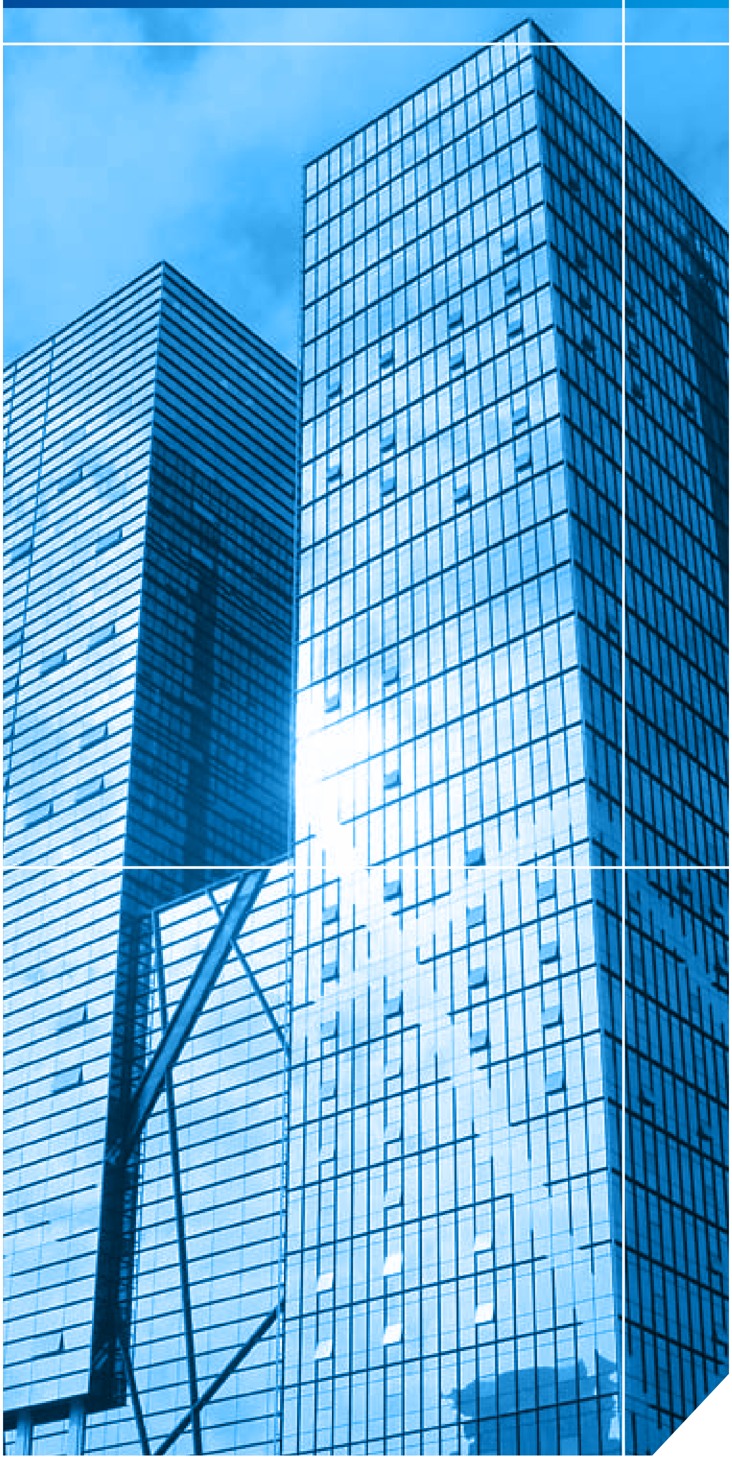
Visionary, Accountable, Magnanimous, Collaborative

Annual Report 2012



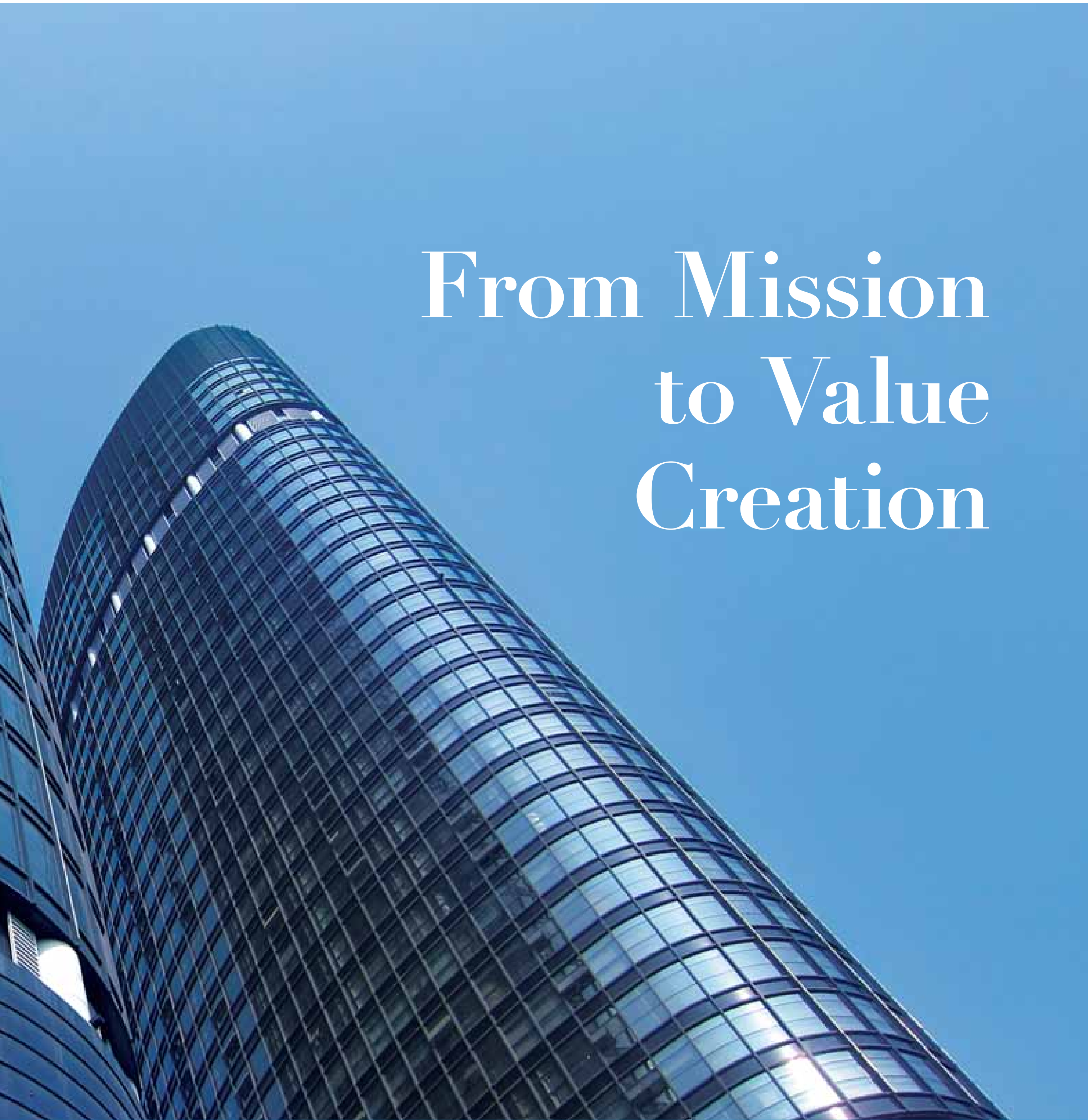
上海實業城市開發集團有限公司

SHANGHAI INDUSTRIAL URBAN DEVELOPMENT GROUP LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 563

Shanghai Industrial Urban Development Group Limited currently has 24 real estate projects in 12 major cities in China, namely Shanghai, Kunshan, Wuxi, Beijing, Sanhe, Shenyang, Tianjin, Xi'an, Chongqing, Changsha, Shenzhen and Zhuhai. Most of the projects are mid- to high-end residential projects and under construction at full steam, presenting the Group with a nearly 9 million-square-meter land bank an excellent foundation for long term development.



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Corporate Information

Directors

Executive Directors

Mr. Ni Jianda *(Chairman)*
Mr. Ji Gang *(Vice Chairman & President)*
(appointed on 27 April 2012)
Mr. Zhou Jun
Mr. Yang Jianwei (appointed on 22 March 2013)
Mr. Yang Biao
Ms. Huang Fei (appointed on 22 March 2013)
Mr. Ye Weiqi (appointed on 22 March 2013)

Independent Non-Executive Directors

Mr. Doo Wai-Hoi, William, J.P.
Dr. Wong Ying Ho, Kennedy, BBS, J.P.
Mr. Fan Ren Da, Anthony
Mr. Li Ka Fai, David

Authorized Representatives

Mr. Ni Jianda
Mr. Chan Kin Chu, Harry

Board Committees

- ***Audit Committee***
  Mr. Li Ka Fai, David *(Committee Chairman)*
  Mr. Doo Wai-Hoi, William, J.P.
  Dr. Wong Ying Ho, Kennedy, BBS, J.P.
  Mr. Fan Ren Da, Anthony

- ***Remuneration Committee***
  Mr. Doo Wai-Hoi, William, J.P.
  (Committee Chairman)
  Mr. Fan Ren Da, Anthony
  Mr. Ye Weiqi

- ***Nomination Committee***
  Dr. Wong Ying Ho, Kennedy, BBS, J.P.
  (Committee Chairman)
  Mr. Fan Ren Da, Anthony
  Mr. Ni Jianda

- ***Investment Appraisal Committee***
  Mr. Fan Ren Da, Anthony *(Committee Chairman)*
  Mr. Zhou Jun
  Mr. Ye Weiqi

Company Secretary

Mr. Chan Kin Chu, Harry

Principal Share Registrar and Transfer Office

HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

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

Legal Advisers

As to Hong Kong Law
Ashurst Hong Kong

As to Bermuda Law
Conyers Dill & Pearman

Compliance Adviser

Somerley Limited

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business in Hong Kong

Suites 3003–3007
30th Floor, Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2544 8000
Fax: (852) 2544 8004

Website

http://www.siud.com

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
China Development Bank Corporation
Shanghai Pudong Development Bank Company Limited
China Construction Bank Corporation
Agricultural Bank of China Limited
Hua Xia Bank Company Limited

Auditors

Deloitte Touche Tohmatsu
35/F., One Pacific Place
88 Queensway
Hong Kong

Listing Information

The Stock Exchange of Hong Kong Limited
Ordinary Shares
(Stock Code: 563)

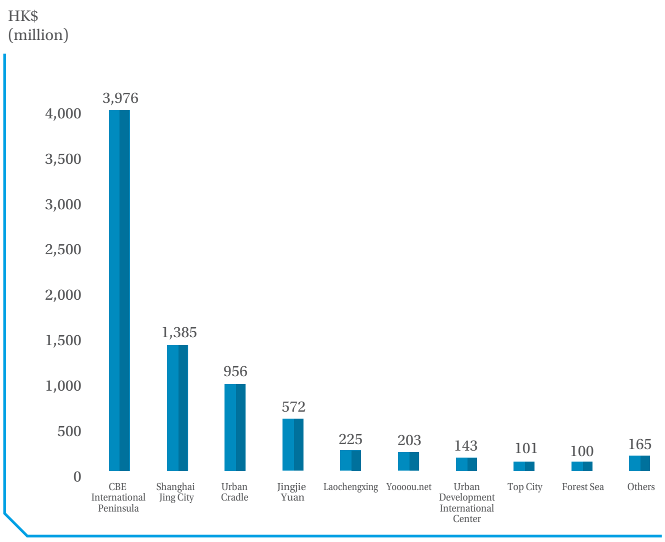
Financial Highlights

	For the year ended 31 December 2012	For the year ended 31 December 2011 (Restated)	Change %
Financial Highlights (HK$'000)			
Revenue	**8,782,561**	4,433,476	98.1
Loss attributable to equity owners of the Company	**(190,166)**	(601,668)	68.4
Financial Information per share (HK cents)			
Loss			
– Basic	**(3.95)**	(12.5)	68.4
– Diluted	**(3.95)**	(12.5)	68.4

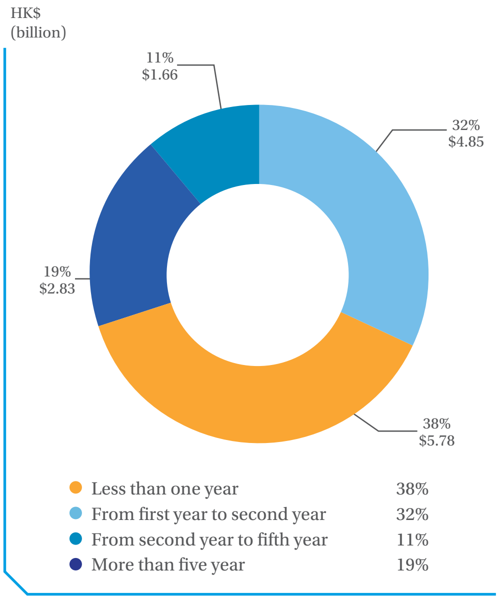
	As at 31 December 2012	As at 31 December 2011 (Restated)
Pre-sale receipts from customers (HK$'000)	**7,826,181**	9,378,864
Financial Ratios		
Net debt to total equity (%)	**50.2%**	55.6%
Current ratio	**2.00**	1.99

Note: Net debt = total borrowings (including bank and other borrowings, senior notes and convertible loan notes) less cash and cash equivalents and restricted and pledged bank deposits.

Analysis on Accumulated Pre-Sale Receipts from Customers

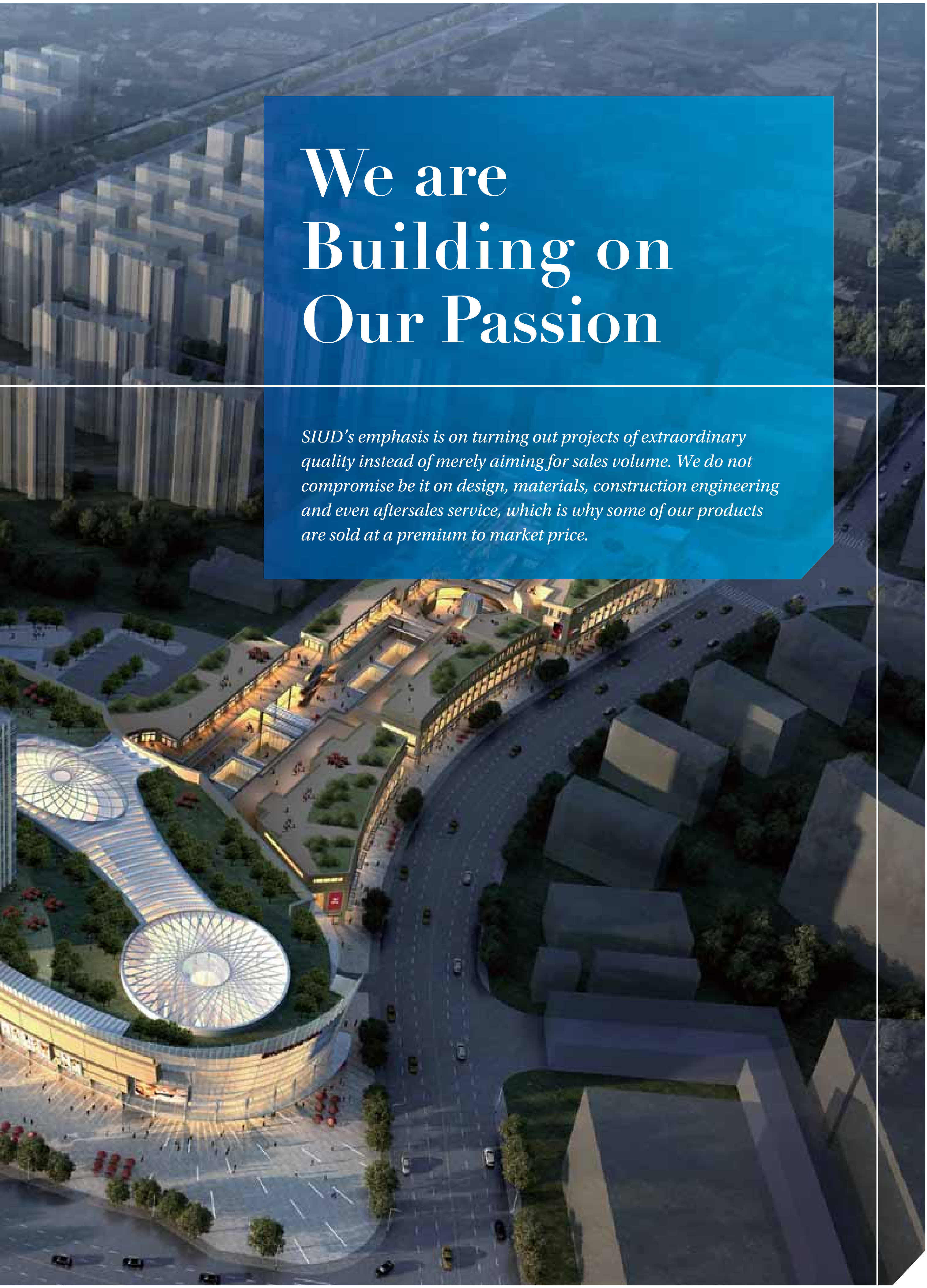


Debt Maturity Profile



We are Building on Our Passion

SIUD's emphasis is on turning out projects of extraordinary quality instead of merely aiming for sales volume. We do not compromise be it on design, materials, construction engineering and even aftersales service, which is why some of our products are sold at a premium to market price.



Artist's Impression

Chairman's Statement

In 2012, domestic and overseas economies were in complicated predicaments buffeted by headwinds such as the EUROzone debt crises and US fiscal cliff, which led to a slowdown in the global economy and inevitably dragged the growth of the Chinese economy as well. As for the real estate market in China, the Central Government has maintained regulatory measures on the real estate industry, which have presented property developers with difficult challenges. Eventually the weaker enterprises were forced out in the new round of consolidation within the industry.

Having overcome the unfavourable climate troubling the real estate sector in the first half of 2012, the property market began warming up in the second half. In the first- and second-tier cities in the coastal regions, both property prices and sales volumes have moderately increased. This was attributable in part to the Central Government's policy to cut the benchmark interest rates for deposits and lending twice to increase liquidity in the market, which added liquidity and growth impetus to the heretofore weak real estate market.

In the past year, the Group has designed its roadmap for specific projects with the aim to promote sales, optimise asset portfolio, strengthen internal control and enhance quality of staff so as to boost its overall operating efficiency and competitiveness. Last year, the Group accelerated sales, delivery of property and progress of divesting existing low-margin projects inherited from Neo-China Land. The effectiveness of such measures has been reflected in the 2012 results, which have shown improvement in revenue, general and administrative expenses, financing costs and losses, and has helped lay a solid foundation for our gradual, orderly development in the long run.

Focus on core strengths

After taking over Neo-China Land, the Group has focused its development mainly on the Yangtze River Delta region and prosperous cities elsewhere in coastal areas. At the same time, the Group has pursued large scale development for greater effectiveness. By leveraging the capital strength of its parent SIHL and the quality brand of its subsidiary SUD in the property development sector, the Group is devoted to further expanding its business in the targeted regions. We are confident that our gross margin will be improved in that development direction and through a more effective allocation of our resources to projects with higher profitability. Favoured by sound economic fundamentals, the Yangtze River Delta region and prosperous cities in coastal regions as well as cities elsewhere, like Xi'an, have high growth potential and can attract the population from surrounding areas. Thus, these areas should remain the important pillars and growth drivers of the real estate market in China. The concentration of wealth and large population in the regions and the strong demand for housing should continue to drive the long-term development of the real estate market.

While the positive momentum of the real estate market has carried over from the second half of 2012 through early 2013, we remain cautiously optimistic about market conditions this year. This is because the government's macroeconomic policies continued to be the most important factor determining the cycle of the real estate market in China. In early March this year, the State Council of China announced a new round of regulations including imposing income taxes on property transactions and tighter mortgage policies for borrowers with more than one property. These policies are not expected to be relaxed in the short term and uncertainties lie ahead in the real estate industry. However, we believe, that due to ongoing urbanisation, the burgeoning average income of China's people and the growing desire for better housing, the demand for housing should keep rising. Therefore, the Group still has full confidence in the long-term development of the real estate market.

To cope with these challenges, the Group will further integrate resources, optimise its internal management structure, enhance its corporate governance standard, increase its transparency and facilitate communications with investors with the aim of creating a solid operational and financing platform for the future development of the Group.

At the same time, the Group will actively seek partners or strategic investors for its major projects. It will, through restructuring its assets, bringing in capital and professional expertise, to create synergies and boost the value of its projects. In addition, the Group will accelerate development of new projects and the subsequent sales and delivery of properties. It will also seize new market opportunities to acquire quality land resources in the Yangtze River Delta region and prosperous cities in coastal regions so as to lay a strong foundation for its development in the future.

Ride the wind and crest the waves

There is an old saying from the famous Chinese Poet Transcendent Li Bai, "The time will come for me to ride the wind and crest the wave to cross the sea（長風破浪會有時，直掛雲帆濟滄海！）." With the real estate industry confronting headwinds coinciding with the Group's decision to restructure its business, the true value of the Group has not been fully reflected. Nevertheless, I firmly believe that SIUD is on course to realise its growth potential and, with the strong support of its parent company, it will develop into a leader within China's real estate industry in the near future.

Throughout the development course of the Group, it is crucial to have the wholehearted devotion of its staff. On behalf of the Board, I would like to thank all staff members for their hard work and shareholders for their support, and I wish the Group success in overcoming the challenges and returning a rich harvest to shareholders.

Ni Jianda
Chairman
22 March 2013

Chat With President

PRESIDENT
Ji Gang

Q: What improvements were shown in the 2012 results? Is there any further room for improvement?

A: The Group's turnover in 2012 has nearly doubled that of last year. Apart from new income contributions from the sales of affordable housing in Shanghai Jing City, the notable increase was also attributable to the Group's accelerated delivery of some properties of CBE International Peninsula that have been sold in the past few years. Moreover, the Group has successfully improved internal operating efficiency and lowered sales expenses, administrative expenses and financial costs through implementing a series of cost control measures and integrating corporate structure. As a result, the Group's loss attributable to shareholders for the year has narrowed by nearly 70%.

In the past year, the Group's contracted sales value has surged by 142%. In addition to the improved market conditions, the surge was attributable to the Group's success in enhancing product quality, effective marketing strategy and flexible sales model to suit the local conditions of individual cities.

Since there is a time lag from contracted sales to the booking of account, overall gross profit margin of the projects delivered by the Group during the year was still below the normal level, dragged by the underperforming operation of Neo-China Land. The Group will include improving gross profit margin as one of its key strategic objectives in the future.

Q: When will the Group fully digest the pre-sale receipts from the extremely low margin projects left by Neo-China Land and what types of projects are these mostly from? What would the gross profit margin be in the future?

A: Among the projects left by the Neo-China Land, which no longer exists, are CBE International Peninsula in Xi'an, Park Avenue in Chengdu and Laochengxiang in Tianjing. The Group has continued to book the pre-sale receipts from these low-margin projects to the accounts. To eliminate the negative impact generated by the sales of these projects on its future results as early as possible, the Group has speeded up the completion and delivery of properties and has processed most of the pre-sale receipts generated from CBE International Peninsula during the year. It expects to digest the remaining pre-sale receipts generated by the projects within 2013. Besides, the Group disposed the low-margin Park Avenue project in Chengdu last year and, therefore, immediately eliminated its overhang in the Group's future financial performance. The sale of Park Avenue project brought a positive contribution to the Group's results and overall financial position.

After taking over Neo-China Land, the above-mentioned projects have experienced significant improvement in the gross profit margin of sales during the year. This is in part due to the Group's effort in improving design, material quality and grade of the products, constantly optimising the sales model and leveraging the capital strengths of its parent SIHL and the quality brand in the property development sector of its subsidiary SUD. As low margin projects have been digested gradually and the Group's quality assets in the Yangtze River Delta and prosperous coastal regions have the potential to be developed into projects with stronger profitability, we believe that the Group's gross profit margin will eventually be restored to a more satisfactory level.

Q: The gross profit margin of affordable housing is lower than that of commodity housing. Why did the Group participate in the construction of affordable housing?

A: While affordable housing has lower gross profit margins than commodity housing, its large scale of development has boosted the Group's overall income. At the same time, owing to the Group's participation in affordable housing projects, the Group was able to issue a total of RMB1.5 billion in bonds on the onshore market in China. This move has improved the Group's cashflow and adjusted its capital structure. Moreover, the development of this kind of project not only helps to improve the quality of life for people, but, more importantly, also demonstrates its commitment to corporate social responsibility, which is important to strengthen its cooperation with the Shanghai Municipal Government in the future.

Q: How has the Group responded to the uncertainties in the existing real estate market, particularly the risks from new government restrictions? How did the Group face the competition from its peers?

A: Despite the gradual recovery of the market, the Group remains cautiously optimistic about its prospects. During the general property market trough from 2010 to now, some developers cut property prices to boost sales volume and this consequently intensified the competition within the industry. Nevertheless, the Group has resisted cutting prices to boost sales volume, but captured market share by emphasizing our product quality, strength of our brand and our flexible sales strategy. Last year, the Group has improved its sales model by bringing in distributors and commencing joint agency services, and eventually recorded a remarkable sales performance. The success of this initiative was a testimony to the Group's ability to achieve its sales target by innovative means under adverse conditions.

Q: What are the Group's key projects in 2013? What is the sales target? Apart from Urban Cradle and CBE International Peninsula, what are the projects that will principally contribute to the Group's sales in the future?

A: In 2013, commodity housing will continue to be the sales focus of the Group. The Group plans to market around 10 to 12 existing projects, of which Urban Cradle in Shanghai and CBE International Peninsula in Xi'an will remain the focus of development. Urban Cradle will launch the fifth land parcel to the market and the CBE International Peninsula will debut its villa projects to the market within 2013. The two projects are expected to continue to contribute about a half of the Group's sales of commodity housing. In the long run, the large-scale CBE International Peninsula project still has a land bank totalling more than 1 million square meters for future development and sale. The project has tremendous scope for improvement such as modifying architectural design, changing contractors, utilising quality construction materials and improving the overall grade of products. It is expected to bring rising profits and become a growth driver of the Group's income.

During this year, the further introduction of regulatory measures by the Central Government and uncertain global macroeconomic conditions will continue to concern the real estate market. The Group will not relent against this tougher test. We will continue to aim for a good sales performance and faster delivery of properties, which we believe will eventually be translated into fruitful results to our shareholders in the years to come.

Q: What is the Group's view on the long term development of the real estate industry in Mainland China, in particular the market of the Yangtze River Delta region? Do you have any land acquisition plan in 2013?

A: The economy in China is undergoing structural adjustment. The engine for rapid growth has shifted from exports in the past to domestic demand and the demand for housing from residents keeps increasing. The rising per capita income has also led to a greater demand for quality housing. The urbanisation trend in the country will continue in the coming years. Therefore, we are optimistic about the prospects of the industry.

Although the pressure presented by Government polices is still prevailing in 2013 and the real estate industry may enter a new round of consolidation, we consider this presents a good opportunity for competent enterprises with abundant resources to secure quality assets.

Looking ahead, with the strong support from the parent company, the Group will actively expand our quality land bank in the Yangtze River Delta region and developed cities in the coastal areas in order to lay a solid foundation for our long term development.

Q: What specific support has the parent company SIHL given to the Group?

A: Since the resumption of trading in June 2010, SIHL has injected quality assets into the Group at a price discounted to the net asset value to add a major growth driver to the Group's future development. Also, since 2010, SIHL and its parent company SIIC altogether have been extending loans to the Group totaling HK$2.2 billion. This represents strong financial backing to the Group when the overall industry is facing a capital shortage. As for management, SIHL has allocated human resources to further strengthen the Group's professional teams. Its extensive support to us has been evident in the form of land bank, working capital and human resources. As the only offshore listed property flagship of the parent company, we will strive to enhance our competitiveness and become a leader in the real estate market in China.

