commencing on 5 August 2013. For further details on the senior notes, please refer to the related announcements of the Company dated 29 January 2013, 30 January 2013 and 5 February 2013.

## 44. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 25 March 2013.

## Major Properties held by the Group

Property	The Group's interest (%)	Location	Site area attributable to the Group's interest ('000 sq.m.)	Total GFA attributable to the Group's interest ('000 sq.m.)	Usage	Expected date of completion
<b>Major completed properties held for sale</b>						
The Summit	100	Zengcheng, Guangzhou	216	278	Residential, villas, office and retail	N/A
Chengdu Cosmos	100	South New District, Chengdu	49	251	Residential	N/A
The Sapphire	100	Xiangcheng District, Suzhou	211	477	Residential	N/A
The Vision of the World	100	Western High-Tech Zone, Chengdu	92	399	Residential, serviced apartment and retail	N/A
Fragrant Seasons	100	Shunyi District, Beijing	174	187	Residential, villas, serviced apartments, and retail	N/A
Pearl Coast	100	Lingshui, Hainan	531	69	residential and villas	N/A
L7	100	Pearl River New Town, Guangzhou	5	37	Serviced apartments and retail	N/A
<b>Major properties under development</b>						
The Sapphire	100	Xiangcheng District, Suzhou	138	311	Residential, hotel, serviced apartments and retail	2013-2015
Chengdu Cosmos	100	South New District, Chengdu	138	700	Residential, hotel, serviced apartments, office and retail	2013-2016
Fragrant Seasons	100	Shunyi District, Beijing	281	303	Residential, villas, serviced apartments and retail	2013-2014
The Summit	100	Zengcheng, Guangzhou	1,755	2,262	Residential, villas, serviced apartments, office and retail	2013-2019
Shanghai Emerald	100	Jiading District, Shanghai	77	120	Residential and retail	2013-2014
Suzhou Emerald	100	Wuzhong District, Suzhou	64	160	Residential and retail	2013-2016
Pudong Project	100	Pudong New District, Shanghai	26	78	Office and retail	2013-2015
Shanghai Fengxian Nanqiao	100	Nanqiao New Town, Shanghai	104	236	Residential, serviced apartments and retail	2013-2015

Property	The Group's interest (%)	Usage	Expected date of completion
<b>Major investment properties</b>			
International Finance Place, Plot J-6, Pearl River New Town, Tianhe District, Guangzhou City, Guangdong Province, the PRC	100	Office and retail	Medium term lease





## Five Year Financial Summary

A summary of the results and of the assets, liabilities and equity of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below. This summary does not form part of the audited financial statements.

### Consolidated Results

	Year ended 31 December				2012 RMB'000
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	
Revenue	1,574,214	4,266,572	7,465,911	10,122,595	<b>9,676,422</b>
Profit before tax	703,278	1,269,482	2,507,663	3,979,935	<b>3,765,987</b>
Income tax expenses	(337,108)	(548,025)	(1,225,889)	(1,876,028)	<b>(1,333,017)</b>
Profit for the year	366,170	721,457	1,281,774	2,103,907	<b>2,432,970</b>
Attributable to:					
Owners of the Company	368,532	720,078	1,281,772	2,103,368	<b>2,406,368</b>
Non-controlling interests	(2,362)	1,379	2	539	<b>26,602</b>
	366,170	721,457	1,281,774	2,103,907	<b>2,432,970</b>
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	RMB14 cents	RMB26 cents	RMB44 cents	RMB73 cents	<b>RMB83 cents</b>

### Consolidated Assets, Liabilities and Equity

	As at 31 December				2012 RMB'000
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	
ASSETS					
Non-current assets	5,827,043	8,031,152	15,114,217	16,462,845	<b>19,165,733</b>
Current assets	15,939,745	20,534,034	24,920,115	28,123,458	<b>29,698,727</b>
Total assets	21,766,788	28,565,186	40,034,332	44,586,303	<b>48,864,460</b>
LIABILITIES					
Current liabilities	7,013,620	10,753,223	15,431,641	18,990,505	<b>18,894,983</b>
Non-current liabilities	5,561,957	7,403,640	13,008,419	11,902,780	<b>14,616,098</b>
Total liabilities	12,575,577	18,156,863	28,440,060	30,893,285	<b>33,511,081</b>
EQUITY					
Equity attributable to owners of the Company	8,468,703	10,404,669	11,584,266	13,490,805	<b>15,281,531</b>
Non-controlling interests	722,508	3,654	10,006	202,213	<b>71,848</b>
Total equity	9,191,211	10,408,323	11,594,272	13,693,018	<b>15,353,379</b>



KWG Property Holding Limited

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