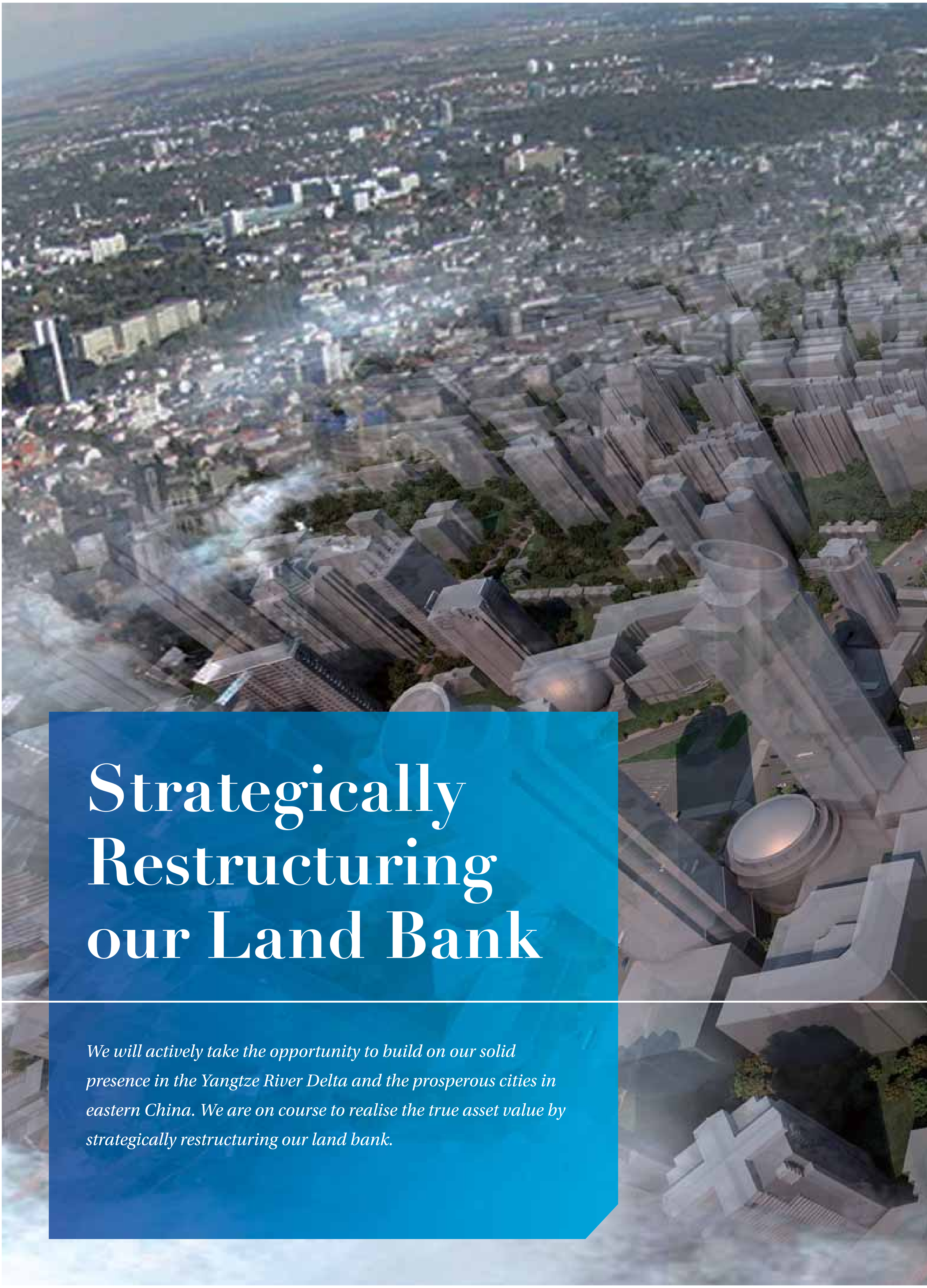
Q: Will there be any change in the development strategies of SIUD after the appointment of the new president? What is the development blueprint for the company?

A: Since I took up the post of Vice Chairman and President in April 2012, SIUD has continued to adhere to an aggressive yet stable and innovative yet practical operating philosophy. The Group will continue to implement the long term development strategy of focusing on the Yangtze River Delta region and developed cities in the coastal areas, as well as enhancing economies of scale.

In addition, I have required the Group to retain a flexible borrowing rate management to lower financial costs, to enhance internal supervision and have set up a "Framework for Anti-Fraud Policies and Procedures". We have also boosted our human resources management by establishing quarterly reviews for different departments and optimising staff allocation to enhance overall competitiveness, with the aim to become one of the top property developers in the country.

In the long run, to optimise our large land bank in the Yangtze River Delta, the management will speed up its development in order to capitalise its strong potential. Generally speaking, we will consider introducing strategic investors for certain projects, and divest the ones which do not align with our long-term development strategies. We will also acquire land parcels or projects with strong profitability to optimise our asset portfolio, thereby enhancing return for our shareholders.

The modification of terms on senior note for capital management and financing in late 2012 has created a starting point for a new round of strategic planning, and supports the Group's future sustained development. In the coming year, our dedicated management team will strive its utmost to bring the Group out of the property industry trough as soon as possible.



Strategically Restructuring our Land Bank

We will actively take the opportunity to build on our solid presence in the Yangtze River Delta and the prosperous cities in eastern China. We are on course to realise the true asset value by strategically restructuring our land bank.

Artist's Impression

Details of Properties

The Group has 24 projects in 12 cities, comprising mid- to high-end residential units, serviced apartments, hotels, commercial and office buildings. As at 31 December 2012, the Group's saleable land bank totalled approximately 8,999,000 square meters in G.F.A.

The Group has restructured its land bank and will adopt prudent strategies in future land acquisition.

As at 31 December 2012

Project	City	Site Area (sq.m.)	G.F.A. (sq.m.)	Saleable G.F.A. (sq.m.)	FY2012 G.F.A. Pre-Sold (sq.m.)	Accumulated G.F.A. Sold (sq.m.)	Unsold G.F.A. (sq.m.)	Under development (sq.m.)	Future development (sq.m.)	Expected Completion Date	Ownership (%)
Urban Cradle	Shanghai	943,000#	1,124,245	824,586	47,406	543,602	280,984	192,517		2007-2015 in phases	53.1%
Xujiahui Centre	Shanghai	132,000*	629,000**	629,000	-		629,000		592,300	Planning	35.4%
U Center	Shanghai	87,327	517,500	322,680	-		322,680		322,680	2014-2016 in phases	69.3%
Xinzhuang Metro Superstructure Project	Shanghai	117,825	405,000	405,000	-		405,000		405,000	Planning	20.7%
Shanghai Youth City[1]	Shanghai	57,944	212,130	164,688	8,453	129,828	34,860			Completed	100.0%
Shanghai Jing City	Shanghai	259,182	602,400	471,996	280,547	280,547	191,449	337,218	37,525	2012-2016 in phases	59.0%
Jingjie Yuan[2]	Shanghai	49,764	125,143	95,594			95,594			Completed	59.0%
American Rock	Beijing	121,499	523,833	454,610	311	447,090	7,520			Completed	100.0%
Youngman Point	Beijing	112,700	348,664	295,114	36	240,316	54,798	33,461		2007-2014 in phases	100.0%
West Diaoyutai	Beijing	42,541	250,930	230,801	7,679	168,553	62,248		49,288	2007-2014 in phases	90.0%
Yanjiao	Sanhe	333,333	666,600	666,600	-		666,600		666,600	2014-2016 in phases	100.0%
Laochengxiang	Tianjin	244,252	752,883	646,281	12,974	529,997	116,284	62,434	46,880	2006-2014 in phases	100.0%
Beichen	Tianjin	1,115,477	2,042,750	1,893,684	-		1,893,684	168,949	1,724,735	2012-2014 in phases	40.0%
Yoooou.net	Kunshan	34,223	129,498	112,812	1,440	14,732	98,080	112,812		2012-2013 in phases	30.7%
Royal Villa	Kunshan	205,017	267,350	214,212	11,846	104,612	109,600	26,240	54,071	2007-2014 in phases	53.1%
Urban Development International Centre	Wuxi	24,041	193,368	145,363	7,846	9,207	136,156	145,363		2011-2013 in phases	59.0%
CBE International Peninsula[3]	Xi'an	2,101,775	4,012,094	3,357,243	127,017	1,648,832	1,708,411	731,442	1,449,122	2008-2017 in phases	71.5%
Top City	Chongqing	120,014	785,225	730,293	37,907	313,084	417,208	134,308		2008-2014 in phases	100.0%
Ivy Aroma Town	Chongqing	289,812	194,697	188,236	5,087	44,324	143,912	34,521	109,132	2009-2014 in phases	32.5%
Shenyang U Center[4]	Shenyang	22,651	239,651	198,551	-		198,551	198,551		2012-2014 in phases	80.0%
Toscana	Changsha	180,541	210,980	186,492	12,547	178,343	8,149			Completed	32.5%
Forest Sea[5]	Changsha	667,749	907,194	872,185	16,299	225,157	647,028	4,879	627,881	2007-2017 in phases	67.0%
China Phoenix Tower[6]	Shenzhen	11,038	106,190	79,391	-	78,343	1,048			Completed	91.0%
Qi Ao Island	Zhuhai	2,215,516	1,090,000	770,000	-		770,000		770,000	Planning	100.0%
Total		**9,489,221**	**16,337,325**	**13,955,412**	**577,395**	**4,956,567**	**8,998,845**	**2,182,695**	**6,855,214**		

908,950 square meters obtained

* Divided into six parcels of land (35,343 square meters obtained)

** 212,058 square meters obtained

Notes:

1. Formerly known as Jiujiu Youth City
2. Formerly known as Shanghai Jingjie
3. Formerly known as Neo Water City
4. Formerly known as Tai Yuan Street
5. Formerly known as Forest Garden
6. Formerly known as Phoenix Tower

Artist's Impression

Major Investment Property

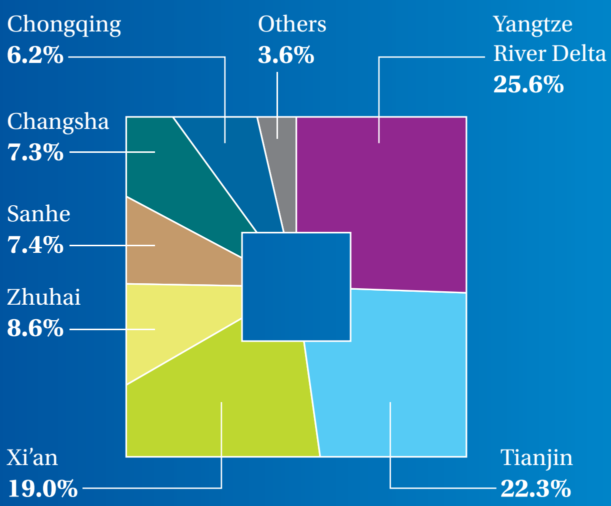
Project	City	Type	Lease Term	Ownership (%)	G.F.A. (sq.m.)
Laochengxiang	Tianjin	Residential/ Commercial/Office	Medium term	100%	22,477[1]
Shanghai Youth City[2]	Shanghai	Commercial	Medium term	100%	16,349[1]
Top City	Chongqing	Commercial/Car park	Medium term	100%	251,847[1]
China Phoenix Tower[3]	Shenzhen	Office	Medium term	91%	1,048[1]
Urban Development International Tower[4]	Shanghai	Office	Medium term	59%	45,239
Huimin Commercial Tower[5]	Shanghai	Commercial	Medium term	59%	14,235
Others	Shanghai	Commercial/Office	Medium term	59%	9,249
Total					**360,444**

Notes:

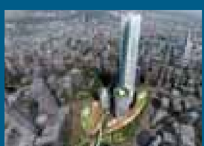
1. Included in the table on page 14 of this annual report
2. Formerly known as Jiujiu Youth City
3. Formerly known as Phoenix Tower
4. Address: No. 355, Hongqiao Road, Xuhui District, Shanghai
5. Address: No. 123, Tianyaoqiao Road, Xuhui District, Shanghai

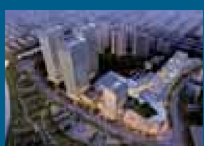
Project Portfolio

Unsold G.F.A. Breadown
(As at 31 December 2012)




SHANGHAI
Urban Cradle


SHANGHAI
Xujiahui Centre


SHANGHAI
U Center


SHANGHAI
Xinzhuang Metro Superstructure


SHANGHAI
Shanghai Youth City


SHANGHAI
Shanghai Jing City


SHANGHAI
Jingjie Yuan


BEIJING
American Rock

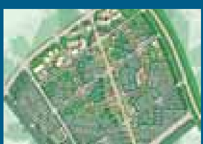

BEIJING
Youngman Point

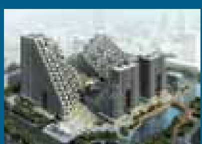

BEIJING
West Diaoyutai


SANHE
Yanjiao


TIANJIN
Laochengxiang

Note: Figures represent the number of projects in the city.

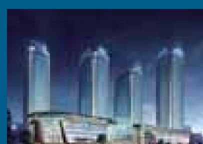

TIANJIN
Beichen


KUNSHAN
Yoooou.net


KUNSHAN
Royal Villa

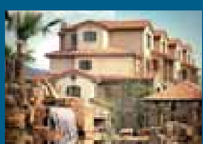

WUXI
Urban Development International Centre


XI'AN
CBE International Peninsula

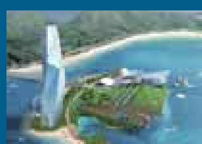

SHENYANG
Shenyang U Center


CHONGQING
Top City


CHONGQING
Ivy Aroma Town


CHANGSHA
Toscana

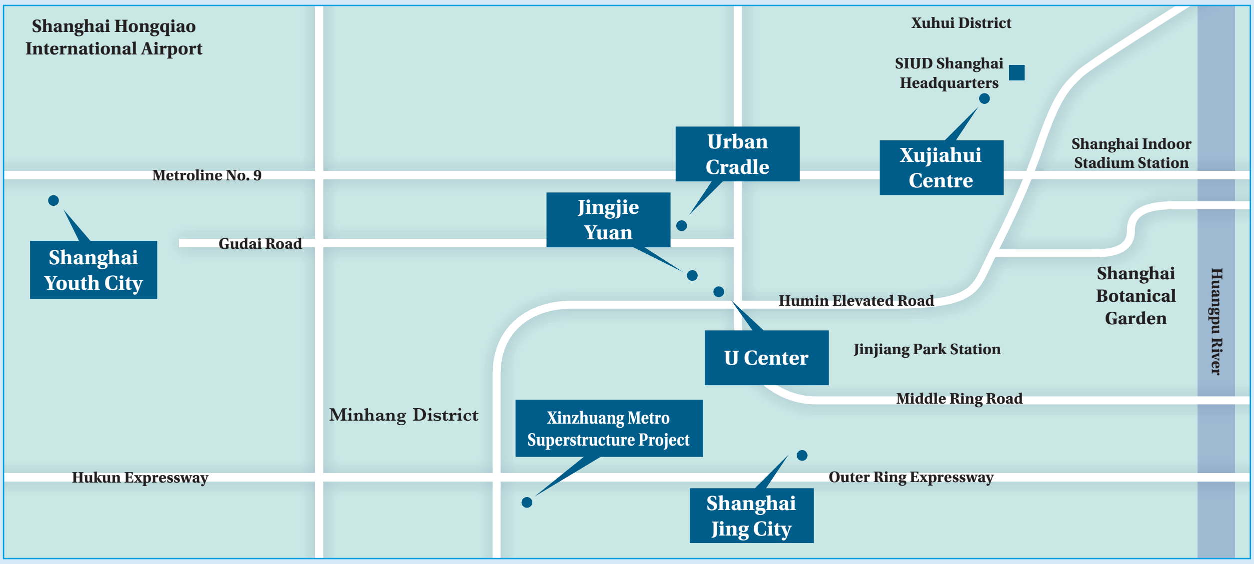

CHANGSHA
Forest Sea


ZHUHAI
Qi Ao Island


SHENZHEN
China Phoenix Tower

Project Portfolio

Shanghai



Urban Cradle

Address:
No. 932, Wanyuan Road, Minhang District, Shanghai (Near Gulong Road)
Category:
Residence/Commerce/Office

Feature:
The project is located in Gumei, Minhang District, Shanghai, east of Lianhua Road, west of Hechuan Road, south of Gudai Road and north of Pingnan Road, less than 700 meters from the middle ring line. The area is a major focal point for large scale residential development in the "10th Five-Year Plan" of Shanghai. The project spans a total site area of about 943,100 m^2 with a total construction area of about 1.3 million m^2, including about 770,000 m^2 of residences, close to nearly 400,000 m^2 of underground space and more than 100,000 m^2 for accommodating amenities for the estimated over 20,000 residents. Urban Cradle is an all-engulfing showcase of architectural forms and brilliant products including international-grade apartments, standalone villas, garden houses, deluxe mansions, modern commercial premises, superb grade offices and green landscapes, bringing comfortable and stylish living together with commerce, entertainment, culture, education, and business and leisure pursuits.

Xujiahui Centre

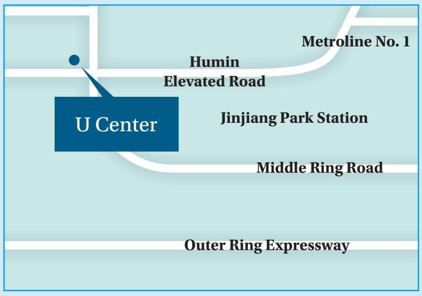

Artist's Impression

Address:
Xujiahui, Shanghai
Category:
Commerce/Hotel/Office

Feature:
Located at the center of the Xuhui business district in Shanghai, the project has convenient access to several metro lines. Consisting of six land parcels, it spans 132,000 m^2 with total construction area of more than 629,000 m^2 to be taken up by world-grade office buildings, superior 5-star hotels, serviced apartments, and international commercial and creative cultural entities. Xujiahui Centre aspires to become an international and fashionable business center and a hub where valuable information is exchanged and people interact.

U Center


Artist's Impression

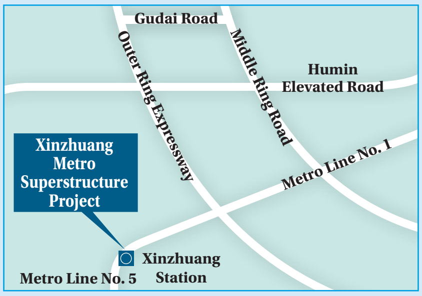


Address:
Meilong Town, Minhang District, Shanghai
Category:
Commerce/Hotel/Office

Feature:
U Center, primarily located at the intersection of Xuhui and Minhang District, enjoys location advantage, mature amenities and transportation network support with access to, the Lianhua Road Station on Shanghai Rail Transit Line 1 and the Middle Ring Line, and also the Humin Super Highway. It is blessed with the consuming power of an about 600,000 strong permanent population within a three kilometer radius and there are the Xujiahui business district and Caohejing New Technology Development Zone within the eight kilometer radius. The project has a total construction area of about 510,000 m^2, more than 180,000 m^2 of which will be A-grade offices with LEED-CS certification. It will also home a more than 40,000 m^2 5-star hotel, an over 100,000 m^2 commercial complex and a 50,000 m^2 urban park on the south side, all of vanguard designs taking care of every need of occupants.

Xinzhuang Metro Superstructure

Artist's Impression



Address:

Xinzhuang Town, Minhang District, Shanghai

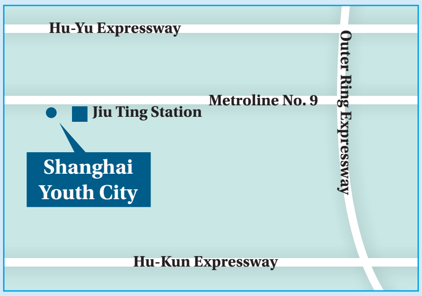
Category:

Residence/Commerce/Hotel/Office

Feature:

In a mature neighborhood with convenient transportation support, the project is right at the terminus of Shanghai metro line 1 and 5. Residential premises, serviced apartment, offices, a hotel, commercial premises and related facilities are covered in the project plan.

Shanghai Youth City



Address:

No. 1519, Husong Road, Jiuting Town, Songjiang District, Shanghai

Category:

Residence/Commerce/Office

Feature:

The project is 40 kilometers from downtown Shanghai above Jiuting Station on subway line 9. The station is the first stop of the subway line in Songjiang district where major roads crisscross and business movers and shakers and crowds gather, a high traffic hub in southwest Shanghai. The project comprises eight petite LOFT apartment blocks, an office building, a deluxe boutique apartment building standing on top of an arcade of shops. Phase I and II of the project had all been sold out and Phase III is in the stage of sale.

Shanghai Jing City

Address:

Lane 266, Zhumei Road, Shanghai

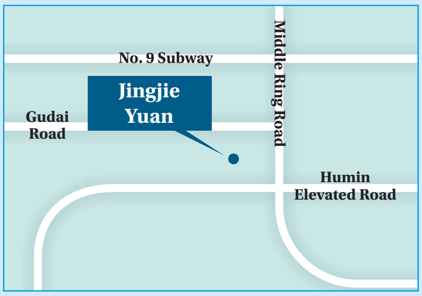
Category:

Residence/Commerce

Feature:

The project is an affordable housing project approved by Shanghai Bureau of Housing Security and Housing Administration. It is a large scale indemnificatory housing project on the list of among major construction projects of Shanghai in 2009. In Meilong Town, Minhang District, the project is on an about 368,000 m^2 site with construction area totaling about 600,000 m^2. It will consist of high-rise buildings of 18 to 33 floors and become a major all-encompassing affordable housing community with educational, medical and health care and other community service facilities.

Jingjie Yuan



Address:

No. 399, Gumei West Road, Xinhang District, Shanghai

Category:

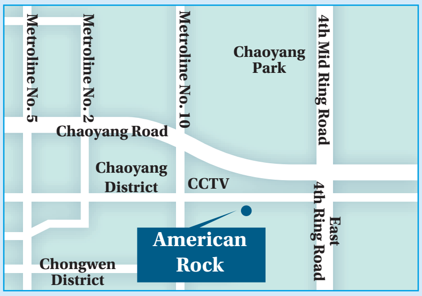
Residence/Commerce

Feature:

On a 50,000 m^2 site, the project in the southern commercial area of Meilong Town. It will entail 12 residential blocks of 11 to 33 stories with parking spaces underground, security provision, a market, facilities for retirees and other essential amenities. It is in a mature neighborhood well-served by public transports. As a key housing project in Minhang District, the project is for rehousing of relocated citizens.

Beijing

American Rock



Address:

No. 16, Baiziwan Road, Chaoyang District, Beijing

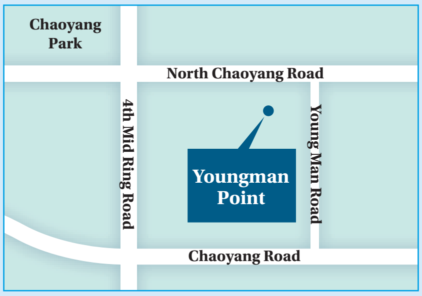
Category:

Residence/Commerce/Office

Feature:

Right next to the CBD, the project has its first phase targeting white-collar customers, attracting them with a host of design novelties. It is an avant product with a strong sense of contemporary style. Offices are included in Phase II to provide work spaces for the many fast growing businesses in the eastern part of the city. Except for a small number of parking spaces, the project is completely developed and sold out.

Youngman Point



Address:

No. 2, Middle Lane Ganluyuan, Qingnian Road, Chaoyang District, Beijing

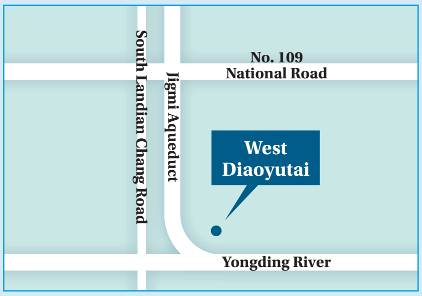
Category:

Residence/Commerce

Feature:

At the intersection of Qingnian Road and Chaoyang North Road in Chaoyang District, the project stands opposite Chaobei Dayuecheng – a major commercial complex in Chaoyang, and is only 3.8 kilometers away from the CBD. With green belts on three sides and a stretch of quiet water on the remaining side, the project presents unique scenic pleasures to its inhabitants. The project has three phases. Phase I and II had been completed and sold out and preparation has begun for Phase III development.

West Diaoyutai



Address:

No. 1 and No. 2 Section, West Diaoyutai Village, Haidian District, Beijing

Category:

Residence

Feature:

In the west third ring, on the west and south banks of Kunyu River and east to the 137-hectare Yuyuantan Park, the project enjoys a 67-hectare expanse of magnificent aquatic scenes, the largest in Beijing where water is a scarce resource, giving it uniqueness and a touch of supremacy. The project has deluxe apartments with river views as its core products aiming to appeal to the affluent on the high-end. The project has three phases. Phase I and II had been completed and sold out and preparation work has begun for Phase III.

Sanhe

Yanjiao


Artist's Impression

Address:

Economic and Technological Development Zone, Yanjiao, Hebei

Category:

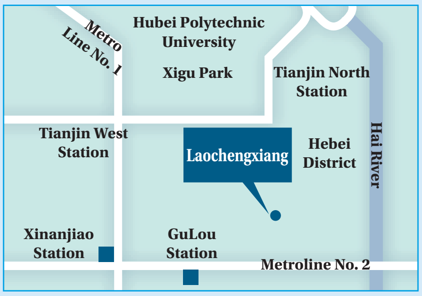
Residence/Commerce/Hotel/Office

Feature:

The Yanjiao Economic Technology Development Zone is in eastern Beijing, 30 kilometers from Tiananmen Square and accessible on a less than 40 minute ride on the Jingtong and Jingha expressways. And, Hebei has reached an agreement with Beijing on extending the Batong Line eastward to Yanjiao, promising ease of transportation conducive to compatible development of the real estate markets of both places. The project will be developed into a large community encompassing a hotel, commercial premises, offices and residences.

Tianjin

Laochengxiang



Address:

Laochengxiang, Nankai District, Tianjin

Category:

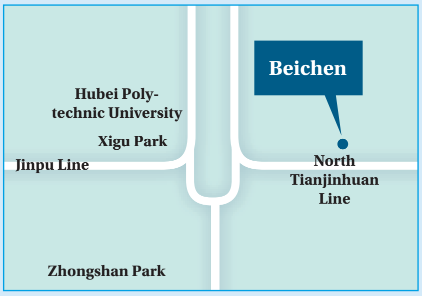
Residence/Commerce/Office

Feature:

In the traditional city center of Tianjin, the project is a major community with location advantage, comprising residences, commercial premises and offices. Its well-knitted cluster of buildings has become a landmark of the city.

Beichen


Artist's Impression



Address:

Jiucun Village, Yixingfu, Tianjin

Category:

Residence/Commerce/Hotel

Feature:

The aim of the project is to give a new face to an old village. In a transportation hub, the enormous project has the Beijing-Tianjin Railway in close vicinity. There will be a wide array of premises in it to meet residential and commercial needs. At the joint effort of SIUD and its partner Minmetals, construction of phase one of the project is in full steam.

Kunshan

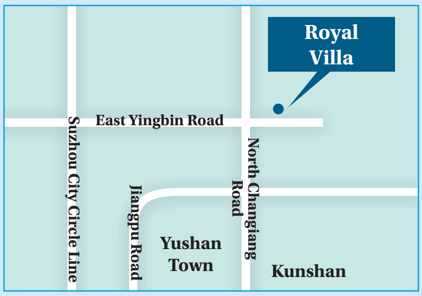
Yoooou.net


Artist's Impression

Address:
No. 258, Lvdi Avenue, Huaqiao Town, Kunshan
Category:
Commerce/Hotel/Office

Feature:
Located in the centre of Huacheng International Commercial City and adjoining the west gate of Shanghai, the project is less than 25 kilometers from downtown Shanghai and can be reached directly riding the Huning high-speed railway. With four youthful components – commerce, SOHO, LOFT and MINIHOTEL, it stands out as a community where young and intellectual industries such as game, entertainment and e-commerce can thrive.

Royal Villa



Address:
No. 859, Yingbin East Road, Kunshan (near Changjiang Road)
Category:
Residence

Feature:
The project is located in Zhoushi Town of Kunshan City, Jiangsu, the core of the administration center in northern Kunshan. Neighboring the Kunshan Ecological Park, it comprises 18 high-rise apartment buildings and 92 standalone villas.

Wuxi

Urban Development International Center

Address:

Intersection of Yinxiu Road and Taihu Avenue, Binhu District, Wuxi, Jiangsu

Category:

Commerce/Hotel/Office/Serviced Apartment

Feature:

The project is an icon at the heart of the Liyuan Economic Development Zone the new axis of Wuxi. It is only 5 kilometers from the center of the city with the scenic Lihu Lake, Lihu Central Park and Bogong Island in its vicinity to enjoy. The area is well developed, equipped with all essential facilities and convenient transportation choices. The integrated complex comprises an international five-star hotel, serviced apartments, a 5A-grade office building and a commercial center.

Xi'an

CBE International Peninsula

Address:

200 meter east to Chanhe River, Chanba Avenue, Chanba Ecotope, Xi'an

Category:

Residence/Commerce/Hotel

Feature:

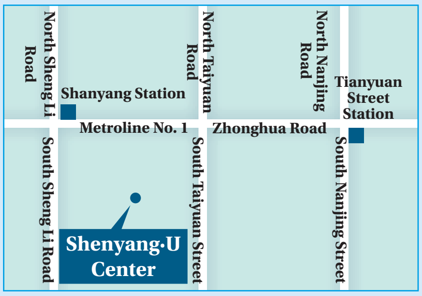
In the heart of Xi'an Chanba Ecotope, the project lies where the Chan River and Ba River meet. The project with more than 2,000,000 m^2 in terms of site area is the largest eco-district in northwestern China. The area has been flawlessly planned and is developing rapidly, enjoying convenient access to road networks and public transports including Metro Line 3 which will soon commence operation.

It is the home of the Euro-Asia Economic Forum as well as the Guangyuntan national wetland park and was where the 2011 International Horticultural Exposition took place, asserting its significance in the development of Xi'an. The project has 12 land parcels in the plan to cater to diverse functions including Kempinski Hotel where the Euro-Asia Economic Forum will permanently base and related necessary facilities completed or soon to be completed to meet community business requirements and educational, medical and shopping needs.

Shenyang

Shenyang·U Center


Artist's Impression



Address:

Taiyuan South Street, Heping District, Shenyang

Category:

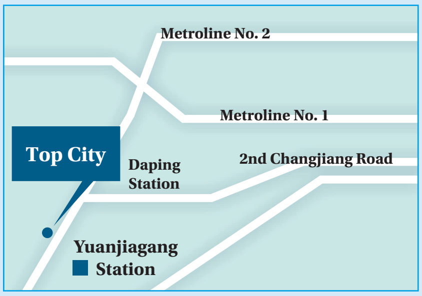
Commerce/Office/Serviced Apartment

Feature:

The project is in the most prosperous business district downtown Shenyang – south of Taiyuan Street business district, with profound historical charisma and deep commercial roots. The integrated real estate complex offers appealing choices in shopping, food and beverage, leisure pleasure, entertainment, offices for work and luxurious apartments, making it an icon of the city. When completed, the project together with Taiyuan North Street and the existing Zhonghua Road business district will see the birth of the larger Taiyuan Street Commercial District.

Chongqing

Top City



Address:

No. 1, Aoti Road, Yuanjiagang, Jiulongpo District, Chongqing

Category:

Residence/Commerce/Hotel/Office

Feature:

The project is right in the center of Chongqing's main city zone, at the intersection of Jiulongpo District and Yuzhong District with the Chongqing Olympic Sports Center and the city rail line 2 as its neighbors. With prominent business presence, comprising a 5-star hotel, offices and residences, it is currently one of the biggest integrated real estate projects in the main city zone of Chongqing. By the hands of a famed Canadian design company, it embraced diversity, openness and international concept championing the HOPSCA lifestyle of western origins. It is a rare and distinctive metropolis complex that stands out in Chongqing.

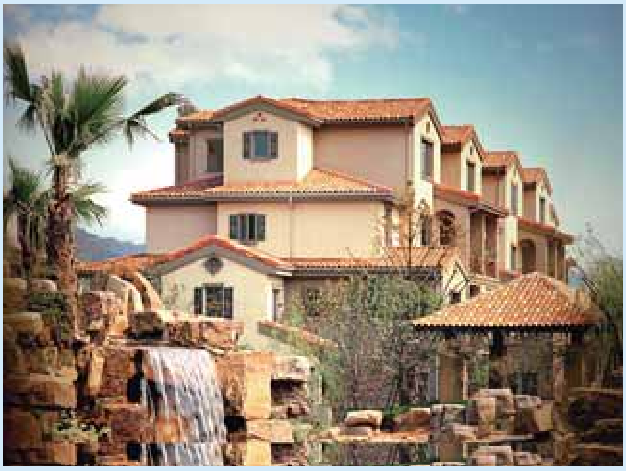
Ivy Aroma Town

Address:
No. 1, Wenfeng Road, Taojia Town, Jiulongpo District, Chongqing
Category:
Residence/Commerce

Feature:
In Taojiapian District of Baishiyi, a new city in western Chongqing, the project enjoys obvious advantages from being in the center of the city and the sub-center of Jiulongpo City. The project will be developed in phases over 6 to 8 years into a community of Scandinavian-style residences of low-density and low occupancy-to-floor-area ratio, with full complement of facilities including nurseries and kindergartens, banks and a hospital.

Changsha

Toscana



Address:
No. 28, Second Section, East Xiangfu Road, Yuhua District, Changsha
Category:
Residence/Commerce

Feature:
In southeastern Changsha, the project is neighbor to a wetland park and National Forest Park and downtown Changsha hence is blessed with the opportunity to appreciate nature and its many wonders. Yet, conveniently located where Subway Line 4 and the city rail intersect, it has ready access to the Hongxing Business Area on the southern side of the city and equipped with comprehensive amenities including a shopping arcade, school, bank and a hotel, to name but a few. A 20 minutes' drive will take occupants to the airport, the Jingzhu Expressway, the Wuguang Railway Station and the sizzling downtown area. It adopts a multi-level layout starting with a lake in the center slopping upward where clusters of architecture with distinct aesthetic details and characters stand. The way the townhouses and garden houses are placed is display of aesthetics matching of architectural excellence.

Forest Sea

Address:

Next to the new location of government, Wangcheng District, Leifeng Avenue north extension line, Changsha

Category:

Residence/Commerce

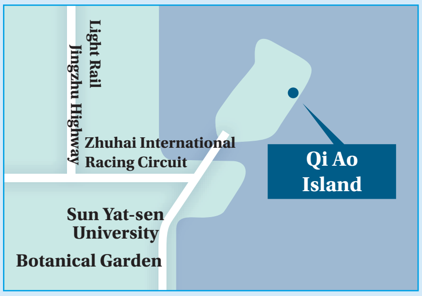
Feature:

The project not only shares the same address as municipal government offices in Wangcheng District, but is also in the Waterfront New Town, a major development focus of the government. Leifeng Avenue and Xiangjiang View Avenue (Xiaoxiang Avenue) are on its east and the ecological technology industrial park area borders with it on the south. The project, which will serve a strong population of community businesses, is only about 200 meters from the Wangcheng old town on the west and is just on the opposite of the road of the new Wangcheng District Government to its north. Positioned as a million square meter ecological new town, the project has adopted innovative design concept, possessing all required supporting facilities while keeping green landscapes at an overall ratio of more than 40%. Its constituents include high-rise apartment buildings with scenic views, elevator-served garden houses, townhouses and elegant mixed design houses, all in pure Mediterranean architectural styles. They come together to form a low-density residential community that promises high comfort.

Zhuhai

Qi'ao Island

Artist's Impression



Address:

East side of Qi'ao East Line Road, Qi'ao Island, Tangjia High-tech Zone, Zhuhai, overlooking Wangchiling Mountain Ranges and surrounding areas

Category:

Residence/Commerce/Hotel

Feature:

On the east side of a planned main road (Qi'ao East Line Road) of Qi'ao Island, the project is about 20 kilometers from downtown. It is in preliminary planning stage and will be developed into a large eco-community with hotels, high-end residences and special businesses.

Shenzhen

China Phoenix Tower

Address:
No. 2008, Shennan Road, Futian District, Shenzhen
Category:
Residence/Commerce/Office

Feature:
The project is in the heart of Futian District served by Shennan Avenue, a major road in Shenzhen. It is a joint endeavor of SIUD and another of its shareholder Phoenix Television Holdings Co., Ltd. The project consists of an office building, a commercial/residential building and a shopping arcade, and completed construction and sale.

An Impressive Year A Promising Future

We will continue to restructure our land bank and seize new market opportunities to acquire quality land resources in the Yangtze River Delta region and prosperous cities in coastal regions.

Management Discussion and Analysis

Market Review

In 2012, China's property market has shown signs of recovery after about three years of constriction, with property prices and transaction volumes enjoying a modest rebound since the second half of the year. Despite the prolonged implementation of tightening measures such as purchase restriction and higher down payment requirements for home mortgages taking a toll on the property market in the short term, these initiatives have yet to undermine the fundamentals of the market. In view of the government's long-term goal of achieving healthy development of the property market, such measures aim to boost real housing demand and curb speculative activities. During the year, the Chinese government lowered the benchmark interest rate twice, which has boosted liquidity in the market and paved the way for a strong market recovery in the second half of 2012.

Business Review

In order to cope with the rapidly changing market, the Group accelerated the sales process and cash receipt on its property projects on the basis that price cut could be avoided. To this end, the Group managed to further improve product quality, to increase brand awareness, and to implement a more effective sales model. Moreover, the Group was able to bolster its operational efficiency by introducing a series of effective cost control measures, flexible cash flow management as well as to diversify its financing channels.

Fully furnished serviced apartment

Property Development

During the year, the Group had a total G.F.A of approximately 3,434,000 sq. m. under development, of which 273,000 sq. m. were new projects. The Group had completed construction with a G.F.A. of 1,251,000 sq. m., and delivered a total G.F.A. of 1,004,000 sq. m., which included 887,000 sq. m. of commodity housing and 117,000 sq. m. of affordable housing.

Urban Development International Centre—Under development

Contract Sales

During the year ended 31 December 2012, the Group had contract sales of RMB6,682,000,000 (2011: RMB2,757,000,000), which represents a 142.3% increase year-on-year and higher than its target initially set in the beginning of the year. Contract sales in terms of G.F.A. were approximately 608,000 sq. m. (2011: 236,000 sq. m.), up 157.6% year-on-year. Contract sales for commodity housing increased 40.2% to RMB3,865,000,000, owing largely to the Group's effort to expand sales channels and its flexible strategy.

Sales office of CBE International Peninsula

During the year under review, Urban Cradle located in Shanghai, CBE International Peninsula City in Xi'an, Laochengxiang in Tianjin and Top City in Chongqing were the principal projects generating sales, accounting for approximately 43%, 21%, 8% and 7% of commodity housing sales, respectively. In addition to the surge in sales, it is noteworthy that the Group achieved higher profit margin of the pre-sale projects during the year, which will eventually enhance the Group's overall profitability.

Shanghai Jing City

On the other hand, the affordable housing project Shanghai Jing City recorded contract sales of G.F.A. of 281,000 sq. m., valued at RMB2,817,000,000, since its launch in July 2012.

During the year, the overall average sales price per sq. m. of all the Group's projects, including those for affordable housing, was RMB11,000 down 6.0% when compared with RMB11,700 in 2011. Excluding affordable housing, the average sales price per sq. m. was RMB11,800, an increase of 1.0%.

Financial Review

Revenue

During the year ended 31 December 2012, the Group recorded revenue of HK$8,783,000,000 (2011: HK$4,433,000,000), up 98.1% year-on-year, on the increase in property deliveries, especially in Xi'an, and additional revenue generated in the affordable housing segment. While the profit margin of affordable housing was not as high as that of commodity housing, the large scale of its sales and deliveries made an important contribution to the Group's revenue.

During the year, property sales were the Group's main source of revenue, accounting for 95.3% of the overall revenue. The projects that made the largest contributions were CBE International Peninsula in Xi'an, and Urban Cradle and Jing City in Shanghai, which accounted for 32%, 22%, and 15% of the Group's property sales, respectively. Revenues from leasing, property management and services, and hotel operations recorded HK$236,000,000, HK$84,000,000 and HK$89,000,000, accounting for 2.7%, 1.0% and 1.0% respectively, with the first two business segments staying at the same level, while hotel operations dropped year-on-year on a high base of comparison in 2011 when International Horticultural Exposition was held in Xi'an, boosting hotel occupancy at that time. In percentage terms, the three business segments contributed approximately 5.3%, 1.8% and 2.8% to the Group's revenue in 2011. The decline in their respective proportion was mainly the result of the surge in property sales.

The Kempinski Hotel, Xi'an

Gross Profit and Gross Profit Margin

During the year ended 31 December 2012, gross profit was HK$1,359,000,000, up 20.6% from a year earlier, due largely to surge in property deliveries that also boosted revenue growth. During the year, the Group for the first time recorded revenue from affordable housing, which by its nature has lower profit margins than commodity housing. The Group had also accelerated deliveries of its projects with lower margins, such as CBE International Peninsula in Xi'an, Park Avenue in Chengdu, and Laochengxiang in Tianjin, which had already been sold over the past few years. As a result, the overall gross profit margin declined to 15.5% from 25.4% in 2011.

Urban Cradle

Investment Property Revaluation
During the year ended 31 December 2012, the Group recorded a gain on property revaluation of HK$18,600,000, a sharp decline compared to HK$606,000,000 recorded in 2011. This is because a gain in fair value of Shanghai Youth City, which has since the fiscal year of 2011 been treated as a property investment and revaluation gains of other investment properties booked in 2011.

Material Acquisitions and Disposal
During the year, the majority of high-yield senior note holders approved the amendment of the terms of agreement, which allowed the Group to dispose of its assets that were no longer aligned with its long-term strategic objectives. During the year, the Group agreed to sell a subsidiary holding all of the Park Avenue project for RMB158,000,000, thereby generating pre-tax profits of HK$359,000,000. The asset disposal has enabled the Group to improve its liquidity and strengthen its financial position, and is critical to its strategy to focus on its main projects. Further details of the disposal are set out in the announcements of the Company dated 23 December 2012 and 27 December 2012.

Distribution and Selling Expenses
During the year ended 31 December 2012, the Group recorded distribution and selling expenses of HK$158,000,000, declining 47.8% from HK$303,000,000 in 2011, due to improvement in its sales model along with the introduction of distributors and joint-agencies. Through these measures, the Group was not only able to reduce sales and distribution expenses, but also achieved a remarkable sales performance during the year.

General and Administrative Expenses
During the year ended 31 December 2012, the Group recorded general and administrative expenses of HK$509,000,000, a decline of 11.6% from HK$576,000,000, thanks to the Group's strict cost control measures, which has effectively strengthened integration of internal resources and improved management efficiency. Not only has the cost reduction represented a significant improvement of its overall operational efficiency, but it has also demonstrated the Group's resolve to take its corporate governance standard to new heights.

Profit
During the year ended 31 December 2012, the after-tax profit was HK$33,311,000 (2011: loss of HK$565,511,000 (restated)). Loss attributable to owners of the Company was HK$190,166,000, a 68.4% decline from the loss of HK$601,668,000 in 2011, thanks to a sharp increase in revenue, one-off exceptional gains from disposal of the Chengdu project, as well as a decline in distribution and selling expenses. Basic and diluted loss per share for 2012 was 3.95 HK cents (2011: loss of 12.50 HK cents) (restated).

Dividend
The board does not recommend distribution of any final dividend for the year ended 31 December 2012 (2011: Nil).

Liquidity and Capital Resources
During the year under review, the Group has further strengthened its financial position due largely to strong cash receipts from contract sales of property projects and cash generated from disposal of the Park Avenue project. In addition, the Group was committed to diversify its financing channels. Being involved in construction of affordable housing, the Group was eligible for issuing bonds with a value of RMB1,500,000,000. Moreover, the Group's shareholders SIHL and SIIC extended shareholder loans of HK$1,000,000,000 and RMB1,000,000,000, respectively, to the Group to June 2013 from June 2012 and December 2013 from December 2012 respectively. As at 31 December 2012, the ratio of net debt to total equity (equivalent to the net debt to total equity ratio as calculated in the section headed "Financial Highlights" in this annual report) of the Group stood at 50.2% (2011: 55.6%) with cash and cash equivalent amounting to HK$5,249,500,000 (2011: HK$3,490,600,000). Current ratio was approximately 2.00 (2011: 1.99).

The Board of Directors believes that the Group's liquid assets, funds, and future revenue will be sufficient for supporting future expansion and current working capital requirements of the Group.

Foreign Exchange Exposure
Details of exposure to currency risk are set out in note 39(b) to the consolidated financial statements.

Contingent Liabilities
Details of contingent liabilities are set out in note 44 to the consolidated financial statements.

Charge on Group's Assets
As at 31 December 2012, certain bank deposits of approximately HK$25,944,000 (31 December 2011: HK$41,297,000) were pledged to banks to secure mortgage loans granted by banks to the purchasers of pre-sold properties. These pledged deposits will be released upon the transfer of the property title certificates to the respective purchasers.

As at 31 December 2012, certain inventories, certain investment properties and bank deposits of the Group located in the PRC, with total carrying amounts of approximately HK$10,767,128,000 (31 December 2011: HK$7,743,345,000), HK$5,726,976,000 (31 December 2011: HK$3,772,806,000) and HK$177,109,000 (31 December 2011: HK$24,521,000) respectively, were pledged as collateral for the Group's bank borrowings, details of which are set out in note 33 to the consolidated financial statements.

Human Resources and Remuneration Policies

As at 31 December 2012, the Group employed 1,144 employees (including Hong Kong and PRC offices). The remuneration policies for the employees of the Group are determined according to the performance, qualification and experience, and competence of the employee. The emolument of the directors of the Company is determined by the Remuneration Committee, having regard to the operating results of the Company, individual performance and comparable market statistics. Staff benefits include contributions to the Mandatory Provident Fund Schemes and discretionary bonus payments which is linked to the profitability of the Group and individual performances.

The Group had adopted the Share Option Scheme as an incentive to directors and eligible employees. During the year ended 31 December 2012, training programs relating to work were provided to employees. Activities aiming at building up team spirit were regularly organised for employees, so as to enhance the human capital of the Group and the sense of belonging of the staff.

In 2013, the Group has an extensive array of construction works on hand, with 13 projects covering a total G.F.A. of 2,685,000 sq. m. under construction, including commencement of four new projects covering a total construction area of 319,000 sq. m.

Encouraged by the outstanding sales achievement in 2012, the Group aims to replicate the success in this year. However, with the uncertainties that lie ahead, we are prepared to adjust our strategy in a timely manner to cope with the changing operating environment.

From the long term perspective, China's urbanisation drive and rising household income remain supportive of industry growth. As the effect of the government's measures filters through, prices are dropping to a reasonable level, inventory is gradually being absorbed by housing demand and liquidity is improving further, therefore the industry is moving towards healthy and sustainable growth in the long run.

Sports day of the project company in Xi'an

10th anniversary of the Urban Crable project company

Land Bank

As at 31 December 2012, the Group's saleable land bank totaled 8,999,000 sq. m. in G.F.A., which are developed into 24 property projects located in 12 cities. The Group plans to leverage the competitive advantage of its parent company in the Yangtze River Delta to actively seek new high quality projects in the region as well as within prosperous cities in coastal areas.

Outlook

Going into 2013, China's property market has continued to rebound with both sales amount and volume recording steady growth. Although the Group anticipates challenges ahead, represented in particular by the government's regulations aimed at avoiding overheating in the property market, we remain optimistic about the long-term development of that sector in China. We believe that the restrictive measures by the Chinese government could bring property prices to a healthy level, helping lay a solid foundation for the market to further develop in the many years to come.

With the support of parent SIHL and our own competitive advantage in brand development, the Group will actively take the opportunity to build on its solid presence in the Yangtze River Delta and the prosperous cities in eastern China. Going forward, the Group will concentrate on investing in projects with high profit margins and high inventory levels while seeking opportunities to divest the assets that would no longer be aligned with our long-term strategic objectives.

Having adjusted its strategy to improve its overall businesses and formulated a clear development plan, the Group has gained a growing recognition by international investors and rating agencies. Thus, the Group is actively evaluating a variety of financing options within offshore capital markets for future development, with the ultimate objective to become a leader in China's property market.

Environmental, Social and Governance Report

1. The Group's Vision

SIUD is of the view that performing social responsibility is a nationwide call for public companies, an inevitable choice for enterprises to realize sustainable development and an objective element for enterprises to engage in international communication and cooperation. Therefore, the Group's commitment to social responsibility becomes part of its sustainable development strategy. It establishes a safe net for the fulfillment of social responsibility in organization, systems and management decision and maintains an efficient allocation of human resources, capital resources and materials. The entire Group has been generally well-aware of social responsibility and paid high attention to performance of social responsibility. The willingness and consciousness of the enterprise of performing social responsibility forms a positive atmosphere of active participation in social responsibility among the Group's members. The Group keeps on innovating new management vision and operation mode to pay back the society with concrete actions. It commits to establishing harmonious relationship with different parties in the society and developing corporate values and cultures of fulfilling social responsibility.

In 2012, the Group continued to actively promote and engage in different types of corporate social responsibility activities, including provision of good working environment for employees, provision of safe quality products for customers, active participation in public welfare, promotion of energy-saving and setting an example of energy-saving and consumption reduction.

In 2013, the Group would further deepen its efforts in social responsibility, put the concept into its different levels of operation management and practically fulfill social responsibility, making efforts in promotion of the sustainable development of economy, social and environment.

2. Quality of Working Environment

SIUD upholds its "people-oriented" development concept. It puts the development of human resources at its first priority and considers talents as the fundamental element and biggest fortune for the development of the enterprise. It strives to create fair competition environment and sufficient development spaces and pleasant working environment for employees. It respects people, trains people and cultivate successful person with the sustainable development concept.

Working Environment:

In 2012, the Group formulated and implemented an "Employees Manual" of corporate version for the first time with an attempt to strengthen the scientific management and standard operation of the enterprise and promote harmonious relationship between the enterprise and its employees. The "Employees Manual" clearly set out the working hour of employees, measurement of over-time rates and methods of holidays' management to protect the benefit of employees. In addition, the chapter titled "Rights of Employees" specified that "employees of the Group should not be discriminated because of different nationalities, ethnic group, races, sexes, ages, marriage status, social status or religious belief"; that "female employees enjoy the equal working rights as male colleagues"; that "the employees are entitled to salary based on its contribution and the Company should pay a monthly salary to the Group in cash and should not underpay or delay payment without reasons"; that "employees are entitled to labor safety, hygiene working environment and rights of protection"; that "the Company should provide the employees with necessary labor protective equipment which meet the governmental requirements of labor safety and hygiene working environment" and that "employees are entitled to take part in the corporate democratic management, raising reasonable suggestions to the management and complain to their immediate superior about unfair treatment" etc. The manual well protects the rights of employees and increases the understanding and sense of belonging of employees towards the enterprise.

In order to encourage our employees to create better values for the Company, in 2012, the Group reorganized different posts and formulated an overall plan for salary adjustment for coming three years. By establishing a salary management system which was post value-based, high performance-oriented and a reflection of employees' ability, it strengthened its encouragement towards the employees.

Health and Safety:

Safety protection is an important premise for the enterprise to engage in production operation activities and a major social responsibility. In 2012, the Group set up a safe production management and control system, established the safe production management committee office and optimize different systems of safe production management. It also entered into the "Letters of Responsibility for Safe Production Objective" with different grades of employees and applied the safe production management as a crucial indicator to assess different working units. In order to increase the awareness of safe production of employees, the Group regularly gathered its staff to watch safe production videos, attend talks about fire protection and conducted fire drills etc. Meanwhile, it normalized the management work of investigation and elimination of hidden problems. 上海城開商用物業發展有限公司 took the lead to complete the standardized three-levels appraisal. Through a series of powerful and effective measures, the safe production condition of the Group continued to improve steadily. In 2012, there was no significant safety accident and the Group was appraised to be "First-class of performing safe production as an enterprise directly under SIIC"

The Group pays high attention to the occupational health and life safety of its employees. It provides a safe and comfortable working environment and safe hygiene condition and necessary protection equipment which meet the government standards for employees. Meanwhile, employees are gathered to have body check. In addition, the Company promotes corporate cultures of healthy life style, and organized sports day, Yoga lessons in offices, reading and learning activities for staff and activities of making friends to enrich leisure life of employees.

Development and Training:

The Group pays high attention to the needs of personal growth and career development of employees. It actively drives the value add of human resources, establishes a well-structured training system and forms three major training models. Firstly, there are orientation trainings for newcomers to help them familiar with their job and adapt to new company's environment and cultures as soon as possible. Secondly, there are professional trainings for different posts to provide professional technical training for specific staff according to specific business needs of respective departments. Thirdly, there are core trainings for talents to select potential outstanding employees to a closed training of about one week. During 2012, SIUD focuses on training in areas such as strengthening corporate cultural integration, driving implementation of management and control measures and enhancing professional competence. There were 13 training programs at corporate level where around 300 people from different levels of the Group attended for the year.

Recruitment and Promotion:

The Group has more than a thousand of employees in Hong Kong and 12 cities in the Mainland China. It also recruits a great number of professional technical personnel and fresh graduates from universities. It provides a platform for career development and creating abundant promotion opportunities for employees while at the same time bringing about job opportunities for the society. SIUD establishes a scientific and reasonable job grading system which makes reference to types, responsibilities, level of contributions and terms of reference of the post. The job grading is as follows: Assistant/Officer – Supervisor – Manager – Senior Manager – Assistant of General Manger – Assistant General Manager – General Manager – Assistant to President – Vice President – President. The post ranks of employees are determined according to their responsibilities, performances and ability. Given the fair and just promotion environment, there was a group of youth of 80s promoted to be managers, providing endless back-up talents for the development of the Company continuously.

The Group highly values the establishment of talent pools and promotion system for talents. In order to help the fresh graduates have a thorough understanding about the corporate and find a suitable development platform for themselves, the Group set up a job rotation system for management trainees since 2011. After the management trainees attend orientation programs, they would be shifted posts in different companies or departments for a year of adaptation and learning. Then, they would be assigned to the most suitable posts.

3. Environmental Protection

The problems of relatively insufficient resources and deteriorating ecological environment create serious restrictions on China's economic development of China. Increasing efforts on energy-saving and environmental protection is an inevitable element for harmonious development between human and the nature and a critical part for the Group to perform social responsibility. The Group would apply the concept of environmental protection to the real estate development, planning of property operation, procurement, construction and property management.

During the development of construction projects, the Group encourages its employees to undergo activities on technical modification, technical optimization, energy-saving, management innovation and recycling. After active publicity and proactive participation of employees, all employees build their solid awareness of establishing energy-saving projects and enterprise. On top of this, the Group sincerely fulfills its responsibility of energy saving and emission reduction to implement clean production by improving technological process and reducing pollutant discharge. It also increase its engagement in environmental protection and seek to minimize the impact of production on the environment to pursue harmonized sustainable development between the enterprise, society and the environment. There were not significant environmental pollution accidents arising from 15 projects under construction and pending construction of the Group in 2012. SIUD attained the LEED Gold Award Pre-authentic Certificate which indicates the compliance of its architecture space designs with the international environmental protection standards.

One of the focuses of property management is to popularize knowledge of waste sorting in small communities. SIUD invites waste sorting commissioners to talk about the knowledge of waste sorting to residents, including the popular science knowledge about the significance of waste sorting, methods of sorting and identifying waste-sorting rubbish bins. It also distributes promotion materials about low-carbon, energy-saving and environmental protection. The second focus is to use more LED lighting to reduce energy consumption. Fei Chau International Plaza managed by 上海城開商用物業發展有限公司 saved a total of 620,000 watts of electricity for a year, which was 186 tonnes of standard coal, through implementation of modification project of energy-saving management contract of using LED lighting in the public area of buildings, basement parking and 20 outdoor advertisement signboards. The achievement was granted an energy-saving award by the energy-saving office in Xuhui District, Shanghai. The third focus is to encourage employees to take part in environmental protection activities of tree-planting and smoke-free.

Besides, during its operation, the Group creates comprehensive energy-saving environment. It promotes economize on even "one drop of water, one piece of paper and one watt of electricity". It drives employees to turn off taps after washing, use both sides of paper, switch off lights after use and recycle the scrap paper, print cartridge, waste battery and old computer hardware. It believes that even a small step could help save energy.

4. Operating Practice

The Group promotes the concept of scientific development to construct a sincere and harmonious enterprise by upholding the principle of building harmonious corporate, following the direction of creating long-term mutual benefits, using best quality products, quality services and creating win-win situation of upstream and downstream customers.

Management of Supply Chain:

The Company emphasizes its close partnership with upstream and downstream customers and encourages the customers to grow with the Group. In 2012, the Company actively boosts innovation of procurement and preliminarily set up the data bank of qualified suppliers. It also strengthens the long-term cooperation relationship with famous local and overseas suppliers to jointly create an honest and fair business environment for win-win cooperation.

Product Liability:

The Group considers its products are the core competitiveness of the enterprise. The Group focuses on four directions to enhance product quality and ensure rights of customers in 2012. Firstly, it set up a product quality control system by formulating 10 regulations, including "Quality Control System for Construction Work of the Group" and "Quality Control Methods of Routine Inspection on Construction Work of the Group". Secondly, it establishes a strict internal inspection procedure before delivery of property, and builds a delivery team to deal with any defects as soon as practicable. Thirdly, it improves the professional after-sale services by rectifying any quality problems raised by homeowners. Fourthly, it would pay more attention to details of property to increase the added values of property based on sound planning and design of project development and guarantee of construction quality.

Anti-corruption:

Anti-corruption work is necessary to control and prevent risks of the corporate and uphold equitableness and justice of the society. It is also the basic work for the enterprise to realize sustainable development. The Group formulated "Framework for Anti-Fraud Policies and Procedures" remediating all the Internal Controls weakness existed, prior to the acquisition of the Company by SIHL. Its systems prevent corruption and its mechanisms encourage anti-corruption and anti-fraud action. The partner suppliers are required to join anti-corruption and anti-fraud as well. Meanwhile, SIUD strengthens the employees education on anti-corruption. In order to strengthen the self-consciousness of having integrity and being public-spirited of employees, the "Employees Manual" clearly stipulates that employees should observe professional ethics and the Group organizes education video session for management personnel regularly.

5. Involvement in Community

SIUD has considered promotion of justice and the return to the society as the responsibilities and obligations of a corporate citizen, and actively involves in helping people in need and public welfare. Meanwhile, we encourage staff to participate in voluntary activities in order to express social values.

In 2012, the Group co-invested with the Government of Anhui Liuan Yuan District (安徽六安裕安區政府) to rebuild SUD Hope Primary School (上海城開希望小學) in a new location. The school is planned to cover 16 acres, comprising a main teaching building, complex building, canteen, staff room and living rooms. We planned to accommodate about 500 students in 12 classes, covering three natural villages in the vicinity and providing local teenagers with better educational teaching conditions.

In June 2012, Wanyuan Company (萬源公司), a subsidiary of the Group, held a big running event, namely, "Relay with Love, Cheering for the Olympics" for public welfare and charity. The event attracted 420 caring persons consisting of 120 groups of caring families (approximately 300 persons) and 120 students in the families of peasant workers. The fund raised was given to three schools of families of farmers and peasant workers in Shanghai for addition of sports equipment and appliances.

We actively build up the public welfare brand names of SUD together with the joint establishment units such as Meiyuan Secondary School (梅園中學), Xuhui Xingyu Healthcare Home (徐匯星雨康健院), "Home of Sunshine" of Xujiahui Street (徐家匯街道「陽光之家」). SUD and Meiyuan Secondary School, a school of families of farmers and peasant workers carried out a donation of eye-protecting lamp, namely "love with light" (「愛有光」) and all funds raised in the charity sale were converted into buying eye-protecting lamps and delivered to the students of families of peasant workers. In order to enrich the teaching methods for Xingyu Healthcare Home, the staff of 上海城開商用物業發展有限公司 and 上海城開房地產經紀有限公司 purchased cooking devices and moulds for western cakes by fund raising and donation. The staff of the two companies cook tasty biscuits with children and give them toys, books and reading materials. In order to provide a comfortable summer for teachers and students of "Home of Sunshine" of Xujiahui Street, they delivered refreshing cakes and game teaching instruments. Besides, they raised funds and bought 17 boxes of materials to Xi'an after bewaring of shortage of winter materials in the children welfare centre in Weiyang District, Xi'an (西安未央區) due to its limited funds.

SIUD encourages staff to perform their own social responsibilities and organized staff to take part in an outdoor voluntary activity for donation, namely "The Favorites in the Blue Sky" (「藍天下的至愛」), and a promotional activity, namely Xuhui Walk of Civilization (徐匯文明行路). A lot of staff joined hematopoietic stem cell bank, actively participated in voluntary blood-donating activities, provided voluntary services for families of vulnerable groups and provided free and professional consultation services for communities.

Directors' Report

The Board presents its annual report and the audited financial statements of the Group for the year ended 31 December 2012.

Principal Activities

The Company is an investment holding company. The activities of its principal subsidiaries and an associate are set out in notes 46 and 18 respectively to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 74.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2012 (for the year ended 31 December 2011: Nil).

Closure of Register of Members

Entitlement to attend and vote at the 2013 AGM

For determining the entitlement to attend and vote at the 2013 AGM, the register of members of the Company will be closed from Tuesday, 14 May 2013 to Thursday, 16 May 2013, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2013 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 13 May 2013.

Investment Properties

Details of movements during the year ended 31 December 2012 in investment properties of the Group are set out in note 14 to the consolidated financial statements.

Property, Plant and Equipment

Details of movements during the year ended 31 December 2012 in other property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years, is set out on page 150 of this report.

Share Capital and Convertible Loan Notes

Details of movements in the share capital and the convertible loan notes of the Company during the year ended 31 December 2012 are set out in notes 36 and 34 to the consolidated financial statements respectively.

Senior Notes/Warrant

Details of senior notes/warrant of the Company during the year ended 31 December 2012 are set out in note 35 to the consolidated financial statements.

For the year ended 31 December 2012, no warrants have been converted into ordinary shares of the Company. The subscription price of Warrants 2012 was HK$6.72 per share, subject to adjustment, and has expired at 4:00 p.m. (Hong Kong Time) on Sunday, 22 July 2012.

Material Acquisitions and Disposals

Details of material acquisitions and disposals of the Company are set out in notes 40 and 41 to the consolidated financial statements respectively.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in the consolidated statement of changes in equity.

Distributable Reserves of the Company

The Company had no distributable reserve as at 31 December 2012.

Under the Companies Act 1981 of Bermuda (as amended), the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if:

(a) it is, or would after the payment be unable to pay its liabilities as they become due; or

(b) the realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Under the Companies Act 1981 of Bermuda (as amended), the Company's share premium account of HK$10,325,453,000 (31 December 2011: HK$10,325,453,000) may be distributed in the form of fully paid bonus shares.

Directors

The directors of the Company during the year ended 31 December 2012 and up to the date of this report were:

Executive Directors

Mr. Ni Jianda *(Chairman)*	
Mr. Ji Gang *(Vice Chairman and President)*	(appointed on 27 April 2012)
Mr. Zhou Jun	
Mr. Yang Jianwei	(appointed on 22 March 2013)
Mr. Yang Biao	
Ms. Huang Fei	(appointed on 22 March 2013)
Mr. Ye Weiqi	(appointed on 22 March 2013)
Mr. Jia Bowei	(resigned on 1 March 2012)
Mr. Cai Yu Tian	(resigned on 24 April 2012)
Mr. Qian Shizheng	(resigned on 27 April 2012)
Mr. Chen Anmin	(resigned on 22 March 2013)

Independent Non-executive Directors
Mr. Doo Wai-Hoi, William, J.P.
Dr. Wong Ying Ho, Kennedy, BBS, J.P.
Mr. Fan Ren Da, Anthony
Mr. Li Ka Fai, David

In accordance with clause 86(2) of the Company's Bye-laws, Mr. Yang Jianwei, Ms. Huang Fei and Mr. Ye Weiqi shall hold office as a Director until the first annual general meeting after his/her appointment. An ordinary resolution will be proposed at 2013 AGM to seek Shareholders' approval to the proposed election of Mr. Yang Jianwei, Ms. Huang Fei and Mr. Ye Weiqi as Executive Directors.

In accordance with clause 87 of the Company's Bye-laws, Mr. Zhou Jun, Mr. Doo Wai-Hoi, William and Dr. Wong Ying Ho, Kennedy will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, has offered themselves for re-election. Separate ordinary resolutions will be proposed at the 2013 AGM to re-elect Mr. Zhou Jun as an Executive Director and to re-elect Mr. Doo Wai-Hoi, William and Dr. Wong Ying Ho, Kennedy as Independent Non-Executive Directors.

All of the remaining Directors, including the Independent Non-Executive Directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the aforementioned Bye-laws.

Independence Confirmation

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules on the Stock Exchange. The Company considers they are independent.

Directors' Service Contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

All Directors have entered into service contracts with the Company, all with a term of 3 years.

Directors' Interests in Contracts of Significance

Save as disclosed in note 45 to the consolidated financial statements, no contract of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at 31 December 2012 or at any time during the year ended 31 December 2012.

Management Contract

During the year ended 31 December 2012, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed.

Directors' Interests in Competing Businesses

None of the Directors of the Company or any of their respective associates have any interests in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group that are required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

Biographical Details of Directors and Senior Management

Biographical details of Directors and Senior Management of the Group are set out on pages 53 to 61 of this report.

Directors' and Senior Management's Emoluments

A summary of the directors' and senior management's remuneration is set out in notes 11 and 45(a) to the financial statements respectively.

Directors' and Chief Executive's Interests in Shares and Underlying Shares

As at 31 December 2012, the interests of the Directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated companies (within the meaning of Part XV of the SFO which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code set out in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

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

Name of director	Capacity	Number of issued ordinary shares held	Number of underlying shares subject to options granted[1]	Percentage of the issued share capital of the Company
Mr. Cai Yu Tian[2]	Beneficial owner	–	9,000,000	0.19%
Mr. Ni Jianda	Beneficial owner	–	8,000,000	0.17%
Mr. Ji Gang	Beneficial owner	150,000	–	0.00%
Mr. Qian Shizheng[2]	Beneficial owner	–	7,000,000	0.15%
Mr. Zhou Jun	Beneficial owner	–	7,000,000	0.15%
Mr. Yang Biao	Beneficial owner	–	7,000,000	0.15%
Mr. Chen Anmin[2]	Beneficial owner	–	7,000,000	0.15%
Mr. Jia Bowei[2]	Beneficial owner	–	7,000,000	0.15%
Mr. Doo Wai-Hoi, William	Beneficial owner	–	1,000,000	0.02%
Dr. Wong Ying Ho, Kennedy	Beneficial owner	–	1,000,000	0.02%
Mr. Fan Ren Da, Anthony	Beneficial owner	–	1,000,000	0.02%
Mr. Li Ka Fai, David	Beneficial owner	–	1,000,000	0.02%

Notes:

1. These interests represented the interests in the underlying shares in respect of share options granted by the Company to these directors as beneficial owners, details of which are set out in the section headed "Share Options" of this Report.

2. Mr. Jia Bowei, Mr. Cai Yu Tian, Mr. Qian Shizheng and Mr. Chen Anmin resigned as Executive Directors of the Company with effect from 1 March 2012, 24 April 2012, 27 April 2012 and 22 March 2013 respectively.

(2) *Long Position in shares and underlying shares of the associated company of the Company*

SIHL

Name of Director	Capacity	Number of issued ordinary shares held	Number of underlying shares subject to options granted[1]	Percentage of the issued share capital
Mr. Ji Gang[1,2]	Beneficial owner	20,000	990,000	0.09%
Mr. Zhou Jun[1]	Beneficial owner	195,000	1,350,000	0.14%

Notes:

1. These represent the interests in the underlying shares of SIHL in respect of the share options (which are unlisted and physically settled equity derivatives) granted by SIHL under its share option scheme. Particulars of such share options and their movements for the year ended 31 December 2012 were as follows:

Name of Director	Date of Grant	Exercise price per share HK$	Outstanding at 1.1.2012	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 31.12.2012
Mr. Ji Gang	2 November 2010	36.60	550,000	–	–	–	550,000
	20 September 2011	22.71	440,000	–	–	–	440,000
Mr. Zhou Jun	2 November 2010	36.60	750,000	–	–	–	750,000
	20 September 2011	22.71	600,000	–	–	–	600,000

Share options granted in November 2010 are exercisable during the period from 3 November 2010 to 2 November 2015 in three batches, being:

- 3 November 2010 to 2 November 2011 (up to 40% of the share options granted are exercisable)
- 3 November 2011 to 2 November 2012 (up to 70% of the share options granted are exercisable)
- 3 November 2012 to 2 November 2015 (all share options granted are exercisable)

Share options granted in September 2011 are exercisable during the period from 21 September 2011 to 20 September 2016 in three batches, being:

- 21 September 2011 to 20 September 2012 (up to 40% of the share options granted are exercisable)
- 21 September 2012 to 20 September 2013 (up to 70% of the share options granted are exercisable)
- 21 September 2013 to 20 September 2016 (all share options granted are exercisable)

2. Mr. Ji Gang was appointed as Executive Director, Vice-Chairman and President of the Company with effect from 27 April 2012.

Save as the disclosed above, as at 31 December 2012, none of the Directors or chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any 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 they are taken or deemed to have under such provisions of the SFO) and which were required to be entered into the register required to be kept under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Options

As at 31 December 2012, the Company granted 60,750,000 shares options to subscribe for up to total of 60,750,000 ordinary shares of nominal value of HK$0.04 each in the capital of the Company under the Share Option Scheme, representing 1.26% of the issued share capital of the Company as at 31 December 2012. The Share Option Scheme expired on 11 December 2012. Particulars of such share options and their movements during the year ended on 31 December 2012 were as follows:

Name of category	Date of Grant	Exercise price per share HK$	Exercise Period[1]	Outstanding at 1.1.2012	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 31.12.2012
Directors								
Mr. Cai Yu Tian[2]	24 September 2010	HK$2.98	24 September 2010 to 23 September 2020	9,000,000	–	–	9,000,000	0
Mr. Ni Jianda	24 September 2010	HK$2.98	24 September 2010 to 23 September 2020	8,000,000	–	–	–	8,000,000
Mr. Ji Gang	–	–	–	0	–	–	–	0
Mr. Qian Shizheng[2]	24 September 2010	HK$2.98	24 September 2010 to 23 September 2020	7,000,000	–	–	7,000,000	0
Mr. Zhou Jun	24 September 2010	HK$2.98	24 September 2010 to 23 September 2020	7,000,000	–	–	–	7,000,000
Mr. Yang Biao	24 September 2010	HK$2.98	24 September 2010 to 23 September 2020	7,000,000	–	–	–	7,000,000
Mr. Chen Anmin[2]	24 September 2010	HK$2.98	24 September 2010 to 23 September 2020	7,000,000	–	–	–	7,000,000
Mr. Jia Bowei[2]	24 September 2010	HK$2.98	24 September 2010 to 23 September 2020	7,000,000	–	–	7,000,000	0
Mr. Doo Wai-Hoi, William	24 September 2010	HK$2.98	24 September 2010 to 23 September 2020	1,000,000	–	–	–	1,000,000
Dr. Wong Ying Ho, Kennedy	24 September 2010	HK$2.98	24 September 2010 to 23 September 2020	1,000,000	–	–	–	1,000,000
Mr. Fan Ren Da, Anthony	24 September 2010	HK$2.98	24 September 2010 to 23 September 2020	1,000,000	–	–	–	1,000,000
Mr. Li Ka Fai, David	24 September 2010	HK$2.98	24 September 2010 to 23 September 2020	1,000,000	–	–	–	1,000,000
Senior Management and Employees	24 September 2010	HK$2.98	24 September 2010 to 23 September 2020	35,000,000	–	–	7,250,000	27,750,000
Total				**91,000,000**	**–**	**–**	**30,250,000**	**60,750,000**

Notes:

1. Grantees can exercise (i) 40% of the total number of share option granted to them from the date of grant; (ii) 70% of the total number of share option granted to them (including those mentioned in (i) above) after the first anniversary of the date of grant; and (iii) all of the share options granted after second anniversary of the date of grant.

2. Mr. Jia Bowei, Mr. Cai Yu Tian, Mr. Qian Shizheng and Mr. Chen Anmin resigned as Executive Directors of the Company with effect from 1 March 2012, 24 April 2012, 27 April 2012 and 22 March 2013 respectively.

Save as disclosed above, the Company had not granted for the year ended 31 December 2012 any share options to any persons as required to be disclosed under Rule 17.07 of the Listing Rules.

Arrangements for Directors to Purchase Shares or Debentures

Other than the Share Option Scheme detailed in note 37 to the consolidated financial statements, at no time during the year ended 31 December 2012 was the Company, its holding company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Corporate Governance

Details of the Company's corporate governance practices are set out in the section headed "Corporate Governance Report" in this annual report.

Audit Committee

The Audit Committee of the Company, which comprises the four independent non-executive directors of the Company, namely, Mr. Doo Wai-Hoi, William, Dr. Wong Ying Ho, Kennedy, Mr. Fan Ren Da, Anthony and Mr. Li Ka Fai, David (Chairman of the Committee), has reviewed the audited financial statements of the Company for the year ended 31 December 2012 and discussed with the management and the auditors of the Company on the accounting principles and practices adopted by the Group and internal controls and financial reporting matters.

Connected and Continuing Connected Transactions

Certain related party transactions as set out in notes 44(a) and 45 to the consolidated financial statements are continuing connected transactions and/or connected transactions. Details of the continuing connected transaction of the Company, which is also related party transaction as disclosed in note 44(a) to the consolidated financial statements, required to be disclosed under Chapter 14A of the Listing Rules are set out below.

Continuing Connected Transactions

Cross Guarantee

As disclosed in the circular of SIHL dated 28 December 2009, SUD and State-owned Management Company entered into the Cross Guarantee Agreement on 26 December 2002, whereby SUD and State-owned Management Company have agreed to guarantee each other's obligation in respect of the loans and credit facilities which they may respectively obtain from financial institutions from time to time to the extent of not more than RMB700,000,000 (equivalent to approximately HK$832,000,000). On 15 December 2009, Shanghai Urban Development and State-owned Management Company entered into the Cross Guarantee Supplemental Agreement to amend the terms of the Cross Guarantee Agreement whereby the parties agreed to increase the guarantee limit from RMB700,000,000 (equivalent to approximately HK$832,000,000) to RMB1,200,000,000 (equivalent to approximately HK$1,426,000,000). The Cross Guarantee Agreement as amended by the Cross Guarantee Supplemental Agreement is for a term of three years from 1 January 2010 to 31 December 2012 (both dates inclusive).

On 6 December 2012, SUD and State-owned Management Company entered into the Second Supplemental Agreement amending the terms of the Cross Guarantee Agreement. Pursuant to the Second Supplemental Agreement, the parties have agreed to (1) extend the term of the Cross Guarantee Agreement for three years so that it ends on 31 December 2015; and (2) revise the Existing Guarantee Limit of RMB1,200,000,000 (equivalent to approximately HK$1,426,000,000) to the Revised Guarantee Limit of RMB400,000,000 (equivalent to approximately HK$498,000,000).

As at 31 December 2012, (i) the total amount of loans and credit facilities obtained by SUD in respect of which guarantees were provided by State-owned Management Company was approximately RMB333,000,000 (equivalent to approximately HK$414,000,000) (2011: RMB584,000,000 (equivalent to approximately HK$720,000,000)); and (ii) the total amount of loans and credit facilities obtained by State-owned Management Company in respect of which guarantees were provided by Shanghai Urban Development was approximately RMB316,000,000 (equivalent to approximately HK$393,000,000) (2011: RMB216,000,000 (equivalent to approximately HK$266,000,000)).

No security over the assets of SUD or the Company is or will be granted in respect of guarantees provided by State-owned Management Company pursuant to the Cross Guarantee Agreement. The Directors (including all the independent non-executive Directors) are of the view that the guarantees provided by State-owned Management Company are on normal commercial terms.

The aggregate amount of loans and credit facilities obtained by State-owned Management Company in respect of which Shanghai Urban Development would provide guarantees pursuant to the Cross Guarantee Agreement for each of the three years ending 31 December 2012 is subject to a cap of RMB1,200,000,000 (equivalent to approximately HK$1,426,000,000).

The Independent Non-executive Directors of the Company have reviewed the above continuing connected transaction and confirmed that the continuing connected transaction has been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

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

The auditor of the Company has performed procedures in respect of the continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and reference to Practice Note 740 "Auditor's Letter on continuing connected transaction under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants and has confirmed that the continuing connected transactions (a) was approved by the Board; (b) was, on a sample basis, in accordance with the pricing policies of the Group; (c) was, on a sample basis, in accordance with the relevant agreements governing the transactions; and (d) did not exceed the cap as disclosed in the relevant announcement of the Company.

Substantial Shareholder's and Other Persons' Interests in Shares and Underlying Shares

As at 31 December 2012, substantial shareholder and other persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and entered in the register required to be kept by the Company pursuant to Section 336 of the SFO, or otherwise notified to the Company were as follows:

Ordinary shares of HK$0.04 each of the Company

Name of substantial shareholder	Long/short position	Capacity	No. of shares of the Company interested	Percentage of the Company's issued share capital
SIHL [1]	Long	Held by controlled corporation	3,415,883,000 [2,3]	70.99%
SIIC [2]	Long	Held by controlled corporation	3,415,883,000 [2,3]	70.99%

Notes:

1. These shares are beneficially held by Novel Good Limited, a wholly owned subsidiary of SIHL.

2. These interests include 2,182,191,000 Consideration Shares issued and allotted to SIHL to settle the aggregate consideration for acquisition of the entire issued share capital of the target company, which indirectly owns 59% equity interest in SUD from SIHL (the "Transactions"), the completion of which took place on 23 November 2011. The particulars of the Transactions are contained in the joint announcement of the Company and SIHL dated 14 April 2011.

3. These interests include 50,000,000 Shares (short position) held by Invest Gain Limited (a company beneficially and wholly owned by Mr. Li Song Xiao who ceased to be a substantial shareholder of the Company during the year ended 31 December 2011) which was pledged to Novel Good Limited. Therefore, SIHL and SIIC are deemed or taken to be interested in these 50,000,000 Shares.

4. SIIC through its subsidiaries, namely Shanghai Investment Holdings Ltd., SIIC Capital (B.V.I.) Ltd., SIIC Treasury (B.V.I.) Ltd., Shanghai Industrial Financial (Holdings) Co. Ltd., South Pacific International Trading Ltd., The Tien Chu Ve-Tsin (Hong Kong) Co. Ltd., SIIC Trading Co. Ltd., SIIC CM Development Funds Ltd., Billion More Investments Ltd. and SIIC CM Development Ltd. held approximately 57.06% of the shares of SIHL. Therefore, SIIC is deemed or taken to be interested in the 3,415,883,000 shares held by SIHL for the purpose of the SFO.

Save as disclosed above, as at 31 December 2012, the Company had not been notified by any persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which 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 SFO.

Major Customers and Suppliers

The aggregate sales attributable to the Group's five largest customers comprised approximately 16.7% of the Group's total revenue for the year ended 31 December 2012 and the sales attributable to the Group's largest customer were approximately 15.5% of the Group's total revenue for the year ended 31 December 2012.

The aggregate purchases attributable to the Group's five largest suppliers comprised approximately 15.4% of the Group's total purchases and the purchases of the year ended 31 December 2012 attributable to the Group's largest supplier were approximately 4.3% of the Group's total purchases for the year ended 31 December 2012.

None of the directors, their associates or any shareholder of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers and suppliers of the Group.

Pre-Emptive Rights

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

Sufficiency of Public Float

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's directors.

Purchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2012.

Non-Adjusting Event After the Reporting Period

No non-adjusting event after the reporting period has occurred.

Auditors

Following the resignation of Messrs. CCIF CPA Limited due to its merger of business with PCP CPA Limited, Crowe Horwath (HK) CPA Limited was appointed as the auditor of the Company to fill the casual vacancy on 18 January 2010. Messrs. Crowe Horwath (HK) CPA Limited resigned as the auditor of the Company on 18 November 2010 while Messrs. Deloitte Touche Tohmatsu was appointed by the Board to fill the casual vacancy on 19 November 2010.

The financial statements for the year ended 31 December 2012 have been audited by Deloitte Touche Tohmatsu who will retire and being eligible, has offered itself for re-appointment. A resolution for the reappointment of Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the 2013 AGM.

Save as disclosed above, there were no change in the Company's auditors in the preceding three years.

Non-Compete Undertaking

In order to address any future competition between the respective development businesses of SIIC, SIHL and the Group, SIIC and SIHL have entered into a deed of non-competition (the "Non-compete Undertaking") dated 28 October 2011 in favor of the Company for itself and on behalf of the subsidiaries, pursuant to which each of SIIC and SIHL has undertaken to the Company that, conditional upon completion of the Transactions and during the Non-Compete Period (as defined in the Circular of the Company issued on 31 October 2011 (the "Circular"), other than the SIH Excluded Business and the SIIC Excluded Business (both as defined in the Circular), each of them will not carry on, engage, invest, participate or otherwise be interested in any business of property development in the PRC which is in competition, directly or indirectly, with the restricted business of the Group. The details and particulars of the Non-compete Undertaking are set out in the Circular.

The Group has received from both SIIC and SIHL annual declarations that both of them have complied with the undertakings under the Non-Compete Undertaking. The Company's independent non-executive Directors have reviewed each of SIIC and SIHL's compliance as aforesaid.

Change In Information On Directors

Pursuant to Rule 13.15B(1) of the Listing Rules, changes in information of Directors are set out as follows:

(a) Mr. Zhou Jun, an Executive Director of the Company, was appointed as the Executive Director and Vice Chairman from Non-Executive Director of SIIC Environment Holdings Ltd (Stock Code: 5GB), a company listed on the Singapore Stock Exchange, with effect from 5 March 2012, and as Executive Chairman and Director from Executive Director and Vice Chairman of SIIC Environment Holdings Ltd, with effect from 4 May 2012.

(b) Mr. Fan Ren Da, Anthony, an Independent Non-executive Director of the Company, resigned as Independent Director of 深圳世聯地產顧問股份有限公司, a company listed on Shenzhen Stock Exchange (stock code: 002285), with effect from 12 July 2012.

Donation

During the year ended 31 December 2012, the Group made charitable donations of RMB2,120,000 (equivalent to approximately HK$2,610,000).

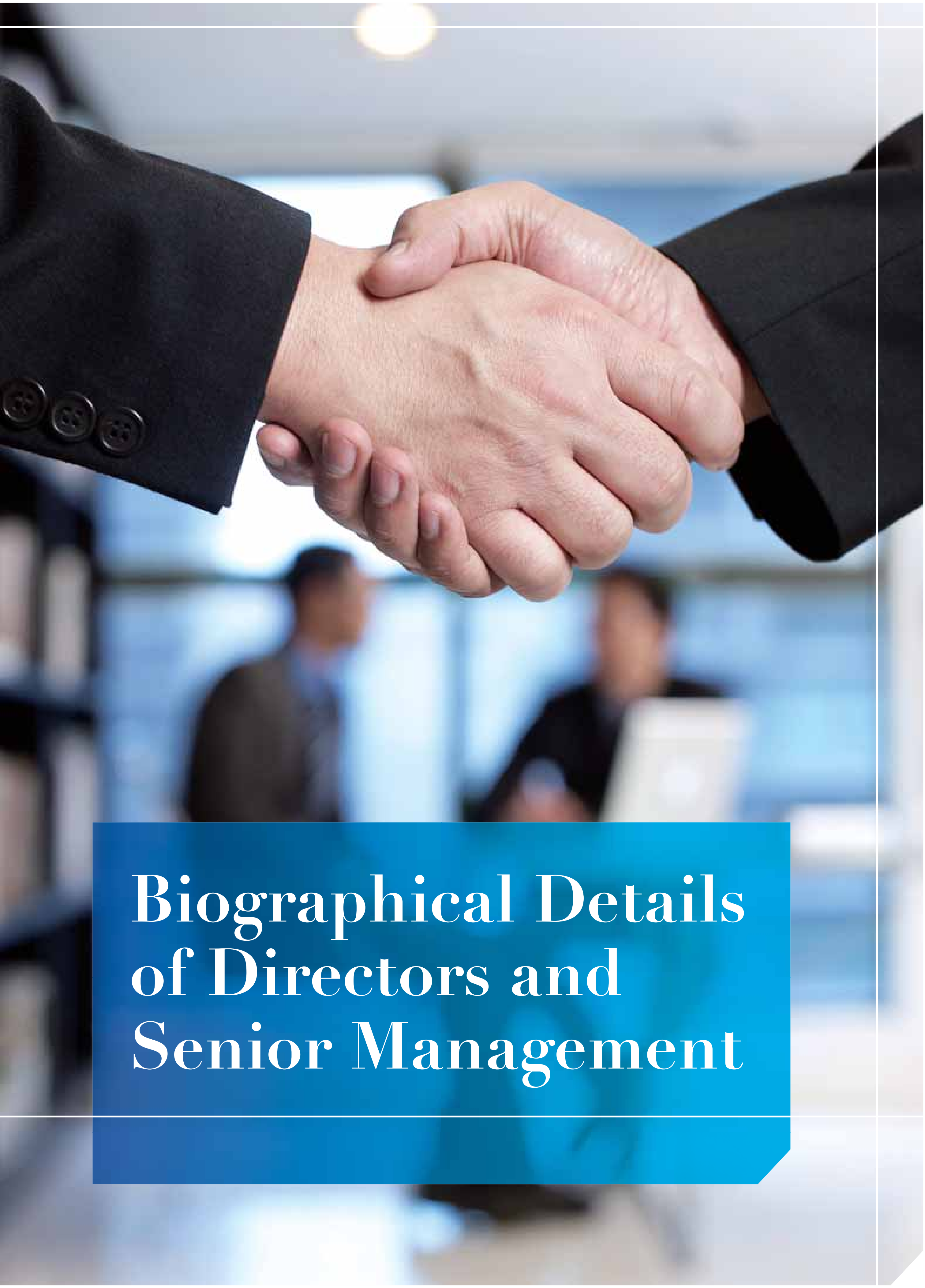
Appreciation

I would like to express my sincere gratitude to the Board, our management and to all our staff for their dedicated efforts during this year, as well as to our customers, suppliers, business partners and shareholders for their continued enthusiastic support of our Group.

By Order of the Board
Shanghai Industrial Urban Development Group Limited

Ni Jianda
Chairman

Hong Kong, 22 March 2013



Biographical Details of Directors and Senior Management

Biographical Details of Directors and Senior Management

Mr. Ni Jianda
Chairman, Executive Director and Member of the Nomination Committee

Mr. Ji Gang
Vice Chairman, President and Executive Director

Mr. Zhou Jun
Executive Director and Member of the Investment Appraisal Committee

Mr. Yang Jianwei
Executive Director

Mr. Yang Biao
Executive Director

Mr. Chen Anmin (resigned on 22 March 2013)
Executive Director and Executive Vice President

Ms. Huang Fei
Executive Director and Vice President

Mr. Ye Weiqi
Executive Director, Vice President, Members of the Remuneration Committee and the Investment Appraisal Committee

Mr. Doo Wai-Hoi, William, J.P.
Independent Non-executive Director, Chairman of the Remuneration Committee and Member of the Audit Committee

Dr. Wong Ying Ho, Kenndy, BBS, J.P.
Independent Non-executive Director, Chairman of the Nomination Committee and Member of the Audit Committee

Mr. Fan Ren Da, Anthony
Independent Non-executive Director, Chairman of the Investment Appraisal Committee and Members of the Audit Committee, Remuneration Committee and Nomination Committee

Mr. Li Ka Fai, David
Independent Non-executive Director and Chairman of the Audit Committee

Executive Directors

Mr. Ni Jianda, Chairman, Executive Director and Member of the Nomination Committee

Mr. Ni, aged 49, is an executive Director of the Company and was appointed on 5 July 2010. He is a member of the Nomination Committee of the Company. He is a deputy chief executive officer of SIHL. He has been a director of SUD since 18 July 2007. He is also the president of SUD. He graduated from Shanghai University, and La Trobe University of Australia with a master's degree in business administration in 1997. Mr. Ni was the general manager of Shanghai Xuhui Real Estate Management Co., Ltd., a deputy general manager of SUD and the general manager of the real estate department of China Huayuan Group Ltd. (which is primarily in the business of property development textile, financial services and pharmaceuticals) from October 1997 to July 1998. He has more than 20 years of professional experience in real estate development and general management. Mr. Ni was elected a member of the Shanghai Municipal People's Congress in 2003, and honoured as one of the 25 Chinese Entrepreneurs with Most Reforming Ideas, among the Top Ten Persons of the Year elected by the 2006 China International Real Estate and Architech Fair, one of the 2007 Boao Forum-Most Influential Persons in China's Real Estate Industry in 20 Years and one of the Top Ten Entrepreneurs in the Shanghai Real Estate Sector in 18 Years in 2005. He was a vice chairman of Shanghai Youth Federation and is currently the chairman of Shanghai Young Entrepreneurs Association and a vice chairman of the Shanghai Real Estate Association.

Mr. Ji Gang, Vice Chairman, President and Executive Director

Mr. Ji, aged 55, is the Vice Chairman, the President and an executive Director of the Company. He is an independent non-executive director and the chairman of the remuneration committee of Shanghai Jin Jiang International Hotels (Group) Company Limited, the H shares of which are listed on the main board of the Stock Exchange (stock code: 02006). He was the vice chairman and president of Shanghai Industrial Development Co., Ltd., a subsidiary of SIHL and the shares of which are listed on A Shares Market of the Shanghai Stock Exchange (stock code: 600748). He is also a director of SIIC, the controlling shareholder of SIH. Mr. Ji graduated from Fudan University with a master's degree in economics and is designated a senior economist. Mr. Ji was the general manager of Zhongya Hotel, the chairman and general manager of Shanghai Everbright City Services Co., Ltd., an officer of the Commercial Committee and Economic Committee of the People's Government of Zhabei District, Shanghai, a vice president of Shanghai Industrial Dongtan Investment Development (Holdings) Co., Ltd., the president of Shanghai SIIC Urban Development Investment Co., Ltd., an executive director and the president of Shanghai Industrial Investment Co. Ltd.. He has over 34 years' experience in corporate management.

Mr. Zhou Jun, Executive Director and Member of the Investment Appraisal Committee

Mr. Zhou, aged 43, is an executive Director of the Company and was appointed on 5 July 2010. He is a member of the Investment Appraisal Committee of the Company. Mr. Zhou is an executive director and a deputy chief executive officer of SIHL. He has been a director of SUD since 9 July 2007. He is also a vice president of SIIC and the chairman of Shanghai Galaxy Investment Co., Ltd., Shanghai Hu-Ning Expressway (Shanghai Section) Co., Ltd., Shanghai Luqiao Development Co., Ltd., Shanghai Industrial Management (Shanghai) Limited, United Run Tong Water Company Limited and Shanghai Shen-Yu Development Co., Ltd., and the executive director and vice chairman of SIIC Environment Holdings Ltd. (a company listed on the Singapore Stock Exchange with a stock code of 5GB). He is an independent non-executive director of Zhejiang Expressway Co., Ltd. (stock code: 0576). He graduated from Nanjing University with a bachelor's degree in 1991 and from Fudan University with a master's degree in economics (international finance) in 1994. He worked for Guotai Securities Co., Ltd. (now Guotai Junan Securities Co.) before joining SIIC in April 1996. He held the positions of a deputy general manager of SIIC Real Estate Holdings (Shanghai) Co., Ltd., deputy general manager of Shanghai United Industrial Co., Ltd. (now Shanghai Pharmaceutical Co., Ltd.) and general manager of the strategic department of SIIC. Mr. Zhou has nearly 20 years of professional experience in securities, finance, real estate and project planning.

Mr. Yang Jianwei, Executive Director (Appointed on 22 March 2013)
Mr. Yang, aged 41, was appointed as an executive Director of the Company on 22 March 2013. He was appointed as an Assistant CEO of SIHL in October 2009. He graduated from Huazhong University of Science and Technology and Shanghai Jiaotong University with a bachelor's degree of engineering, master's degree of management engineering and doctor's degree in management. He worked for China National Nonferrous Materials Co., Ltd. and Hong Yuan Securities Co., Ltd. Mr. Yang joined SIIC in June 2004, and was assistant general manager of Shanghai Galaxy Investment Co., Ltd., assistant general manager of the board of directors' office and secretary to chairman of SIIC. He has more than 10 years' experience of financial investment, securities research, investment banking and project planning.

Mr. Yang Biao, Executive Director
Mr. Yang, aged 49, is an executive Director of the Company and was appointed on 5 July 2010. He is based in the Group's office in Shanghai. Mr. Yang is responsible for overseeing various property development projects of the Group. He takes part in the management's project selection process, project positioning and planning and setting sales and marketing strategies for individual projects. Further, Mr. Yang oversees the execution of the Group's projects and ensures that the development progress of the projects is carried out in accordance with the approved plans. He is also responsible for public relations (including maintaining relationship with various government authorities) in his day-to-day management of the Group. He is the legal representative of a number of the Group's project companies, including 成都中新錦泰房地產開發有限公司 (Chengdu Zhongxin Jintai Real Estate Development Co., Ltd.) and 重慶中華企業房地產發展有限公司 (Chongqing Chinese Enterprises Real Estate Development Co., Ltd.), and a director of 湖南淺水灣湘雅溫泉花園有限公司 (Hunan Qianshuiwan Xiangya Garden Co., Ltd.). Mr. Yang has been a director of SUD since 18 July 2007. He is also the vice-chairman of SUD. Since he joined SUD, he has participated in the development of various projects, such as Urban Cradle, Ivy Aroma Town and Toscana. He was also a director of SUD Chongqing Depu and Changsha Chengpu in 2008. Mr. Yang taught at Shanghai Normal University from July 1986 to March 2000. He was a deputy director of the Audit Bureau of Xuhui District in Shanghai from March 2000 to September 2005 and a director of the Xuhui District State-owned Assets Administrative Committee with primary responsibilities in the decision making and operation of its property investment from September 2005 to June 2010. He also participated in the decision making and operation of other property development project companies under the Xuhui District State-owned Assets Administrative Committee, including 上海匯城集團 (Shanghai Huicheng Group) and 上海徐房(集團)有限公司 (Shanghai Xufang (Group) Co., Ltd.) in 2006. He was the deputy municipal secretary of the Xinjiang Aksu from July 2002 to July 2005. He has over five years of experience in real estate and he also has extensive experience in general management and finance and accounting. He is a qualified auditor.

Mr. Chen Anmin, Executive Director and Executive Vice President (Resigned on 22 March 2013)
Mr. Chen, aged 62, is an executive Director and was appointed on 5 July 2010. He is also the executive vice president of the Group. He is mainly responsible for the Group's overall financial and auditing affairs, including the Group's financial reporting, budgeting, financial planning and financial compliance. Mr. Chen has been a director of SUD since 18 July 2007 and he is an executive vice president of SUD. He is a director of China Haisum Engineering Co., Ltd. (a company listed in the Shenzhen Stock Exchange with a stock code of 2116). He was the vice general manager of Shanghai Cement Group and a director of Ningbo Fubang Precision Industry Group Stock Co., Ltd. (a company listed on the Shanghai Stock Exchange with a stock code of 600768). He was also the factory director of Shanghai Yaohua Glass Factory. He has over 30 years of experience in the construction and property development industry.

Ms. Huang Fei, Executive Director and Vice President (Appointed on 22 March 2013)

Ms. Huang, aged 48, was appointed as an executive Director of the Company on 22 March 2013. She is also the Vice President of the Company. She was awarded a master's degree in business administration and European integration by Technische Universität Dresden in 2003. She was the league secretary of the Third Tramway Company of the Public Transport Corporation in Shanghai, the chairman of the labour union of Xuhui Urban Construction Corporation, the manager of sales division of SUD, the general manager of Shanghai Urban Development (Group) Real Property Agent Company prior to her employment with the Group. She is currently a vice-president of SUD and deputy general manager (routine) of Shanghai Wan Yuan.

Mr. Ye Weiqi, Executive Director, Vice President, Members of the Remuneration Committee and the Investment Appraisal Committee (Appointed on 22 March 2013)

Mr. Ye, is aged 49, was appointed as an executive Director of the Company on 22 March 2013. He is also Vice President of the Company. He is the member of the Remuneration Committee and the Investment Appraisal Committee of the Company. Mr. Ye has a master's degree in business administration from EIPOS Europäisches Institut für postgraduate Bildung an der Technischen Universität Dresden in 2002. He was the finance manager of finance department of Shanghai Far East Aviation Technology Import and Export Company, the manager of budget finance department of Shanghai Great World Plaza Company Limited, the deputy manager of budget finance department Shanghai Great World (Group) Company prior to his employment with the Group. He was also the director of the auditing office, manager of investment and development department and assistant to the general manager of SUD. He is currently the vice president of SUD and general manager of Shanghai Huanyu Investment Co., Ltd. He is a director of Ningbo Fubang Precision Industry Group Stock Co., Ltd. (a company listed on the Shanghai Stock Exchange with a stock code of 600768).

Independent Non-executive Directors

Mr. Doo Wai-Hoi, William, J.P., Independent Non-executive Director, Chairman of the Remuneration Committee and Member of the Audit Committee

Mr. Doo, aged 68, was appointed as an independent non-executive Director on 5 July 2010. He is the Chairman of the Remuneration Committee and the member of the Audit Committee of the Company. Mr. Doo is the Chairman of Fung Seng Enterprises Limited and the director of New World Hotels (Holdings) Limited. Since 1995 he has been serving as a Governor of the Canadian Chamber of Commerce in Hong Kong. From 2008 to January 2013, he has served as the Standing Committee Member as well as the Convener of the Hong Kong and Macau members for the 11th Chinese People's Political Consultative Conference (CPPCC) in Shanghai. In February 2013, he is appointed as a National Committee Member of the 12th CPPCC. Mr. Doo is the Honorary Consul General of the Kingdom of Morocco in Hong Kong and Macau. In 2008, he was awarded the Chevalier de la Légion d' Honneur by the French government. He is also a director of the following publicly listed companies:

Listed Company	Role
Hong Kong main board listed companies	
• New World China Land Limited (stock code: 917)	Non-executive director and the vice-chairman
• NWS Holdings Limited (stock code: 659)	Non-executive director and the deputy chairman
• Lifestyle International Holdings Limited (stock code: 1212)	Executive director
• The Bank of East Asia, Limited (stock code: 23)	Independent non-executive director

Dr. Wong Ying Ho, Kennedy, BBS, J.P., Independent Non-executive Director, Chairman of the Nomination Committee and Member of the Audit Committee

Dr. Wong, aged 50, is an independent non-executive Director. He was appointed on 5 July 2010. He is the Chairman of the Nomination Committee and a member of the Audit Committee of the Company. He is a solicitor, a China Appointed Attesting Officer and a director of the China Law Society. He obtained his honorary doctorate in Civil Law from the University of Kent in 2007. He is the managing partner of Philip K.H. Wong, Kennedy Y.H. Wong & Co., Solicitors & Notaries. He is a director of Bohai Industrial Investment Fund Management Company Limited and Hong Kong Airlines Limited. Dr. Wong is a National Committee Member of the Chinese People's Political Consultative Conference. He is also a member of the Election Committee of Hong Kong which is responsible for the election of Hong Kong's Chief Executive and a deputy convener of the New Century Forum. He is also a co-founder of the Hong Kong Legal Forum. Dr. Wong served on Hong Kong's legislature from 1996 to 1998 and was selected as one of the Ten Outstanding Young Persons of Hong Kong awarded by Junior Chamber International Hong Kong (formerly known as Hong Kong Junior Chamber) in 1998. He was also one of the recipients of the Ten Outstanding Young Persons of the World awards awarded by the Junior Chamber International in 2003. Dr. Wong has over seven years of experience in the property industry. He is a director of the following listed companies:

Listed Company	Role
Hong Kong main board listed companies	
• Hong Kong Resources Holdings Company Limited (stock code: 2882)	Chairman, executive director, members of the remuneration committee and the nomination committee
• Asia Cement (China) Holdings Corporation (stock code: 743)	Independent non-executive director, chairman of the remuneration committee, members of the audit committee, the nomination committee and the independence committee
• China Overseas Land & Investment Limited (stock code: 688)	Independent non-executive director, chairman of the remuneration committee, members of the audit committee and the nomination committee
• Goldlion Holdings Limited (stock code: 533)	Non-executive director and deputy chairman of the audit committee

Dr. Wong was also an non-executive director of International Financial Network Holdings Limited (now known as "First China Financial Network Holdings Limited") (stock code: 8123) until 11 July 2008 and Qin Jia Yuan Media Services Company Limited (stock code: 2366) until 29 November 2010; and an independent non-executive director of Great Wall Technology Company Limited (stock code: 74) until 18 June 2010, Director of Pacific Alliance Asia Opportunity Fund Limited (AIM: PAX) until 31 December 2011.

In or around June/July 2011, Dr. Wong was requested by the Independent Commission Against Corruption to assist them in investigations in relation to the acquisition of shares in Ocean Grand Chemicals Holdings Limited, which has been since renamed as Hong Kong Resources Holdings Company Limited (stock code: 2882). Dr. Wong acquired interest in Hong Kong Resources Holdings Company Limited during its restructuring in October 2008. As announced by Hong Kong Resources Holdings Company Limited ("HKRH") on 13 July 2011, the board of HKRH received confirmation that the investigations were initiated against Dr. Wong and another person in their own personal capacity, and no charges had been laid by the Independent Commission Against Corruption ("ICAC") against Dr. Wong. As further announced by HKRH on 21 February 2012, Dr. Wong has been requested by ICAC to assist in the investigations which are essentially an extension of the aforesaid investigation conducted by ICAC in July 2011.

Mr. Fan Ren Da, Anthony, Independent Non-executive Director, Chairman of the Investment Appraisal Committee and Members of the Audit Committee, Remuneration Committee and Nomination Committee
Mr. Fan, aged 52, joined in 5 July 2010 as an independent non-executive director of the Company. He is the member of all of the Audit, Remuneration and Nomination committees of the Company; and also the chairman of the Investment Appraisal Committee of the Company. He has over three years of experience in the property industry. Mr. Fan holds a Master's Degree in Business Administration from the United States of America. He is the chairman and managing director of AsiaLink Capital Limited. He is a director of the following listed companies:

Listed Company	Role
Hong Kong main board listed companies	
• Technovator International Limited (stock code: 1206)	Independent non-executive director
• Raymond Industrial Ltd. (stock code: 229)	Independent non-executive director
• Uni–President China Holdings Ltd. (stock code: 220)	Independent non-executive director
• Renhe Commercial Holdings Company Limited (stock code: 1387)	Independent non-executive director
• Tenfu (Cayman) Holdings Company Limited (stock code: 6868)	Independent non-executive director
• CITIC Resources Holdings Ltd. (stock code: 1205)	Independent non-executive director
• Guodian Technology & Environment Group Corporation Limited (stock code: 1296)	Independent non-executive director
• Hong Kong Resources Holdings Company Limited (stock code: 2882)	Independent non-executive director
• China Development Bank International Investment Limited (Formerly known as "New Capital International Investment Limited") (stock code :1062)	Independent Non-executive director

In June 2011, he resigned as an independent non-executive director of Chinney Alliance Group Limited (Stock Code: 385) listed on the Main Board of the Stock Exchange.

He resigned as Independent Director of 深圳世聯地產顧問股份有限公司, a company listed in Shenzhen Stock Exchange with Stock Code: 002285, with effect from 12 July 2012.

Mr. Li Ka Fai, David, Independent Non-executive Director and Chairman of the Audit Committee

Mr. Li, aged 58, is an independent non-executive Director. He was appointed on 5 July 2010. He is the chairman of the Audit Committee of the Company. He is currently the deputy managing partner of Li, Tang, Chen & Co. CPA (Practising). He is also a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of The Association of Chartered Certified Accountants, United Kingdom as well as a fellow of The Institute of Chartered Secretaries and Administrators, United Kingdom and an associate member of The Institute of Chartered Accountants in England and Wales. He is the advisor and former independent director and chairman of the audit committee of China Vanke Co., Ltd. (a company listed on the Shenzhen Stock Exchange with a stock code of 000002). Mr. Li has over six years of experience in the property industry. He is an independent non-executive director of the following listed companies:

Listed Company	Role
Hong Kong main board listed companies	
• Goldlion Holdings Limited (stock code: 533)	Independent non-executive director, chairman of the audit committee and members of the remuneration committee and the nomination committee
• China-Hongkong Photo Products Holdings Limited (stock code: 1123)	Independent non-executive director and chairman of the audit committee
• Cosmopolitan International Holdings Limited (stock code: 120)	Independent non-executive director and chairman of the audit committee and member of the remuneration committee
• AVIC International Holding (HK) Limited (formerly known as CATIC International Holdings Limited) (stock code: 232)	Independent non-executive director, members of the remuneration committee and audit committee
• China Merchants Holdings (International) Company Limited (stock code: 144)	Independent non-executive director, chairman of the remuneration committee and member of the audit committee

Senior Management

Mr. Zhong Tao
Vice President
Mr. Zhong, aged 40, is the vice president of the Company. Mr. Zhong obtained a master's degree in business management from Shanghai Fudan University in 1998. He was a project manager of Shanghai Industrial Real Property Group (Shanghai) Company Limited, an assistant to the general manager of Shanghai Xinghe Digital Investment Company Limited, and the chief planning officer of Shanghai Industrial Management (Shanghai) Company Limited prior to his employment with the Group. He is also currently the vice president of SUD.

Mr. Li Bin
Vice President
Mr. Li, aged 39, is a vice president of the Company. He was a director of company secretary and information office in Shanghai Xujiahui Commercial Company Limited and the chief of secretary department in Shanghai Xuhui District Committee Office. Mr. Li received a master's degree in Economics from Shanghai University of Finance and Economics in 2002.

Ms. Zhou Yan
Vice President
Ms. Zhou, aged 46, is a vice president of the Company. She was an executive Director of Shanghai Zendai Property Limited (Stock Code: 755). She received a bachelor's degree in arts from the School of Literature of Shanghai University (a branch of the Fudan University), and a master's degree in business studies from Massey University of New Zealand in 2000. Ms. Zhou has more than 20 years of experience in the real estate industry in the PRC.

Mr. Chan Kin Chu, Harry
Company Secretary
Mr. Chan, aged 43, has been the company secretary of the Company since 1 June 2011. Mr. Chan graduated from The University of Hong Kong with a bachelor of laws degree. He also obtained a master of laws degree from The University of London, U.K. and a bachelor of laws degree from Tsinghua University, the PRC. He was admitted to the High Court of Hong Kong Special Administrative Region as a solicitor. Mr. Chan has over ten years of working experience in legal, compliance and corporate governance matters. Before joining the Group, Mr. Chan worked for a sizable property developer as in-house counsel.

Corporate Governance Report

Corporate Governance Code and Corporate Governance Practices

The Board strives to attain and maintain high standards of corporate governance to enhance shareholders' value and safeguard shareholders' interests.

The Company recognises the importance of high standards of corporate governance to sustain healthy growth and has taken a proactive approach in strengthening corporate governance practices in accordance with the needs of its business.

During the year ended 31 December 2012, the Company has complied with the provisions as set out in the Code as set out in Appendix 14 of the Listing Rules except for the deviations as described below:

Provisions A.2.1 of the Code

Mr. Ni Jianda, the then President of the Company, had taken up the office of the Chairman of the Board upon retirement of Mr. Cai Yu Tian, the then Chairman of the Company from 24 April 2012 until 27 April 2012 when Mr. Ji Gang was appointed as an Executive Director, Vice Chairman and the President of the Company and by then, the Company has complied with the said code provision A.2.1.

Provision A.6.7 and E.1.2 of the Code

Dr. Wong Ying Ho, Kennedy, an Independent Non-Executive Director and the Chairman of the Nomination Committee of the Company, was unable to attend the annual general meeting and special general meeting of the Company both held on Friday, 18 May 2012 as he had overseas engagements.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the Code and align with the latest developments.

Board of Directors

The Board is collectively responsible for formulating of the Group's overall strategy, reviewing and monitoring the business operations and performance of the Group, preparing and approving financial statements, considering and approving material contracts and transactions as well as other significant policy and financial matters. The Board also gives clear directions as to the powers delegated to senior management for the day-to-day operation and administrative functions of the Group.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring the Board procedures and all applicable rules and regulations are followed.

Upon making request to the Board, each Director is able to seek independent professional advice at the Company's expense, when necessary.

As at 31 December 2012, the Board comprised nine members*, including five executive Directors and four independent non-executive Directors. At least one of the independent non-executive directors has relevant financial management expertise required by the Listing Rules. The brief biographical details of each Director are set out in the section headed "Biographical Details of Directors and Senior Management" in pages 53 to 61 of this report. The Board reviews regularly its composition to ensure a balance of skills and experience appropriate for the requirements of the business of the Company.

In accordance with the Bye-laws of the Company, the Board is empowered to appoint any person as a Director either to fill a casual vacancy on the Board or, subject to authorisation by the members at the general meeting, as an additional member of the Board. Any Director so appointed by the Board shall hold office only until the first general meeting of the Company after his/her appointment and shall then be eligible for re-election at that meeting. Moreover, at each annual general meeting one-third of the Directors for the time being (or, if the number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director (including those appointed for a specific term but excluding those holding office as the Chairman of the Board or the Managing Director or the chief executive of the Company) shall be subject to rotation at least once every three years. Every Director holding the office of chairman or managing director shall be subject to re-election at least once every three years. All four Independent non-executive Directors were appointed for a specific term of 3 years but subject to retirement by rotation as aforesaid.

The Company has arranged appropriate insurance coverage for Directors' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

* Mr. Yang Jianwei, Ms. Huang Fei and Mr. Ye Weiqi were appointed as executive Directors of the Company with effect from 22 March 2013. Mr. Chen Anmin resigned as executive Director of the Company with effect from 22 March 2013. As at the date of this report, the Board comprised eleven members including seven executive Directors and four independent non-executive Directors.

The Chairman and the President

Mr. Ni Jianda had taken up the office of the Chairman of the Board upon retirement of Mr. Cai Yu Tian, the then Chairman of the Company from 24 April 2012. Mr. Ji Gang had taken up the office of President of the Company upon the resignation of Mr. Ni Jianda from 27 April 2012. The roles of the Chairman and the President are two distinctively separate positions. The Chairman is responsible for providing leadership for the Board and ensuring that the Board works effectively. The President, who also assumes the responsibility of the Chief Executive Officer, is responsible for the Group's daily operations, overall business development and management.

Meeting between the Chairman and Independent Non-executive Directors

There was one meeting between the Chairman and Independent Non-executive Directors hold, without presence of the executive Directors of the Company for the year ended 31 December 2012 pursuant to the provision A.2.7 of the Code. The provision requires that, without the presence of the executive directors of the Company, the Chairman needs to have at least one meeting with non-executive directors including independent non-executive directors each year.

Responsibilities of Directors

Each Director shall from time to time have knowledge of his/her responsibilities as Director of the Company, as well as the operation, business activities and development of the Company and shall ensure that sufficient time and effort will be put to deal with the Company's affairs. The Company offers induction materials to each Director on the first occasion of his appointment as well as necessary information and training during his/her term of appointment to ensure that he/she has appropriate knowledge of the Company's operation and business as well as the responsibility of director under applicable laws.

Training and Support for Directors

(A) Training

Pursuant to the Code, all Directors shall participate in the continuous professional development programme to develop and update their knowledge and skills so that they can contribute to the Board. As at the date of this report, the Company offered two appropriate training sessions for Directors. The training sessions were related to the Code, recent amendments to the Listing Rules, Internal Controls and site visiting. The Company has received from each of the Directors the individual training record of Directors pursuant to A.6.5 of the Code and time involved in public companies or organisations and description of other significant commitments pursuant to A.6.6 of the Code.

During the period from 1 April 2012 to 31 December 2012, the Directors participated in the following trainings:

	Attending (Note 1)
Executive Directors	
Mr. Cai Yu Tian [2]	N/A
Mr. Ni Jianda	✓
Mr. Ji Gang	✓
Mr. Qian Shizheng [2]	N/A
Mr. Zhou Jun	✓
Mr. Yang Biao	✓
Mr. Chen Anmin [2]	✓
Independent Non-Executive Directors	
Mr. Doo Wai-Hoi, William, J.P.	✓
Dr. Wong Ying Ho, Kennedy, BBS, J.P.	✓
Mr. Fan Ren Da, Anthony	✓
Mr. Li Ka Fai, David	✓

Notes:

(1) (a) seminar(s)/programme(s)/conference(s)/forums relevant to the business or directors' duties;

(b) reading newspaper, journals and updates relating to the economy, general business or directors' duties etc.; and

(c) company's visit.

(2) Mr. Cai Yu Tian, Mr. Qian Shizheng and Mr. Chen Anmin resigned as Executive Directors of the Company with effect from 24 April 2012, 27 April 2012 and 22 March 2013 respectively.

All the Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

(B) Support

The Company continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes, such as sent the latest version of "A Guide on Directors' Duties" published by the Hong Kong Companies Registry and guidelines published by The Hong Kong Institute of Directors, are issued to Directors and senior management where appropriate, to ensure awareness of best corporate governance practices.

Practices and Conduct of Meetings

Annual meeting schedules and agenda of each meeting are normally made available to the Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings and reasonable notice is generally given for other Board meetings. For committee meetings, notice is served in accordance with the required notice period stated in the relevant terms of reference.

Board papers together with all appropriate, complete and reliable information are sent to all Directors/committee members at least 3 days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management, the Chief Financial Officer or the Company Secretary will attend regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary/secretary of the committees is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are circulated to directors for comments within a reasonable period of time after each meeting and the executed copies are open for inspection by directors.

The Company's Bye-laws contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

The Model Code

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules of the Stock Exchange. The Company had made specific enquiry of all directors regarding any non-compliance with the Model Code during the year ended 31 December 2012, and each of them confirmed that he/she has complied with the required standards as set out in the Model Code and its code of conduct regarding directors' securities transactions.

Directors' Attendance Records

The attendance records of each director at the meetings of the Board, Audit Committee, Remuneration Committee, Nomination Committee and Investment Appraisal Committee during the year ended 31 December 2012 are set out below:

	Attendance/Number of Meetings				
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Investment Appraisal Committee**
Executive Directors					
Mr. Cai Yu Tian[1]	2/4				
Mr. Ni Jianda	4/4			2/2	
Mr. Ji Gang[2]	2/4				
Mr. Qian Shizheng[1]	2/4				
Mr. Zhou Jun	4/4				2/2
Mr. Chen Anmin[3]	4/4				
Mr. Yang Biao	4/4				
Mr. Jia Bowei[1]	0/4				
Independent Non-executive Directors					
Mr. Doo Wai-Hoi, William, J.P.	4/4	2/2	3/3		
Dr. Wong Ying Ho, Kennedy, BBS, J.P.	4/4	2/2		2/2	
Mr. Fan Ren Da, Anthony	4/4	2/2	3/3	2/2	2/2
Mr. Li Ka Fai, David	4/4	2/2			

Notes:

1. Mr. Jia Bowei, Mr. Cai Yu Tian and Mr. Qian Shizheng resigned as Executive Directors of the Company with effect from 1 March 2012, 24 April 2012 and 27 April 2012 respectively.

2. Mr. Ji Gang appointed as Executive Directors of the Company with effect from 27 April 2012.

3. Mr. Chen Anmin resigned as Executive Director of the Company with effect from 22 March 2013.

The Company has received the annual confirmation of independence from independent non-executive directors and the Company considers them independent.

Board Committees

The Board has established four Board Committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Appraisal Committee, for overseeing particular aspects of the Company's affairs. All the Board Committees should report to the Board on their decisions or recommendations made. The terms of reference of the Audit Committee, the Remuneration Committee, the Nomination Committee and Corporate Governance Functions have been published on the Company's website and the website of the Stock Exchange pursuant to the Code, which were approved by the Board meeting.

A. *Audit Committee*

The Audit Committee currently consists of four independent non-executive directors, namely Mr. Doo Wai-Hoi, William, Dr. Wong Ying Ho, Kennedy, Mr. Fan Ren Da, Anthony and Mr. Li Ka Fai, David (Chairman of the Committee).

The main responsibilities of the Audit Committee are:

1. to review the accounting principles and practices adopted by the Group;

2. to review the financial reporting process and internal control system of the Group; and

3. to review the independence and objectivity of the external auditors, the scope of audit services and related audit fees payable to the external auditors.

There were two Audit Committee meetings held for the year ended 31 December 2012. The Chairman of the Audit Committee, Mr. Li Ka Fai, David, possesses relevant financial management expertise and meets the requirements of Rule 3.21 of the Listing Rules.

During the year ended 31 December 2012, the Audit Committee reviewed the independence and objectivity of the external auditors, the scope of audit services and related audit fees payable to the external auditors for the Board's approval. The Audit Committee has reviewed with the management of the Company its internal control system; the accounting principles and practices adopted by the Group and the financial statements for the year ended 31 December 2012; the terms of reference for Audit Committee.

B. *Remuneration Committee*

The Remuneration Committee currently consists of two independent non-executive directors namely Mr. Doo Wai-Hoi, William (Chairman of the Committee), Mr. Fan Ren Da, Anthony and one executive Director namely Mr. Ye Weiqi (who was appointed executive Director of the Company with effect from 22 March 2013).

The major responsibilities of the Remuneration Committee are:

1. to make recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management;

2. to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management for submission to the Board for approval;

3. to review and approve above performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

4. to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office;

5. to review and approve compensation arrangements relating to dismissal or removal of directors; and

6. to ensure that no director or any of his associates is involved in deciding his own remuneration.

During the year ended 31 December 2012, three Remuneration Committee meetings were held to review the remuneration packages of all Directors and senior management of the Company; directors' services contract and the terms of reference for Remuneration Committee.

C. Nomination Committee

It currently consists of two independent non-executive directors of the Company, namely Dr. Wong Ying Ho, Kennedy (Chairman of the Committee), Mr. Fan Ren Da, Anthony; and one executive Director, Mr. Ni Jianda. The primary function of the Nomination Committee is to make recommendations to the Board on potential candidates to fill vacancies or additional appointment on the Board and senior management. All appointments of directors were nominated by the Nomination Committee based on considerations including vacancy available, competence and experience, possession of requisite skills and qualifications, independence and integrity.

During the year ended 31 December 2012, two Nomination Committee meetings were held. In the Nomination Committee meeting held in 2012, the following works, inter alia, were performed by the Nomination Committee:

(i) reviewed the structure, size and composition of the Board;

(ii) recommended to the Board the appointment of Mr. Li Bin and Ms. Zhou Yan as the Vice President of the Company;

(iii) recommended to Board the appointment of Mr. Ji Gang as the Vice Chairman, President and Executive Director;

(iv) addressed the independence of the independent Non-executive Directors;

(v) made recommendations to the Board on Procedures for Election of Directors and by Shareholders; and

(vi) reviewed and approved the terms of reference for Nomination Committee.

D. Investment Appraisal Committee

An investment appraisal committee currently consists of one independent non-executive Director, Mr. Fan Ren Da, Anthony, who is the chairman of the Investment Appraisal Committee; two executive Directors, Mr. Zhou Jun and Mr. Ye Weiqi (who was appointed as executive Director of the Company with effect from 22 March 2013).

The main responsibilities of the Investment Appraisal Committee are:

1. researches and advises on the long-term development strategy of the Company;

2. researches and advises on material investment projects of the Company;

3. researches and advises on material capital operation and asset operation projects of the Company;

4. researches and advises on material events which affect the development of the Company;

5. makes subsequent assessment on investment projects; and

6. reviews on the above matters.

During the year ended 31 December 2012, two Investment Appraisal Committee meetings were held to discuss and consider the following matters:

1. Proposed transaction; and

2. Disposal of the project company held by Leadway as to 70% of its interests. Such project company is the developer of Park Avenue project in Chengdu of the PRC. Park Avenue is a mixed development project of residential and commercial use in Chengdu of Sichuan Province of the PRC, as defined in the announcement of the Company dated 23 December 2012.

E. Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc. The primary duties are set out in the "Corporate Governance Functions: Terms of Reference of the Board" in the relevant section of "Corporate Governance" in the Company's website.

The main responsibilities of the Corporate Governance Functions are:

1. to consider and review the Company's corporate governance principles, practices and processes and make recommendations;

2. to propose changes necessary;

3. to review the Company's disclosure of its corporate governance program and compliance with each annual general meeting of the Company;

4. to review and monitor the Company's policies and practices;

5. to review internal corporate policies annually;

6. to review and monitor the training and continuous professional development of directors and senior management;

7. to develop, review and monitor the code of conduct and compliance manual; and

8. to review the Company's compliance with the Code and disclosure.

Company Secretary

The Company Secretary of the Company, is a full time employee of the Group and has day-to-day knowledge of the Company's affairs. During financial year, the Company Secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. According to the Rule 3.29 of the Listing Rules, the Company Secretary has taken no less than 15 hours of relevant professional training. The biographical details of the Company Secretary is set out on in the section entitles "Biographical Details of Directors and Senior Management" in the annual report.

Accountability

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Company and the Group and of the Group's results and cash flow for the period. In preparing the financial statements for the year ended 31 December 2012, appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants which are pertinent to its operations and relevant to the financial statements on the going concern basis were adopted. The Company has received acknowledgements from all Directors of their responsibilities for preparing the financial statements. It is the responsibility of the auditors to form an independent opinion, based on their audit, of these financial statements and to report their opinion to the members of the Company, as a body, and for no other purpose. The auditors do not assume responsibilities toward or accept liability to any other person for the contents of their report.

In accordance with the newly revised Corporate Governance Code, the management has provided monthly updates to the members of the Board on the fifth day of each month which include the performance, financial position and prospects of the Company, enabling them to perform their duties under the Listing Rules. After seeking the opinion of Audit Committee, the Company provides the directors with relevant reports each month.

Internal Controls

Anti-fraud policies and procedures

The Company adopted the internal policy for anti-fraud system and its specific contents, the areas of which include, but without limitation, the definition of fraud, the internal institution to be responsible for monitoring the system, the reporting, investigation and handling of complaints, and actions to be taken for substantiated cases.

Upon the adoption of the anti-fraud policies and procedures, the Board is pleased to announce that all areas of internal control weaknesses as indicated in the announcement of the Company dated 24 June 2010 have been remediated.

The Board has reviewed the effectiveness of the internal control system of the Group. The Company is always committed to maintaining a high standard of corporate governance and to continue strengthening the control systems of the Group in the interests of shareholders of the Company. To monitor the effectiveness of the internal controls systems, in addition to the internal audit function of the Group, if necessary, the Board will appoint an independent professional firm to conduct internal control reviews of selected areas of the Group.

External Auditor and Auditors' Remuneration

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 72 and 73.

During the year ended 31 December 2012, the remuneration paid to the Company's auditor, Deloitte Touche Tohmatsu, are set out below:

	HK$'000
For audit service	
– audit fee paid for the year ended 31 December 2012	4,515
– other audit-related services	1,399
For non-audit service	1,365

Communication with Shareholders and Investors

The Board recognizes the importance of quality communication with all shareholders. Extensive information on the Company's activities is provided in the annual and interim reports, which are despatched to shareholders. The Board will make use of the general meetings as a valuable platform to communicate with shareholders and answer their enquiries. Members of the Audit, Remuneration and Nomination Committees and the external auditor also attend the annual general meeting to answer questions from Shareholders. Details of some transactions undertaken by the Group are also disclosed in a timely manner to shareholders through announcements to facilitate shareholders' understanding of the Group's activities.

During the year, the Company has established the "Shareholders Communication Policy" which has been posted up in the Company's website in the relevant section of "Corporate Governance" for reference.

The Company continues to enhance communication with its investors since the change of controlling shareholders during mid-2010. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquires from investors are dealt with in an informative and timely manner.

In the previous year, the Group appointed senior management to meet analysts and fund managers to report on the latest development of the Company at appropriate times. Throughout the year, the Group joined 4 large investor conferences and 1 non-deal roadshow, had meetings with 65 individual investors, held 36 teleconferences, and arranged 17 project visits and a large visiting mission for investors in order to enhance their understanding of the Group's various projects. The Group met more than 188 investors during the year to let them better understand the potential investment value of the Group.

As a channel to promote effective communication, the Company maintains a website at www.siud.com, where up-to-date information including updates on the Company's business development and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong or via facsimile at (852) 2544 8004 for any inquiries. On the other hand, the Group also established an investor database in order to dispatch timely information to investors interested in the Group.

Shareholders' Rights

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors. For more details of election of individual directors, Shareholders can surf the details of "Procedures of Election of Directors by Shareholders" in the relevant section of "Corporate Governance" in the Company's website.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings at which voting is taken on a poll are contained in the Company's Bye-laws. Shareholders may request for convening a special general meeting and putting forward proposals at a general meeting pursuant to the Company's Bye-laws.

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company's principal place of business in Hong Kong.

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF
SHANGHAI INDUSTRIAL URBAN DEVELOPMENT GROUP LIMITED
上海實業城市開發集團有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Shanghai Industrial Urban Development Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 74 to 149, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

22 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000 (restated)
Revenue	5	**8,782,561**	4,433,476
Cost of sales		**(7,423,621)**	(3,307,014)
Gross profit		**1,358,940**	1,126,462
Other income	6(a)	**132,894**	182,192
Other expenses, gains and losses	6(b)	**(137,789)**	(100,857)
Gain (loss) on disposal of subsidiaries	41	**359,222**	(38,512)
Fair value changes on investment properties	14	**18,551**	453,791
Fair value gain on transfer of inventories to investment properties	14	**–**	152,212
Allowance for inventories		**(71,627)**	(56,675)
Distribution and selling expenses		**(157,936)**	(302,552)
General and administrative expenses		**(509,411)**	(576,264)
Finance costs	7	**(566,511)**	(673,058)
Share of losses of associates	18	**(4,721)**	(297)
Profit before tax		**421,612**	166,442
Income tax	9	**(388,301)**	(731,953)
Profit (loss) for the year	8	**33,311**	(565,511)
Other comprehensive income for the year			
Exchange differences on translation into presentation currency		**124,385**	640,383
Reclassification adjustment for realisation of revaluation gains transferred to profit or loss upon sale of completed properties held for sale		**(147)**	(562)
Other comprehensive income for the year		**124,238**	639,821
Total comprehensive income for the year		**157,549**	74,310
Profit (loss) for the year attributable to:			
Owners of the Company		**(190,166)**	(601,668)
Non-controlling interests		**223,477**	36,157
		33,311	(565,511)
Total comprehensive income attributable to:			
Owners of the Company		**(121,969)**	(276,588)
Non-controlling interests		**279,518**	350,898
		157,549	74,310
Loss per share			
Basic (HK cents)	13	**(3.95)**	(12.50)
Diluted (HK cents)	13	**(3.95)**	(12.50)

Consolidated Statement of Financial Position

At 31 December 2012

	NOTES	31.12.2012 HK$'000	31.12.2011 HK$'000 (restated)	1.1.2011 HK$'000 (restated)
Non-current assets				
Investment properties	14	**6,028,842**	6,168,963	5,221,079
Property, plant and equipment	15	**1,451,809**	1,182,210	897,194
Prepaid lease payments	16	**92,189**	94,031	90,378
Intangible assets	17	**63,433**	62,870	60,156
Interests in associates	18	**1,609,955**	1,588,071	357,667
Amount due from a related company	29	**–**	80,436	–
Amount due from an associate	19	**84,666**	83,915	80,292
Available-for-sale investments	20	**34,398**	37,761	34,951
Restricted and pledged bank deposits	21	**231,715**	121,619	125,760
Deferred tax assets	32	**212,488**	245,383	9,465
		9,809,495	9,665,259	6,876,942
Current assets				
Inventories	22	**36,308,151**	39,517,770	33,164,199
Trade and other receivables	23	**1,384,348**	830,921	2,210,864
Amounts due from related companies	29	**195,388**	123,969	114,579
Prepaid lease payments	16	**2,615**	2,545	2,498
Consideration receivables for disposal of assets	25	**–**	22,007	21,381
Prepaid income tax and land appreciation tax		**296,780**	359,527	482,212
Financial assets at fair value through profit or loss	24	**12,887**	14,638	12,640
Pledged bank deposits	21	**52,731**	24,521	36,590
Bank balances and cash	26	**5,249,524**	3,490,568	6,932,712
		43,502,424	44,386,466	42,977,675
Assets classified as held-for-sale	27	**301,593**	–	–
		43,804,017	44,386,466	42,977,675
Current liabilities				
Trade and other payables	28	**4,845,705**	4,398,642	3,188,136
Amounts due to related companies	29	**606,304**	700,300	709,307
Amounts due to associates	19	**85,688**	83,913	57,579
Consideration payables for acquisition of subsidiaries	30	**316,041**	387,200	350,262
Pre-sale proceeds received on sales of properties	31	**7,826,181**	9,378,864	9,831,780
Bank and other borrowings	33	**5,777,737**	4,805,875	5,120,536
Derivative financial instrument – warrants	35	**–**	3	16,600
Income tax and land appreciation tax payables		**2,061,572**	2,131,516	1,903,861
Dividend payable		**6,423**	6,423	6,423
Dividend payable to non-controlling shareholder		**416,293**	418,846	–
Convertible loan notes	34	**–**	–	2,607
		21,941,944	22,311,582	21,187,091
Net current assets		**21,862,073**	22,074,884	21,790,584
Total assets less current liabilities		**31,671,568**	31,740,143	28,667,526

	NOTES	31.12.2012 HK$'000	31.12.2011 HK$'000 (restated)	1.1.2011 HK$'000 (restated)
Non-current liabilities				
Bank and other borrowings	33	**6,288,433**	6,374,383	4,227,165
Senior notes	35	**3,048,911**	3,009,479	2,974,260
Deferred tax liabilities	32	**3,242,628**	3,384,589	3,009,594
		12,579,972	12,768,451	10,211,019
		19,091,596	18,971,692	18,456,507
Capital and reserves				
Share capital	36	**192,461**	192,461	105,173
Reserves		**11,969,732**	12,083,027	11,759,844
Equity contributable to owners of the Company		**12,162,193**	12,275,488	11,865,017
Non-controlling interests		**6,929,403**	6,696,204	6,591,490
		19,091,596	18,971,692	18,456,507

The consolidated financial statements on pages 74 to 149 were approved and authorised for issue by the Board of Directors on 22 March 2013 and are signed on its behalf by:

Ni Jianda
DIRECTOR

Ji Gang
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Convertible notes equity reserve HK$'000	Share options reserve HK$'000	Other revaluation reserve HK$'000 (note (a))	Statutory reserve HK$'000	Shareholder's contribution/ merger reserve HK$'000 (note (b))	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011 (as originally stated)	105,173	7,073,988	20	63,743	45,942	5,899	5,124,601	969,359	(932,230)	12,456,495	6,734,391	19,190,886
Effect of change in an accounting policy (see note 2)	–	–	–	–	–	–	(198,024)	(7,615)	(385,839)	(591,478)	(142,901)	(734,379)
At 1 January 2011 (as restated)	105,173	7,073,988	20	63,743	45,942	5,899	4,926,577	961,744	(1,318,069)	11,865,017	6,591,490	18,456,507
Loss for the year	–	–	–	–	–	–	–	–	(601,668)	(601,668)	36,157	(565,511)
Other comprehensive income (expense) for the year:												
Exchange differences on translation into presentation currency	–	–	–	–	–	–	–	325,642	–	325,642	314,741	640,383
Reclassification adjustment for realisation of revaluation gains transferred to profit or loss upon sales of completed properties held for sale	–	–	–	–	(562)	–	–	–	–	(562)	–	(562)
Total comprehensive income (expense) for the year	–	–	–	–	(562)	–	–	325,642	(601,668)	(276,588)	350,898	74,310
Issued of shares of acquisition of subsidiaries	87,288	3,251,465	–	–	–	–	(3,338,753)	–	–	–	–	–
Capital contribution from parent company (note (c))	–	–	–	–	–	–	493,029	–	–	493,029	–	493,029
Capital contribution by non-controlling interests (note (c))	–	–	–	–	–	–	–	–	–	–	342,613	342,613
Dividend to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(433,004)	(433,004)
Transfer	–	–	–	–	–	38,412	–	–	(38,412)	–	–	–
Acquisitions of additional interest in a subsidiary	–	–	–	–	8,895	–	–	1,015	–	9,910	(12,671)	(2,761)
Transfer to accumulated losses upon the redemption of convertible loan notes	–	–	(20)	–	–	–	–	–	20	–	–	–
Recognition of equity-settled share-based payments	–	–	–	40,998	–	–	–	–	–	40,998	–	40,998
Disposal of a subsidiary	–	–	–	–	–	–	143,122	–	–	143,122	(143,122)	–
Transfer to accumulated losses upon cancellation of share options	–	–	–	(11,720)	–	–	–	–	11,720	–	–	–
At 31 December 2011 (as restated)	192,461	10,325,453	–	93,021	54,275	44,311	2,223,975	1,288,401	(1,946,409)	12,275,488	6,696,204	18,971,692

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Convertible notes equity reserve HK$'000	Share options reserve HK$'000	Other revaluation reserve HK$'000 (note (a))	Statutory reserve HK$'000	Shareholder's contribution/ merger reserve HK$'000 (note (b))	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
(Loss) profit for the year	–	–	–	–	–	–	–	–	(190,166)	(190,166)	223,477	33,311
Other comprehensive income (expense) for the year:												
Exchange differences on translation into presentation currency	–	–	–	–	–	–	–	68,344	–	68,344	56,041	124,385
Reclassification adjustment for realisation of revaluation gains transferred to profit or loss upon sales of completed properties held for sale	–	–	–	–	(147)	–	–	–	–	(147)	–	(147)
Total comprehensive income (expense) for the year	–	–	–	–	(147)	–	–	68,344	(190,166)	(121,969)	279,518	157,549
Deregistration of subsidiaries	–	–	–	–	–	–	(9,406)	–	9,406	–	(6,023)	(6,023)
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(40,296)	(40,296)
Transfer	–	–	–	–	–	114,311	–	–	(114,311)	–	–	–
Recognition of equity-settled share-based payments	–	–	–	8,674	–	–	–	–	–	8,674	–	8,674
Transfer to accumulated losses upon cancellation of share options	–	–	–	(31,358)	–	–	–	–	31,358	–	–	–
At 31 December 2012	192,461	10,325,453	–	70,337	54,128	158,622	2,214,569	1,356,745	(2,210,122)	12,162,193	6,929,403	19,091,596

Notes:

(a) The other revaluation reserve comprises the difference between the fair value, net of deferred tax, and the carrying amount of additional interest in associates being acquired and become subsidiaries of the Company. This reserve will be recognised in profit and loss upon the earlier of the disposal of the subsidiaries or the disposal by the subsidiaries of the assets to which it relates.

(b) Merger reserve represents the difference in the fair value of the consideration paid to parent company, SIHL for the acquisition of subsidiaries controlled by SIHL and the acquired carrying amount of the subsidiaries at the date of the Group and the subsidiaries acquired became under common control.

(c) Capital contribution from parent company and non-controlling interests represents capital injection from SIHL and Xuhui SASAC of RMB409,500,000 (approximately HK$493,029,000) and RMB284,500,000 (approximately HK$342,613,000) respectively (based on their respective percentage of equity interest) to SUD as paid-in capital in April 2011.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	NOTE	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES			
Profit before tax		**421,612**	166,442
Adjustments for:			
Fair value changes on investment properties		**(18,551)**	(453,791)
Fair value gain on transfer of inventories to investment properties		**–**	(152,212)
Depreciation on property, plant and equipment		**76,858**	55,208
Amortisation of prepaid lease payments		**2,615**	2,545
(Gain) loss on disposal of property, plant and equipment		**(62)**	53
Finance costs		**566,511**	673,058
Interest income		**(40,105)**	(74,782)
Changes in fair values of derivative financial instruments		**(3)**	(16,597)
Changes in fair values of financial assets at fair value through profit or loss		**1,751**	(625)
Dividend income from available-for-sale investments		**–**	(1,580)
Loss on disposal of available-for-sale investments		**–**	41
Allowance for inventories		**71,627**	56,675
Impairment loss recognised on consideration receivables for disposal of assets		**22,007**	–
(Gain) loss on disposal of subsidiaries		**(359,222)**	38,512
Gain on disposal of an associate		**–**	(1,872)
Share of losses of associates		**4,721**	297
Transfer from equity on sales of completed properties held for sale		**(147)**	(562)
Equity-settled share-based payment expenses		**8,674**	40,998
Unrealised foreign exchange gain		**(39,665)**	(160,706)
Operating cash flows before movements in working capital		**718,621**	171,102
Decrease (increase) in inventories		**2,023,612**	(5,606,663)
Decrease in trade and other receivables		**42,494**	147,065
Increase in trade and other payables		**777,500**	1,486,917
Increase in amounts due to associates		**1,012**	23,184
Decrease in proceeds received on sales of properties		**(1,430,545)**	(875,675)
Cash from (used in) operations		**2,132,694**	(4,654,070)
PRC income tax paid		**(646,008)**	(345,267)
Net cash from (used in) operating activities		**1,486,686**	(4,999,337)

	NOTE	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES			
Proceeds from disposal of subsidiaries	41	**179,296**	281,467
Repayment from former subsidiary		**487,200**	–
Proceeds from disposal of interests in associates		**–**	5,527
Contribution to an associate		**(12,294)**	(1,201,084)
Repayment of advance to the vendor of an investment project in the PRC		**–**	445,515
Payments for purchases of property, plant and equipment and investment properties		**(115,359)**	(146,678)
Proceeds from disposal of investment properties		**187,047**	116,575
Proceeds from disposal of property, plant and equipment		**2,840**	965
(Increase) decrease in restricted and pledged bank deposits		**(136,046)**	22,989
Dividend income from associates		**–**	5,900
Dividend income received from available-for-sale investments		**–**	1,580
Refund of capital from available-for-sale investments		**3,659**	418
Interest received		**40,105**	74,782
Repayment of (payment for) advance to related companies		**15,640**	(82,690)
Purchase of available-for-sales investments		**–**	(1,663)
Repayment to non-controlling interests upon deregistration		**(6,023)**	–
Refund from land auction		**–**	812,844
Net cash from investing activities		**646,065**	336,447
FINANCING ACTIVITIES			
Proceeds from new bank and other borrowings		**8,794,109**	4,393,227
Capital contribution from parent company		**–**	493,029
Contribution from non-controlling interests		**–**	342,613
Repayments of bank and other borrowings		**(7,823,484)**	(2,905,911)
Payment for redemption of convertible loan notes		**–**	(2,714)
Acquisition of non-controlling interests		**–**	(2,761)
Repayment to related companies		**(98,011)**	(82,192)
Dividend paid to non-controlling interests		**(46,527)**	(35,216)
Interest paid		**(1,154,838)**	(1,151,964)
Payment for consideration payable for acquisition of subsidiaries		**(73,964)**	(24,082)
Net cash (used in) from financing activities		**(402,715)**	1,024,029
Net increase (decrease) in cash and cash equivalents		**1,730,036**	(3,638,861)
Cash and cash equivalents at the beginning of the year		**3,490,568**	6,932,712
Effect of foreign exchange rate changes		**28,920**	196,717
Cash and cash equivalents represented by bank balances and cash at the end of the year		**5,249,524**	3,490,568

1. General

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange. Its parent is SIHL and its ultimate holding company is SIIC (a private limited company also incorporated in Hong Kong). The addresses of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" in the annual report.

The principle activities of the Group are property development and property investment in the PRC.

The consolidated financial statements are presented in HK$ as the Company is listed on the Stock Exchange, and most of its investors are located in Hong Kong. The functional currency of the Company is RMB.

2. Application of New and Revised HKFRSs

In the current year, the Group has applied the following amendments to HKFRSs issued by HKICPA.

Amendments to HKAS 12	Deferred tax: Recovery of underlying assets;
Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets; and
Amendments to HKAS 1	As part of the annual improvements to HKFRSs 2009-2011 cycle issued in 2012

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 12 Deferred tax: Recovery of underlying assets

The Group has applied for the first time the amendments to HKAS 12 "Deferred tax: Recovery of underlying assets" in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property" are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property portfolios and concluded that certain of the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. For those investment properties, therefore, the directors have determined that the 'sale' presumption set out in the amendments to HKAS 12 is not rebutted.

As a result of the application of the amendments to HKAS 12, the Group has recognised deferred taxes on changes in fair value of those investment properties in the PRC that are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, which included the effect of land appreciation tax and enterprises income tax in the PRC upon sales of the properties. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use.

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group's deferred tax liabilities being increased by HK$734,379,000 as at 1 January 2011, with the corresponding credit being recognised in accumulated losses, merger reserve, exchange reserve and non-controlling interests respectively. Similarly, the deferred tax liabilities have been increased by HK$904,914,000 as at 31 December 2011.

2. Application of New and Revised HKFRSs (continued)

Amendments to HKAS 12 Deferred tax: Recovery of underlying assets (continued)

In addition, the application of the amendments has resulted in the Group's income tax expense for the year ended 31 December 2012 and 31 December 2011 being decreased by HK$91,288,000 and increased by HK$137,401,000 respectively and hence resulted in the profit for the year ended 31 December 2012 being increased by HK$91,288,000 and loss for the year ended 31 December 2011 being increased by HK$137,401,000. The application of the amendments also resulted in the Group's exchange reserve for the year ended 31 December 2012 being decreased by HK$3,482,000 and the Group's exchange reserve and non-controlling interests being decreased by HK$26,687,000 and HK$6,447,000 respectively for the year ended 31 December 2011.

Amendments to HKAS 1 Presentation of Financial Instruments
(as part of the Annual Improvements to HKFRS 2009–2011 Cycle issued in June 2012)

Various amendments to HKFRSs were issued in June 2012, the title of which is Annual Improvements to HKFRSs (2009-2011 Cycle). The effective date of these amendments is annual period beginning on or after 1 January 2013.

In current year, the Group has applied for the first time the amendments to HKAS 1 in advance of the effective date (annual periods beginning on or after 1 January 2013).

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

In the current year, the Group has applied the amendments to HKAS 12 "Deferred tax: Recovery of Underlying Assets" for the first time, which has resulted in a material effect on the information in the consolidated statement of financial position as at 1 January 2011. In accordance with the amendments to HKAS 1, the Group has therefore presented a third statement of financial position as at 1 January 2011 without the related notes.

Summary of the effects of the above changes in accounting policies

The effects of change in accounting policy described above on the results for the current and prior years by line items are as follows:

	Year ended 31.12.2012 HK$'000	Year ended 31.12.2011 HK$'000
(Decrease) increase in income tax expense	**(91,288)**	137,401
Increase in net profit (increase in net loss) for the year	**91,288**	(137,401)

2. Application of New and Revised HKFRSs (continued)

Summary of the effects of the above changes in accounting policies (continued)

The effects of the above change in accounting policy on the financial positions of the Group as at 1 January 2011 and 31 December 2011 is as follows:

	As at 1.1.2011 (originally stated) HK$'000	Adjustments HK$'000	As at 1.1.2011 (restated) HK$'000	As at 31.12.2011 (originally stated) HK$'000	Adjustments HK$'000	As at 31.12.2011 (restated) HK$'000
Deferred tax liabilities	(2,275,215)	(734,379)	(3,009,594)	(2,479,675)	(904,914)	(3,384,589)
Total effects on net assets	19,190,886	(734,379)	18,456,507	19,876,606	(904,914)	18,971,692
Total effects on equity	(19,190,886)	734,379	(18,456,507)	(19,876,606)	904,914	(18,971,692)

The effects of the above change in an accounting policy on the financial positions of the Group as at 31 December 2012 is as follows:

	As at 31.12.2012 HK$'000
Increase in deferred tax liabilities	**817,108**
Total effects on net assets	**(817,108)**
Total effects on equity	**(817,108)**

The effects of the above change in an accounting policy on the Group's basic and diluted loss per share for the current and prior year are as follows:

Impact on basic and diluted loss per share

	Impact on basic and diluted loss per share	
	Year ended 31.12.2012 HK cents	Year ended 31.12.2011 HK cents
Figures before adjustments	**(5.85)**	(9.93)
Adjustments arising from changes in the Group's accounting policies in relation to application of amendments to HKAS 12 in respect of deferred taxes on investment properties	**1.90**	(2.57)
Figures after adjustments	**(3.95)**	(12.50)

2. Application of New and Revised HKFRSs (continued)

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009–2011 cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: transition guidance[1]
Amendments to HKFRS 10 HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[2]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[1]

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

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2. Application of New and Revised HKFRSs (continued)

HKFRS 9 Financial instruments (continued)

- With regard to the financial liabilities that are designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to financial liabilities credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future will have impact on classification and measurement in respect of the Group's available-for-sale investments and financial assets at fair value through profit or loss but not on the Group's other financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements. HK (SIC) – Int 12 "Consolidation – Special purpose entities" will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in joint ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 "Jointly Controlled entities – Non-monetary contributions by venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

2. Application of New and Revised HKFRSs (continued)

New and revised standards on consolidation, joint arrangements, associates and disclosures (continued)

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time. These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact. However, based on the preliminary assessment, the directors do not anticipate the overall effect on the consolidated financial statements upon application of these five standards to be material.

HKFRS 13 Fair value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 “Financial instruments: Disclosures” will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of the HKFRS 13 may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 “Presentation of items of other comprehensive income” introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, statement of comprehensive income is renamed as a ‘statement of profit or loss and other comprehensive income’. In addition, the amendments to HKAS 1 require items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis the amendments do not charge the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Except for above, the directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the financial performance and financial position of the Group.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

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

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial instruments: Recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. Significant Accounting Policies (continued)

Merger Accounting for business combination involving entities under common control

Business combination involving entities under common control includes acquisition of subsidiaries/business controlled by SIHL.

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of previous reporting period or when they first came under common control, whichever is shorter.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements associates used for equity accounting purposes are prepared using uniform accounting policies as that of the Group for like transactions and events in similar circumstance. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. Significant Accounting Policies (continued)

Investments in associates (continued)

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of the interests in the associate that are not related to the Group.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Investment properties

Investment properties are properties held to earn rentals properties and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period for which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress described below) are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, (other than construction in progress) less their residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. Significant Accounting Policies (continued)

Property, plant and equipment (continued)

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at fair value at the acquisition date (which is regards as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimate useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Impairment of tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3. Significant Accounting Policies (continued)

Impairment of tangible and intangible assets (continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Properties held for sale and properties under development held for sale

Properties held for sale and properties under development held for sale are stated at the lower of cost and net realisable value on an individual basis. Cost comprises the acquisition cost and other direct costs attributable to such properties.

Others

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and the costs necessary to make the sale.

Transfer from inventories to investment properties carried at fair value

The Group transfers a property from inventories to investment property when there is a change of intention to hold the property to earn rentals or/and for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the commencement of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

3. Significant Accounting Policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at FVTPL, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from an associate and related companies, consideration receivables for disposal of assets, restricted and pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For the loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flow, discounted at the financial asset's original effective interest rate.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to related companies and associates, dividend payable, dividend payable to non-controlling shareholder, consideration payables for acquisition of subsidiaries, bank and other borrowings and senior notes are subsequently measured at amortised cost, using the effective interest method.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Convertible loan notes

Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised. Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. Significant Accounting Policies (continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. Significant Accounting Policies (continued)

Taxation (continued)

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax on deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. Significant Accounting Policies (continued)

Revenue recognition (continued)

Specifically, revenue from sale of properties in the ordinary course of business is recognised when the respective properties have been completed and delivered to the buyers. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

Revenue from hotel operations which includes room rental, food and beverage sales and other ancillary services is recognised when the services are rendered.

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

3. Significant Accounting Policies (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that period, in which case the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributable to the non-controlling interests as appropriate).

4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are 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.

Impairment of trade and other receivables

The Group estimates impairment losses for trade and other receivables, loan receivable, consideration receivable for disposal of assets and amount due from an associate resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the aging of the trade and other receivables balance, debtor credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the aggregate carrying amount of trade and other receivables and amounts due from an associate and related companies are HK$1,664,402,000 (2011: HK$1,119,241,000).

4. Key Sources of Estimation Uncertainty (continued)

PRC Land Appreciation Tax

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

The Group is subject to LAT in the PRC which has been included in income tax of the Group. However, the Group has not finalised its land appreciation tax returns with the tax authorities for certain of its property development projects. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made. As at 31 December 2012, the carrying amount of LAT payables is HK$1,228,956,000 (2011: HK$1,392,831,000).

Write-down of properties under development and properties held for sale

The Group's properties under development and properties held for sale are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the subject properties, the Group makes estimates of the selling prices, the costs of completion in case for properties under development, and the costs to be incurred in selling the properties based on prevailing market conditions.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in write-down of properties under development and completed properties held for sale. Such write-down requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying amount and write-down of properties in the periods in which such estimate is changed will be adjusted accordingly.

In addition, given the volatility of the PRC property market and the unique nature of individual properties, the actual outcomes in terms of costs and revenue may be higher or lower than estimated at the end of the reporting period. Any increase or decrease in the write-down of properties would affect profit or loss in future years. As at 31 December 2012, the carrying amount of properties under development and properties held for sales are HK$30,947,763,000 (2011: HK$35,244,688,000) and HK$5,352,500,000 (2011: HK$4,264,990,000) respectively with the allowance for inventories of HK$71,627,000 (2011: HK$56,675,000) recognized for the year.

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 profit or loss 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 typically divides 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 cost of each phase as a percentage of the total estimated cost of the entire project, or if the above is not practicable, the common costs are allocated to individual phases based on saleable area or estimated selling price.

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.

As at 31 December 2012, the carrying amount of properties under development and properties held for sales are HK$30,947,763,000 (2011: HK$35,244,688,000) and HK$5,352,500,000 (2011: HK$4,264,990,000), respectively.

4. Key Sources of Estimation Uncertainty (continued)

Impairment for property, plant and equipment

If circumstances indicate that the carrying amounts of property, plant and equipment may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised. The carrying amounts of property, plant and equipment are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the fair value less cost to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of selling price and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of selling price and the amount of operating costs. Changes in these estimates could have a significant impact on the carrying amount of the assets and could result in additional impairment charge or reversal of impairment in future periods. As at 31 December 2012, the carrying amount of property, plant and equipment is HK$1,451,809,000 (2011: HK$1,182,210,000).

Estimation of fair value of investment properties

The valuations of investment properties were arrived at by reference to comparable sales transactions available in the relevant market or by reference to net rental income allowing revisionary income potential prices for similar properties in the similar locations and conditions, where appropriate.

For investment properties that fair value is assessed by reference to comparable sales transaction, which mainly being those investment properties held for capital appreciation or currently without an existing lease contract, if the current prices in an active market for similar properties are not available for the purpose of estimation of fair value of investment properties, the Group considers information from a variety of sources, including:

(a) Current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) Recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

The carrying amount of investment properties at 31 December 2012 was approximately HK$6,028,842,000 (2011: HK$6,168,963,000). Notwithstanding that the management employs independent professionally qualified valuers to perform fair value assessments based on these assumptions, the fair value of these investment properties may be higher or lower depending on the future market conditions.

5. Revenue and Segment Information

Revenue represents the net amounts received and receivable for goods sold by the Group in the normal course of business to outside customers, net of sales related taxes for the year. The Group is engaged in the property development, property investment activities and hotel operation.

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of performance focuses only on revenue analysis. As no other discrete financial information is available for the assessment of different business activities, no segment information is presented other than entity-wide disclosures.

Entity-wide disclosures

Revenue from major business services

The following is an analysis of the Group's revenue from its major business services:

	2012 HK$'000	2011 HK$'000
Revenue from sale of properties	**8,373,434**	3,997,663
Rental income from leasing of properties	**236,471**	234,571
Property management service income	**84,066**	77,759
Revenue from hotel operations	**88,590**	123,483
	8,782,561	4,433,476

Geographical information

The Group's operations are located in the PRC. All revenue and non-current assets excluding financial instruments and deferred tax assets of the Group are generated from and located in the PRC. No revenue from a single customer or a group of customers under common control contributed 10% or more of the Group's revenue for the year ended 31 December 2012 and 2011.

6a. Other Income

	2012 HK$'000	2011 HK$'000
Government unconditional subsidies and compensation (note)	**36,882**	34,077
Interest income on bank deposits	**36,954**	63,092
Other interest income	**3,151**	11,690
Rental income from property, plant and equipment	**14,557**	14,644
Dividend income from available-for-sale investments	**–**	1,580
Others	**41,350**	57,109
	132,894	182,192

Note: For the year ended 31 December 2012, the balance mainly represents the compensation from the government in respect of recapture of a land which was included in properties under development. For the year ended 31 December 2011, the government subsidies mainly represented business and other taxes refund from local tax authorities.

6b. Other Expenses, Gains and Losses

	2012 HK$'000	2011 HK$'000
Exchange gain on senior notes	**26,951**	134,194
Exchange gain on interest on other borrowing from SIHL Finance Limited	**8,852**	44,070
Other net exchange gain (loss)	**3,862**	(17,558)
Gain on fair value change of derivative financial instrument	**3**	16,597
Change in fair value of financial assets at FVTPL	**(1,751)**	625
Loss on disposal of available-for-sale investments	**–**	(41)
Compensation to customers in respect of late delivery of properties	**(181,677)**	(132,832)
Impairment loss recognised on consideration receivables for disposal of assets (note 25)	**(22,007)**	–
Gain (loss) on disposal of property, plant and equipment	**62**	(53)
Cost associated with change in terms of senior notes	**–**	(42,102)
Costs associated with acquisition of subsidiaries	**–**	(58,856)
Settlement of litigation loss	**–**	(44,267)
Gain on disposal of an associate	**–**	1,872
Others	**27,916**	(2,506)
	(137,789)	(100,857)

7. Finance Costs

	2012 HK$'000	2011 HK$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	**765,246**	758,738
Bank and other borrowings not wholly repayable within five years	**37,632**	67,817
Convertible loan notes	**–**	107
Senior notes	**344,534**	339,419
Total borrowing costs	**1,147,412**	1,166,081
Less: amount capitalised under properties under development	**(580,901)**	(493,023)
	566,511	673,058

Borrowing costs capitalised during the year arising on the general borrowing pool are calculated by applying a capitalisation rate of 9.3% (2011: 10.9%) per annum to expenditure on qualifying assets.

8. Profit (Loss) for the Year

	2012 HK$'000	2011 HK$'000
Profit (loss) for the year has been arrived at after charging (crediting):		
Depreciation for property, plant and equipment	**82,311**	60,240
Less: depreciation capitalised into properties under development	**(5,453)**	(5,032)
	76,858	55,208
Amortisation of prepaid lease payments	**2,615**	2,545
Auditors' remuneration	**7,571**	5,601
Gross rental income from investment properties	**(236,471)**	(234,571)
Less: operating expenses	**10,424**	11,807
	(226,047)	(222,764)
Directors' remuneration (note 10)	**17,917**	46,927
Other staff costs		
Salaries, wages and other benefits	**156,019**	184,541
Retirement benefit scheme contributions	**23,974**	22,130
Equity-settled share-based payment expenses	**3,960**	15,765
Total staff costs	**201,870**	269,363
Less: staff costs capitalised into properties under development	**(65,469)**	(92,554)
	136,401	176,809
Cost of properties held for sale recognised as an expense	**7,180,426**	3,098,545
Cost of inventories for hotel operations recognised as an expense	**12,448**	17,694
Share of tax of associates (included in share of results of associates)	**1,122**	1,076

9. Income Tax

Taxation in the consolidated statement of comprehensive income represents:

	2012 HK$'000	2011 HK$'000 (restated)
Current tax:		
PRC EIT	**302,055**	400,262
PRC LAT	**447,817**	301,265
	749,872	701,527
(Over)under provision in prior years:		
PRC EIT (note)	**(161,631)**	23,589
PRC LAT (note)	**(64,587)**	–
	(226,218)	23,589
Deferred tax (note 32)	**(135,353)**	6,837
	388,301	731,953

Note: The Group recognised an overprovision of PRC EIT and LAT during the year ended 31 December 2012 upon completion of tax clearance procedures by certain PRC subsidiaries with their respective tax authorities.

Under the EIT Law and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Under the Provisional Regulations of LAT (《中華人民共和國土地增值稅暫行條例》) effective on 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT (《中華人民共和國土地增值稅暫行條例實施細則》) effective from 27 January 1995, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, being the proceeds of sales of properties less deductible expenditures including borrowing costs and property development expenditures in relation to the gains arising from sales of properties in the PRC effective from 1 January 2004, with an exemption provided for property sales of ordinary residential properties (普通標準住宅) if their appreciation values do not exceed 20% of the sum of the total deductible items.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands, the Group is not subject to any income tax in Bermuda and the British Virgin Islands in respect of the year ended 31 December 2012 (2011: nil).

9. Income Tax (continued)

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2012 HK$'000	2011 HK$'000 (restated)
Profit before tax	**421,612**	166,442
Tax at PRC EIT rate of 25%	**105,403**	41,611
Tax effect of share of losses of associates	**1,180**	74
Tax effect of expenses not deductible for tax purposes	**86,872**	48,753
Tax effect of income not taxable for tax purposes	**(99,811)**	(47,497)
Tax effect of tax losses not recognised	**241,932**	259,628
Utilisation of tax losses previously not recognised	**(7,482)**	(8,771)
Provision for LAT for the year	**447,817**	301,265
Overprovision of LAT in prior years	**(64,587)**	–
Tax effect of LAT deductible for PRC EIT	**(111,954)**	(75,316)
(Over)underprovision of EIT in prior years	**(161,631)**	23,589
Effect of different tax rates of subsidiaries operating in other jurisdictions	**43,801**	47,719
Deferred tax charge on dividend withholding tax	**–**	5,258
Deferred tax on LAT in respect of investment properties	**(91,288)**	137,401
Others	**(1,951)**	(1,761)
Tax charge for the year	**388,301**	731,953

10. Directors' And Chief Executive's Emoluments

The emoluments paid or payable to each of the 12 (2011: 11) directors (including the chief executive) were as follows:

For the year ended 31 December 2012

		Other emoluments				
	Fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive payments HK$'000	Retirement benefit scheme contributions HK$'000	Share-based payments HK$'000 (note i)	Total emoluments HK$'000
Executive directors:						
Mr. Cai Yu Tian (note ii)	–	–	–	–	–	–
Mr. Chen Anmin	–	2,500	–	–	1,000	3,500
Mr. Ji Gang (note iii)	–	1,644	–	–	–	1,644
Mr. Jia Bowei (note ii)	–	2,039	–	–	–	2,039
Mr. Ni Jianda (note iv)	–	3,000	–	–	1,142	4,142
Mr. Qian Shizheng (note ii)	–	–	–	–	–	–
Mr. Yang Biao	–	2,500	–	–	1,000	3,500
Mr. Zhou Jun	–	–	–	–	1,000	1,000
Independent non-executive directors:						
Mr. Doo Wai Hoi, William	380	–	–	–	143	523
Dr. Wong Ying Ho, Kennedy	380	–	–	–	143	523
Mr. Fan Ren Da, Anthony	380	–	–	–	143	523
Mr. Li Kai Fai, David	380	–	–	–	143	523
Total	1,520	11,683	–	–	4,714	17,917

10. Directors' And Chief Executive's Emoluments (continued)

For the year ended 31 December 2011

		Other emoluments				
	Fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive payments HK$'000 (note v)	Retirement benefit scheme contributions HK$'000	Share-based payments HK$'000 (note i)	Total emoluments HK$'000
Executive directors:						
Mr. Cai Yu Tian	–	–	–	–	4,055	4,055
Mr. Chen Anmin	–	4,170	1,540	–	3,154	8,864
Mr. Jia Bowei	–	2,874	–	–	3,154	6,028
Mr. Ni Jianda (note iv)	–	4,915	1,645	–	3,604	10,164
Mr. Qian Shizheng	–	–	–	–	3,154	3,154
Mr. Yang Biao	–	4,213	817	–	3,154	8,184
Mr. Zhou Jun	–	–	–	–	3,154	3,154
Independent non-executive directors:						
Mr. Doo Wai Hoi, William	380	–	–	–	451	831
Dr. Wong Ying Ho, Kennedy	380	–	–	–	451	831
Mr. Fan Ren Da, Anthony	380	–	–	–	451	831
Mr. Li Kai Fai, David	380	–	–	–	451	831
Total	1,520	16,172	4,002	–	25,233	46,927

Notes:

i. Share-based payments represent the fair value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment.

Details of share option granted to directors and other employees, including the principal terms and number of options granted, are set out in note 37.

ii. Mr. Jia Bowei, Mr. Cai Yu Tian and Mr. Qian Shizheng resigned on 1 March 2012, 24 April 2012 and 27 April 2012 respectively.

iii. Mr. Ji Gang was appointed on 27 April 2012.

iv. Mr. Ni Jianda was also the chief executive of the Company. After his relinquishment of the role of chief executive from 27 April 2012, Mr. Ji Gang became the chief executive. Their emolument disclosed above include those for services rendered by them as the chief executive.

v. The performance related incentive payment for the year ended 31 December 2011 was determined with reference to the performance of individuals and market trends.

During the years ended 31 December 2012 and 2011, no emoluments have been paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year (2011: nil).

11. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, for the year ended 31 December 2012, three (2011: three) were directors of the Company whose emoluments are included in the disclosures in note 10. The emoluments of the remaining two (2011: two) individual is as follows:

	2012 HK$'000	2011 HK$'000
Salaries and other benefits	**4,000**	9,944
Share-based payments	**1,713**	5,406
	5,713	15,350

Their emoluments were both within the following bands:

	2012 HK$'000	2011 HK$'000
HK$2,500,001 to HK$3,000,000	**2**	–
HK$7,500,001 to HK$8,000,000	**–**	2

12. Employee Retirement Benefits

The Group operates a MPF Scheme for those employees who are eligible to participate in the MPF Scheme in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the employee's relevant income to the MPF Scheme subject to a cap to monthly relevant income of HK$25,000 since 1 June 2012 (previously HK$20,000), which contribution is matched by employees.

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in the Retirement Schemes organised by the relevant local government authorities whereby the Group is required to make contributions to the Schemes at rates ranging from 18% to 22% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

The Group has no other obligation for the payment of post-retirement benefits beyond the contributions described above.

13. Loss Per Share

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2012 HK$'000	2011 HK$'000 (restated)
Losses		
Loss for the purpose of basic and diluted loss per share:		
Loss for the year attributable to owners of the Company	**(190,166)**	(601,668)

	2012 '000	2011 '000
Number of shares		
Number of ordinary shares for the purpose of basic and diluted loss per share	**4,811,523**	4,811,523

For the purpose of the calculating loss per share for the year ended 31 December 2011, 2,182,191,000 ordinary shares issued pursuant to the acquisition of SUD Group, which is accounted for using merger accounting, were included in the calculation of the number of shares from the date when the Group and SUD Group were under common control by SIHL, which is 24 June 2011.

The computation of diluted loss per share does not assume the exercise of the Company's options/warrants because the exercise price of those option/warrants was higher than the average market price for the years ended 31 December 2012 and 2011.

The computation of diluted loss per share for the year ended 31 December 2011 did not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in a decrease in loss per share for the year ended 31 December 2011.

14. Investment Properties

	2012 HK$'000	2011 HK$'000
FAIR VALUE		
At 1 January	**6,168,963**	5,221,079
Subsequent expenditures	**20,369**	4,975
Transfer from inventories	**257,836**	352,402
Fair value gain on investment properties	**18,551**	453,791
Reclassified as assets classified as held-for-sale (note 27)	**(301,593)**	–
Disposals	**(187,047)**	(116,575)
Exchange realignment	**51,763**	253,291
At 31 December	**6,028,842**	6,168,963

During the year ended 31 December 2012, inventories with carrying amount of approximately HK$257,836,000 (2011: HK$200,190,000) were transferred to investment properties as the management had changed the intended use of the properties upon entering into various operating leases with tenants. The properties were fair-valued by external valuers, DTZ, at the date of transfer by reference to net rental income allowing for reversionary income potential. No fair value gain (2011: HK$152,212,000) has been recognised directly in profit or loss.

The fair value of the Group's investment properties at 31 December 2012 have been arrived at on the basis of a valuation carried out on that date by DTZ, an independent qualified professional valuers not connected with the Group. DTZ is a member of the institute of valuer and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuations were arrived at by reference to comparable sales transactions available in the relevant market or by reference to net rental income allowing revisionary income potential prices for similar properties in the similar locations and conditions, where appropriate.

At 31 December 2012, the fair value of the investment properties reclassified as assets classified as held-for-sale is arrived at by reference to the selling price as stated in the sales and purchases agreements entered into with independent third parties during the year ended 31 December 2012.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

During the year, the Group disposed of certain investment properties, for cash proceeds of HK$187,047,000 (2011: HK$116,575,000).

The carrying value of investment properties shown above comprises:

	2012 HK$'000	2011 HK$'000
Land in PRC		
Medium-term lease	**6,028,842**	6,168,963

15. Property, Plant and Equipment

	Hotel buildings and improve-ments HK$'000	Hotel furniture and equipment HK$'000	Leasehold land and other buildings HK$'000	Plant and machinery HK$'000	Leasehold improve-ments HK$'000	Other furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST									
At 1 January 2011	525,320	81,517	9,725	10,395	28,674	51,338	89,036	301,411	1,097,416
Additions	536	527	–	–	10,443	16,274	6,267	107,656	141,703
Disposals	(75)	(7)	(9,927)	(3,123)	(4,208)	(1,530)	(6,967)	–	(25,837)
Disposal of subsidiaries	–	–	–	–	(1,804)	(840)	(1,573)	–	(4,217)
Transfer upon completion	81,970	–	–	–	–	–	–	(81,970)	–
Transfer from inventories	–	–	167,454	–	–	–	–	–	167,454
Exchange realignment	26,201	3,775	4,186	395	1,295	2,440	3,592	13,439	55,323
At 31 December 2011 and 1 January 2012	633,952	85,812	171,438	7,667	34,400	67,682	90,355	340,536	1,431,842
Additions	97	723	60,856	–	3,633	11,957	9,116	8,608	94,990
Disposals	(23)	(18)	–	–	(687)	(1,925)	(3,931)	–	(6,584)
Disposal of a subsidiary	–	–	–	–	–	(734)	(2,691)	–	(3,425)
Transfer from inventories	–	–	246,672	–	–	–	–	–	246,672
Exchange realignment	5,134	692	5,131	69	319	692	786	3,779	16,602
At 31 December 2012	639,160	87,209	484,097	7,736	37,665	77,672	93,635	352,923	1,780,097
DEPRECIATION									
At 1 January 2011	70,128	9,035	2,601	5,328	26,467	34,850	51,813	–	200,222
Provided for the year	27,476	8,681	1,317	298	2,293	8,921	11,254	–	60,240
Eliminated on disposals	(24)	(2)	(2,655)	(2,779)	(4,208)	(1,319)	(5,941)	–	(16,928)
Disposal of a subsidiary	–	–	–	–	(1,804)	(510)	(1,258)	–	(3,572)
Exchange realignment	4,028	598	69	181	1,062	1,539	2,193	–	9,670
At 31 December 2011 and 1 January 2012	101,608	18,312	1,332	3,028	23,810	43,481	58,061	–	249,632
Provided for the year	27,602	8,894	7,651	285	8,921	17,344	11,614	–	82,311
Eliminated on disposals	(5)	(16)	–	–	(177)	(1,323)	(2,287)	–	(3,808)
Disposal of subsidiaries	–	–	–	–	–	(552)	(2,319)	–	(2,871)
Exchange realignment	1,252	249	101	30	302	531	559	–	3,024
At 31 December 2012	130,457	27,439	9,084	3,343	32,856	59,481	65,628	–	328,288
CARRYING VALUES									
At 31 December 2012	508,703	59,770	475,013	4,393	4,809	18,191	28,007	352,923	1,451,809
At 31 December 2011	532,344	67,500	170,106	4,639	10,590	24,201	32,294	340,536	1,182,210

15. Property, Plant and Equipment (continued)

The above property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Hotel buildings and improvements	25 years
Hotel furniture and equipment	5–15 years
Leasehold land and other buildings	Over the lease term
Plant and machinery	5–20 years
Leasehold improvements	5 years
Other furniture and equipment	3–5 years
Motor vehicles	5–8 years

As at 31 December 2011, the Group has pledged interest in leasehold land held for own use under operating leases and hotel buildings and improvements to secure general banking facilities granted to the Group. During the year ended 31 December 2012, the pledge was released upon the settlement of relevant loan.

Except for the building of HK$230,234,000 (2011: HK$170,106,000) are erected on land in the PRC under long lease, the Group's remaining buildings are erected on land held under medium-term land use rights in the PRC.

16. Prepaid Lease Payments

	2012 HK$'000	2011 HK$'000
Medium-term leasehold land in PRC analysed for reporting purposes as:		
Current asset	**2,615**	2,545
Non-current asset	**92,189**	94,031
	94,804	96,576

17. Intangible Assets

	Trademark HK$'000
COST	
At 1 January 2011	60,156
Exchange realignment	2,714
At 31 December 2011 and 1 January 2012	62,870
Exchange realignment	563
At 31 December 2012	63,433

17. Intangible Assets (continued)

Intangible assets of the Group represent trademarks acquired, which have legal life of 10 years from September 2001 to September 2011 but are renewable upon expiry. During the year ended 31 December 2011, the trademarks were renewed for 10 years to September 2021. The directors of the Company are of the opinion that the Group would renew the trademark continuously and has the ability to do so at minimal cost. Various studies including product life cycle studies, market, competitive and environment trends, and brand extension opportunities have been performed by management of the Group, which supports that the trademarks have no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group. As a result, the trademarks are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely. The trademarks will not be amortised until their useful lives are determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that it may be impaired.

For the purpose of impairment testing, trademarks with definite useful life set out above has been allocated to the individual CGU. During the year ended 31 December 2012, management of the Group determines that there is no impairment (2011: nil) of the CGU containing trademarks by reference to the recoverable amount of CGU, which has been determined based on a value in use calculation.

18. Interests in Associates

	2012 **HK$'000**	2011 HK$'000
Unlisted shares, at cost less impairment loss recognised	**1,619,583**	1,592,881
Share of post-acquisition profits and other comprehensive income, net of dividends received	**(9,628)**	(4,810)
	1,609,955	1,588,071

18. Interests in Associates (continued)

The following list contains only the particulars of associates, which are unlisted corporates, in the opinion of the directors of the Company, which principally affected the results or assets of the Group:

Name of associate	Form of entity	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registration capital	Proportion of ownership interest				Principal activity
				Group's effective interest		Held by subsidiary		
				2012	2011	2012	2011	
天津市億嘉合置業有限公司 ("Tianjin Yijiahe") (note (a))	Limited company	The PRC	RMB38,000,000	**40%**	40%	**40%**	40%	Property development
上海城開房地產經紀有限公司	Sino-foreign joint venture	The PRC	RMB20,000,000	**28.9%**	28.9%	**49%**	49%	Provision of property agency services
上海城大水處理科技有限公司	Limited company	The PRC	RMB1,000,000	**14.8%**	14.8%	**25%**	25%	Provision of water sewage
上海莘天置業有限公司	Sino-foreign joint venture	The PRC	RMB2,850,000,000	**20.8%**	20.8%	**35%**	35%	Property development
上海東方低碳系統集成有限公司 ("Shanghai Assembly")	Limited company	The PRC	RMB40,000,000	**25%**	–	**25%**	–	Trading of energy-saving products

Notes:

(a) The Group agreed to pledge of the Group's shareholdings in Tianjin Yijiahe after the disposal in 2009 of 40% interest of Tianjin Yijiahe to Minmetals, the major shareholder of Tianjin Yijiahe in 2009, who owns 60% of the equity interest in Tianjin Yijiahe, as security for any possible breach of the responsibilities of the Group under the supplemental agreement in relation to the disposal. The main responsibilities of the Group are as follows:

(i) The Group is responsible for undertaking the preliminary development works of the property development project in respect of the piece of land (the "Land") situated at Tianjin Beichen Qu Yi Xing Bu Project (the "Project") including demolishment and re-settlement and obtaining planning approval and land clearance;

(ii) Minmetals is responsible for contributing a total amount of funds of RMB1,584,000,000 (equivalent to approximately HK$1,796,000,000) ("Minmetals' Contribution") for the demolishment and re-settlement expenses of the land lot nos. 7 and 8 with a gross construction area of 800,000 square meters of the Land, whilst the Group is responsible for payment of any excess amount of the actual amount of the demolishment and re-settlement expenses over Minmetals' Contribution; and

(iii) In the event that there is any change in the shareholding of the Project, the affected outgoing shareholder shall provide complete and full disclosure to the new shareholder of the Project of all relevant matters and legal documents, and agreed terms of co-operation among the parties with respect to the Project.

(b) Shanghai Assembly is newly set up in 2012.

18. Interests in Associates (continued)

The summarised financial information in respect of the Group's associates is set out below:

	2012 HK$'000	2011 HK$'000
Total assets	**5,658,836**	5,562,208
Total liabilities	**(1,990,563)**	(1,956,083)
Net assets	**3,668,273**	3,606,125
Group's share of net assets of associates	**1,287,517**	1,270,684
Add: land premium paid upon acquisition	**322,438**	317,387
	1,609,955	1,588,071

	2012 HK$'000	2011 HK$'000
Revenue	**47,217**	46,320
Loss for the year	**(9,521)**	(2,191)
Group's share of losses of associates for the year	**(4,721)**	(297)

19. Amounts Due From (to) Associates

The amount due from an associate is non-trade in nature, unsecured, interest free and repayable on demand. The directors of the Company consider that the amount will not be repaid within twelve months. Accordingly, the amount due from an associate is classified as non-current assets as at 31 December 2012 and 2011.

The amounts due to associates are trading in nature, unsecured, interest free and have an average credit period of 30 days.

20. Available-for-Sale Investments

	2012 HK$'000	2011 HK$'000
Unlisted equity securities	**34,398**	37,761

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

21. Restricted and Pledged Bank Deposits

Included in restricted bank deposits an amount of approximately HK$81,393,000 at 31 December 2012 (2011: HK$80,322,000) represent deposits under restriction for use by the Group as a result of a commercial court case of a non-controlling shareholder of a subsidiary and the bank deposits were frozen accordingly. The restricted bank deposits carry fixed interest at a rate of 0.5% per annum as at 31 December 2012 (2011: 0.5%). As the deposits are frozen and are not expected to be released within one year, the restricted deposits are classified as non-current.

The Group has entered into agreements with certain banks with respect to mortgage loans provided to the buyers of the Group's property units. The Group made deposits as security for the settlement of the mortgage instalments by the mortgagors under these agreements. Should the mortgagors fail to pay the mortgage instalments, the banks can draw down the security deposits up to the amount of outstanding mortgage instalments and demand the Group to pay the outstanding balance to the extent that the deposit balance is insufficient. These pledged bank deposits amounting to HK$25,944,000 at 31 December 2012 (2011: HK$41,297,000) will be released when the property title deeds are pledged to banks as security for respective mortgage loans, which generally take place within one year after the property title deeds are passed to the buyers. These restricted bank deposits carrying variable interest rate of 0.4% at 31 December 2012 (2011: 0.5%) per annum are not expected to be released within one year and the transfer of property title deed to banks usually take place after two to three years from the mortgage loans were drawn.

Pledged bank deposits represent deposits pledged to banks to secure general banking facilities granted to the Group. Deposits with maturity of less than six months amounting to HK$52,731,000 (2011: HK$24,521,000) are classified as current assets. Deposits with maturity of more than one year amounting to HK$124,378,000 (2011: nil) are classified as non-current assets. The pledged bank deposits carry interest at fixed interest rates ranging from 2.1% to 2.5% per annum (2011: 2.9% to 3.3% per annum). The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

22. Inventories

Inventories in the consolidated statement of financial position comprise:

	2012 HK$'000	2011 HK$'000
Property development		
Properties under development	**30,947,763**	35,244,688
Properties held for sale	**5,352,500**	4,264,990
	36,300,263	39,509,678
Hotel operations		
Food and beverage and others	**7,888**	8,092
	36,308,151	39,517,770

All of the properties under development and completed properties held for sale are located in the PRC.

At 31 December 2012, properties under development of approximately HK$2,719,827,000 (2011: HK$3,162,344,000) and properties held for sale of approximately HK$470,352,000 (2011: HK$433,601,000) were carried at net realisable value.

At 31 December 2012, property under development of HK$20,521,915,000 (2011: HK$16,520,602,000) are not expected to be realised within one year.

23. Trade and Other Receivables

	2012 HK$'000	2011 HK$'000
Trade receivables	**80,586**	35,718
Less: allowance for doubtful debts	**(829)**	(822)
	79,757	34,896
Other receivables	**291,172**	162,112
Advance payments to contractors	**23,960**	55,619
Amount due from a former subsidiary (note)	**628,726**	–
Sales commission deposits	**11,754**	105,208
Prepaid other taxes	**328,635**	438,655
Deposits and prepayments	**20,344**	34,431
	1,384,348	830,921

Note: The amount represents the amount due from Chengdu Zhongxin, the subsidiary disposed of during the year. Details of disposal are set out in note 41. The amount is interest-free, fully repayable by 30 June 2013 and secured by the shares of Leadway Pacific Limited, which holds 70% shareholding in Chengdu Zhongxin.

The Group allows an average credit period of 90 days to its corporate hotel customers and generally grants no credit period to property buyers and tenants. The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the date of billing at the end of the reporting period.

	2012 HK$'000	2011 HK$'000
Within 90 days	**77,057**	26,577
Within 91–180 days	**1,591**	475
Over 180 days	**1,109**	7,844
	79,757	34,896

Majority of the trade receivables that are neither past due nor impair has no default payment history.

Ageing of trade receivables which are past due but not impaired

	2012 HK$'000	2011 HK$'000
Within 91–180 days	**1,591**	475
Over 180 days	**1,109**	7,844
	2,700	8,319

Trade receivables that were past due but not provided for impairment loss relate to a number of independent customers. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

23. Trade and Other Receivables (continued)

Movement in the allowance of doubtful debts

	2012 HK$'000	2011 HK$'000
At 1 January	**822**	787
Exchange realignment	**7**	35
At 31 December	**829**	822

Included in allowance of doubtful debts are individually impairment trade receivables with an aggregate balance of HK$829,000 (2011: HK$822,000) which have been outstanding for more than 365 days.

24. Financial Assets at Fair Value Through Profit or Loss

	2012 HK$'000	2011 HK$'000
Investment held-for-trading		
Equity securities listed outside Hong Kong	**12,887**	14,638

The fair value measurement of the investments held-for-trading are derived from quoted prices (unadjusted) in active market for identical assets.

25. Consideration Receivables for Disposal of Assets

	2012 HK$'000	2011 HK$'000
Consideration receivables for disposal of:		
An investment property	**–**	22,007

The amount was unsecured, interest-free and overdue for more than two years. Based on management assessment, an impairment loss of HK$22,007,000 (2011: nil) was recognised during the year since the balance is considered not recoverable after taking procedures for collection repeatedly.

26. Bank Balances and Cash

Bank balances carry interest at market rates which range from 0.0% to 0.4% (2011: 0.0% to 0.5%) per annum.

27. Assets Classified as Held-for-Sale

	2012 HK$'000	2011 HK$'000
Assets classified as held-for-sale		
– Investment properties	**301,593**	–

As disclosed in note 14, the Group entered into sales and purchase agreements to dispose of certain investment properties to independent third parties. The properties will be delivered and the disposal is expected to be completed in next twelve months upon the conditions stated in the respective agreements are fulfilled.

28. Trade and Other Payables

	2012 HK$'000	2011 HK$'000
Trade payables	**1,204,283**	701,915
Accrued expenditure on properties under development	**2,115,834**	2,551,053
Amounts due to former shareholders of the Company's former subsidiaries (note (a))	**147,524**	146,408
Compensation payables to customers in respect of late delivery of properties	**135,958**	52,817
Deposit received for the disposal of investment properties	**188,912**	–
Receipts from customers for payment of expenses on their behalf	**99,280**	111,936
Interest payable	**230,359**	186,337
Accrued charges and other payables	**696,495**	632,076
Other taxes payables (note (b))	**27,060**	16,100
	4,845,705	4,398,642

Notes:

(a) The amounts are non-trade in nature, interest free and repayable on demand.

(b) Other taxes payables comprise urban real estate tax payable, city maintenance and construction tax payable and business tax payable.

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting period.

	2012 HK$'000	2011 HK$'000
Within 30 days	**386,014**	173,056
Within 31–180 days	**114,162**	103,807
Within 181–365 days	**480,932**	193,664
Over 365 days	**223,175**	231,388
	1,204,283	701,915

29. Amounts Due From (to) Related Companies

The Group had the following balances with related parties:

		2012 HK$'000	2011 HK$'000
Amounts due from related companies:			
– Xuhui SASAC and entities controlled by Xuhui SASAC	note (i)	**128,755**	122,681
– An entity controlled by a former controlling shareholder	note (ii)	**339**	336
– Non-controlling shareholders	note (iii)	**66,294**	81,388
		195,388	204,405
Analysed for reporting purpose as:			
Current assets		**195,388**	123,969
Non-current assets		**–**	80,436
		195,388	204,405
Amounts due to related companies:			
– Xuhui SASAC and entities controlled by Xuhui SASAC	note (iv)	**304,868**	359,289
– An entity controlled by a former controlling shareholder	note (ii)	**2,466**	2,466
– Non-controlling shareholders	note (iii)	**269,498**	235,849
– SIHL	note (v)	**29,472**	102,696
		606,304	700,300

Notes:

(i) Xuhui SASAC owns 41% equity interests in SUD and therefore a non-controlling shareholder of the Group. Xuhui SASAC is a government authority authorised by and established directly under the Shanghai Xuhui District People's Government for supervising and managing state-owned assets in the Xuhui District, the PRC.

The amounts due from Xuhui SASAC and entities controlled by Xuhui SASAC are unsecured. An amount of approximately HK$111,568,000 as at 31 December 2012 (2011: HK$110,578,000) represents loan advanced to an entity controlled by Xuhui SASAC through an entrusted loan agreement administrated by a bank, which carries fixed interest at 5.8% (2011: 5.8%) per annum, and is unsecured and repayable within one year. The remaining balances are unsecured, non-interest bearing and repayable on demand.

(ii) The entity is controlled by Mr. Li Song Xiao, the former controlling shareholder of the Company. Mr. Li Song Xiao was a substantial shareholder of the Company at 31 December 2010. The amount is unsecured, non-interest bearing and repayable on demand.

(iii) The amounts are due from (to) non-controlling shareholders of the Group. Included in the amounts due from non-controlling shareholders at 31 December 2012 of approximately HK$66,045,000 (2011: HK$80,436,000), which are non-trade in nature, unsecured, non-interest bearing and fully repayable on 7 July 2013 according to the agreement with the non-controlling shareholder. The remaining amounts are non-trade in nature, unsecured, non-interest bearing and repayable on demand.

(iv) The amounts due to Xuhui SASAC and entities controlled by Xuhui SASAC are unsecured. An amount of approximately HK$226,952,000 (2011: HK$206,298,000) included in the balances as at 31 December 2012 represents loan advanced from an entity controlled by Xuhui SASAC through an entrusted loan agreement administrated by a bank, which carries fixed interest at 5.8% per annum (2011: 5.8% per annum) and are repayable within one year. The remaining balances are unsecured, non-interest bearing and repayable on demand.

(v) The amount is unsecured, non-interest bearing and repayable on demand.

30. Consideration Payables for Acquisition of Subsidiaries

In November 2007, the Group entered into purchase agreements with independent third parties to acquire a 80% equity interest in Shenyang Xiangming, a company established in the PRC to carry out a property development project in Shenyang, the PRC, for a total cash consideration of approximately HK$609,800,000. At 31 December 2011, a consideration payable of HK$73,964,000 was not yet settled. The consideration payable was fully settled during the year ended 31 December 2012.

In November 2007, the Group entered into purchase agreements with independent third parties to acquire a 100% equity interest in Qizhou Island Movie Town, a company established in the PRC to carry out a property development project in Zhuhai, the PRC, for a total cash consideration of approximately HK$3,076,232,000. At 31 December 2012, a consideration payable of HK$159,324,000 (2011: HK$157,911,000) is not yet settled.

In December 2007, the Group entered into purchase agreements with independent third parties to acquire a 90% equity interest in Zhong Ou Cheng Kai, a company established in the PRC to carry out a property development project in Hebei Province, the PRC, for a total cash consideration of approximately HK$547,260,000. Zhong Ou Cheng Kai became a wholly-owned subsidiary of the Company in 2009. At 31 December 2012, a consideration payable of HK$82,090,000 (2011: HK$81,361,000) is not yet settled.

On 30 June 2008, the Group acquired 12% equity interest in Jun He Bai Nian, a company established in the PRC and engaged in property development in Beijing, the PRC, for a total consideration of RMB82,090,000 (equivalent to approximately HK$93,369,000). Prior to the acquisition, the Group held 43.95% interest in Jun He Bai Nian and this has been accounted for as interest in an associate. Jun He Bai Nian then became a 55.95% owned subsidiary of the Group subsequent to the acquisition. The Group has disposed of Jun He Bai Nian in 2009. At 31 December 2012, a consideration payable of HK$74,627,000 (2011: HK$73,964,000) is not yet settled.

The consideration payables are not yet paid due to certain conditions of the respective sales and purchase agreements are not yet fulfilled as at the end of the reporting period.

31. Pre-Sale Proceeds Received on Sales of Properties

Pre-sale proceeds received on sales of properties represent proceeds received on property unit sales that have not been recognised as revenue in accordance with the Group's revenue recognition policy. An amount of HK$2,228,196,000 (2011: HK$2,606,854,000) is expected to be recognised as revenue after more than one year.

32. Deferred Taxation

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Fair value adjustment on revaluation of inventories HK$'000	Revaluation of investment properties HK$'000	Fair value adjustment on hotel properties HK$'000	Convertible loan notes HK$'000	Accrued expenses HK$'000	LAT deferred tax HK$'000	Undistributed earnings of PRC entities HK$'000	Others HK$'000	Total HK$'000
At 1 January 2011 (as originally stated)	(1,114,070)	(882,400)	(20,312)	(5)	9,356	(222,380)	(60,128)	24,189	(2,265,750)
Effect of change in accounting policy (note 2)	–	(734,379)	–	–	–	–	–	–	(734,379)
At 1 January 2011 (restated)	(1,114,070)	(1,616,779)	(20,312)	(5)	9,356	(222,380)	(60,128)	24,189	(3,000,129)
Redemption of convertible loan notes	–	–	–	5	–	–	–	–	5
(Charge) credit for the year	103,473	(309,841)	217	–	230,131	(76)	(5,258)	(25,483)	(6,837)
Exchange realignment	(47,671)	(77,182)	(912)	–	5,896	(10,035)	(2,828)	487	(132,245)
At 31 December 2011 and 1 January 2012	(1,058,268)	(2,003,802)	(21,007)	–	245,383	(232,491)	(68,214)	(807)	(3,139,206)
Credit (charge) for the year	34,050	74,984	221	–	(34,689)	60,322	–	465	135,353
Exchange realignment	(9,356)	(17,160)	(185)	–	1,794	(1,377)	–	(3)	(26,287)
At 31 December 2012	(1,033,574)	(1,945,978)	(20,971)	–	212,488	(173,546)	(68,214)	(345)	(3,030,140)

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

	31.12.2012 HK$'000	31.12.2011 HK$'000 (restated)	1.1.2011 HK$'000 (restated)
Deferred tax assets	**212,488**	245,383	9,465
Deferred tax liabilities	**(3,242,628)**	(3,384,589)	(3,009,594)
	(3,030,140)	(3,139,206)	(3,000,129)

At the end of the reporting period, the Group has unused tax losses of approximately HK$3,826,369,000 (2011: HK$2,888,569,000) available for offset against future profits, which are subject to the confirmation from Hong Kong Inland Revenue Department and the PRC Tax Bureau. No deferred tax asset has been recognised in respect of such losses and deductible temporary difference due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses approximately of HK$2,490,665,000 (2011: HK$1,815,649,000) that will expire in 2017 (2011: expire in 2016). Other losses may be carried forward indefinitely.

33. Bank and Other Borrowings

	2012 HK$'000	2011 HK$'000
Bank borrowings (Note (i))	**7,488,212**	8,453,310
Other borrowings (Note (ii))	**4,577,958**	2,726,948
	12,066,170	11,180,258
Analysed as:		
Secured	**6,949,653**	7,758,044
Unsecured	**5,116,517**	3,422,214
	12,066,170	11,180,258
Carrying amount repayable:		
Within one year	**5,777,737**	4,805,875
More than one year, but not exceeding two years	**1,803,981**	2,984,836
More than two years, but not exceeding five years	**1,658,134**	2,384,554
Over five years	**2,826,318**	1,004,993
	12,066,170	11,180,258
Less: amount due within one year shown under current liabilities	**(5,777,737)**	(4,805,875)
Amount due after one year (Note (iii))	**6,288,433**	6,374,383

	2012 HK$'000	2011 HK$'000
Floating rate		
– expiring within one year	**4,736,816**	4,805,875
– expiring beyond one year	**6,028,246**	5,880,177
Fixed rate		
– expiring within one year	**1,040,921**	–
– expiring beyond one year	**260,187**	494,206
	12,066,170	11,180,258

33. Bank and Other Borrowings (continued)

Notes:

(i) Assets that have been pledged as collateral to secure bank borrowings are as follows:

	2012 HK$'000	2011 HK$'000
Properties under developments	**10,736,310**	7,712,800
Properties held for sales	**30,818**	30,545
Investment properties	**5,726,976**	3,772,806
Pledged bank deposits	**177,109**	24,521
	16,671,213	11,540,672

(ii) The Group's other borrowings are analysed as follows:

	2012 HK$'000	2011 HK$'000
Borrowings from SIHL Finance Limited (note (a))	**1,000,000**	1,000,000
Borrowings from SIIC (note (b))	**1,243,781**	1,232,742
Advanced bond (note (c))	**1,835,545**	–
	4,079,326	2,232,742
Other borrowings (note (d))	**498,632**	494,206
	4,577,958	2,726,948

(a) On 29 December 2010, the Company and SIHL Finance Limited, a wholly-owned subsidiary of SIHL, entered into a loan agreement pursuant to which SIHL Finance Limited agreed to grant a principal amount of HK$1,000,000,000 to the Company, which was unsecured and bearing variable interest at 5.5% per annum and repayable on 30 December 2011. Repayment of the loan was extended in January 2012, with revised variable interest rate at 6.3% per annum and repayable on 30 June 2013.

(b) The balance in an unsecured loan of approximately HK$1,243,781,000 (2011: HK$1,232,742,000) advance from SIIC through an entrusted loan agreement administered by bank. Such loan bore variable interest ranging from 6.6% to 7.1% (2011: 5.3% to 9.1%) per annum and was due within one year.

(c) The advanced bond represented a bond issued by SUD, the subsidiary of the Company, which the bond is listed on Shanghai Stock Exchange. The bond was unsecured and has maturity of six years until 20 August 2018. The bond carried interest at 6.5% for the first three years, and 6.5% plus 0 to 100 basis point for the next three years. The bondholders have the right to redeem the bonds to SUD from the fourth year onwards at principal amount. Transaction costs of approximately HK$33,194,000 was directly deducted from carrying amount of advance bond and the advance bond carried effective interest at 7.19% per annum.

(d) The balance represented unsecured loans of approximately HK$498,632,000 (2011: HK$494,206,000) advanced from non-controlling shareholders, which bear interest at an annual effective rate of 9.55% per annum and are repayable in 2013.

(iii) As at 31 December 2012, included in the Group's balance are other borrowings of approximately HK$1,835,545,000 (2011: HK$494,206,000) due after one year.

33. Bank and Other Borrowings (continued)

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2012	2011
Effective interest rate:		
Fixed-rate borrowings	**6.1% – 12.0%**	5.5% – 12.7%
Variable-rate borrowings	**5.8% – 8.3%**	5.3% – 9.1%

34. Convertible Loan Notes

The Group repaid all the remaining convertible notes of total principal amount of HK$2,000,000 for a total payment of HK$2,714,000 which included principal and accrued interest on 12 June 2011, the maturity date.

The convertible loan notes contain two components, liability and equity elements. The equity element is presented in equity heading "convertible note equity reserve". The effective interest rate of the liability component is 9.4% per annum.

35. Senior Notes/Warrants

On 23 July 2007, the Company issued 4,000 units of senior notes at a par value of US$400,000,000, (equivalent to approximately HK$3,120,000,000) ("Senior Notes 2014") and 264,000,000 warrants ("Warrants 2012"). The Senior Notes 2014 bear interest at 9.75% per annum and will mature on 23 July 2014 ("Notes Maturity Date"). The Senior Notes 2014 are guaranteed by all of the Company's existing subsidiaries at the date of issue other than those established under the laws of the PRC.

The Senior Notes 2014 and Warrants 2012 are separated immediately upon their issuance and the Warrants 2012 are detachable from the Senior Notes 2014.

The Warrants 2012 are exercisable at any time from the date of issue to 23 July 2012 at an exercise price of HK$1.68 per share, subject to anti-dilutive adjustments, to subscribe for shares of the Company. The Warrants 2012 are denominated in HKD and settlement of the warrant is structured at a net share settlement basis. As the Warrants 2012 may be settled other than by exchange of a fixed amount of cash for a fixed number of the Company's shares, the Warrants 2012 is classified as a derivative financial liability and measured at fair value with changes in fair value recognised in the profit or loss.

As at 31 December 2011, 66,000,000 of Warrants 2012 were outstanding. The fair value of Warrants 2012 at 31 December 2011 was HK$3,000. No Warrants 2012 was exercised by the holders during the year ended 31 December 2012 and therefore, the outstanding Warrants 2012 lapsed on 23 July 2012. Accordingly, a change in fair value of warrants of HK$3,000 (2011: HK$16,597,000) was charged to the profit or loss for the year.

35. Senior Notes/Warrants (continued)

At any time prior to the Notes Maturity Date, the Company may redeem the Senior Notes 2014, in whole or in part, at a redemption price equal to 100% of the principal amount plus the greater of (1) 1% of the principal amount of Senior Notes 2014 being redeemed and (2) the excess of (A) the present value at such redemption date of (i) 100% of the principal amount of the Senior Notes 2014 plus (ii) all required remaining scheduled interest payments due on Senior Notes 2014 through to the Notes Maturity Date, computed using a discount rate equal to the comparable treasury issue plus 100 basis points, over (B) the principal amount of Senior Notes 2014 on such redemption date ("100% Redemption Right of the Issuer – Senior Notes 2014"). As the economic characteristics and risks of the 100% Redemption Right of the Issuer – Senior Notes 2014 are not closely related to the host contract, the 100% Redemption Right of the Issuer – Senior Notes 2014 is separately accounted for at fair value at each reporting date as a derivative financial instrument. The fair value of the 100% Redemption Right of the Issuer – Senior Notes 2014 was insignificant as at 31 December 2012 and 2011.

At any time prior to 23 July 2011, the Company may redeem up to 35% of the principal amount of the Senior Notes 2014 with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 109.75% of the principal amount of the Senior Notes 2014 ("35% Redemption Right of the Issuer – Senior Note 2014"). As the economic characteristics and risk of the 35% Redemption Right of the Issuer – Senior Notes 2014 are not closely related to the host contract, the 35% Redemption Right of the Issuer – Senior Notes 2014 is separately accounted for at fair value at each reporting dates as a derivative financial instrument. The Company did not exercise its right to early redeem the Senior Notes 2014 and therefore, the 35% Redemption Right of the Issuer – Senior Note 2014 lapsed in 2011.

The Senior Notes 2014 contain a liability element, Warrants 2012, 100% Redemption Right of the Issuer – Senior Notes 2014 and 35% Redemption Right of the Issuer – Senior Notes 2014. At 31 December 2012, the effective interest rate of the liability element is 11.4% (2011: 11.4%).

36. Share Capital

	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.04 each		
Authorised:		
At 1 January 2011, 31 December 2011 and 31 December 2012	10,000,000	400,000
Issued and fully paid:		
At 1 January 2011	2,629,332	105,173
Issue of shares for acquisition of SUD Group	2,182,191	87,288
At 31 December 2011 and 2012	4,811,523	192,461

On 23 November 2011, 2,182,191,000 ordinary shares at par value of HK$0.04 each were issued to Novel Good Limited, a wholly-owned subsidiary of SIHL, as the consideration to acquire 59% of SUD Group, the shareholder's loan amounting to HK$5,640,545,824 and all the right, title, benefits and advantage of and interest in the dividend receivable from SUD. The fair value of the share of the Company on 23 November 2011 is HK$1.53 per share. These new shares rank pari passu with other shares in issue in all respects.

37. Share Options

Pursuant to a special general meeting of the Company held on 12 December 2001, the Company adopted the Share Option Scheme. Pursuant to the Share Option Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and options granted and yet to be exercised under any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period must not exceed 1% of the issued share capital of the Company at any time. The offer of a grant of options may be accepted within 21 days from the date of the offer with signed acceptance letter comprising consideration of HK$1.00 received by the Company. The exercise period of the share options granted is determinable by the directors, but no later than 10 years from the date of the offer. The subscription price for the shares in respect of which options are granted is determinable by the directors of the Company, but in any case must be the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

At 31 December 2012, the number of shares of the Company in respect of which options had been granted and remained outstanding under the Share Option Scheme of the Company was 60,750,000 (2011: 91,000,000), representing 1.3% (2011: 1.9%) of the shares of the Company in issue at that date.

The following tables disclose movements of the Company's share options during the year.

Grantees	Date of grant	Outstanding at 1.1.2012	Granted during year	Exercised during year	Cancelled/ forfeited during year	Outstanding at 31.12.2012	Exercisable period	Exercised price per share (subject to anti-dilutive adjustment)
Directors of the Company	24 September 2010	56,000,000	–	–	(23,000,000)	33,000,000	24 September 2010 – 23 September 2020	2.98
Employees	24 September 2010	35,000,000	–	–	(7,250,000)	27,750,000	24 September 2010 – 23 September 2020	2.98
Exercisable at the end of the year						60,750,000		
Weighted average exercise price		2.98	–	–	2.98	2.98		

Grantees	Date of grant	Outstanding at 1.1.2011	Granted during year	Exercised during year	Cancelled/ forfeited during year	Outstanding at 31.12.2011	Exercisable period	Exercised price per share (subject to anti-dilutive adjustment)
Directors of the Company	24 September 2010	56,000,000	–	–	–	56,000,000	24 September 2010 – 23 September 2020	2.98
Employees	24 September 2010	55,500,000	–	–	(20,500,000)	35,000,000	24 September 2010 – 23 September 2020	2.98
Exercisable at the end of the year						63,700,000		
Weighted average exercise price		2.98	–	–	2.98	2.98		

37. Share Options (continued)

No share option was granted in 2011 and 2012. Share options granted in 2010 are vested in three tranches over two years, with 40% of the options granted were vested on the date of grant, 30% vested on the first anniversary of the date of grant and the remaining 30% vested on two years from the date of grant.

The Group recognised HK$8,674,000 in profit or loss for the year ended 31 December 2012 (2011: HK$40,998,000) in relation to share options granted by the Company.

38. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the bank and other borrowings, senior notes, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company actively and regularly review the capital structure. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. The Group has a target gearing ratio of not more than 100% determined as the proportion net debt (which includes senior notes and bank and other borrowings less bank balances and cash and restricted bank deposits) to equity. As at 31 December 2012, the gearing ratio of the Group was 50.2% (2011: 55.6%). Based on recommendations of the directors, the Group will balance its overall capital structure through new shares issue, and share buy-backs as well as the issue of new debt or the redemption of existing debts.

39. Financial Instruments

a. *Categories of financial instruments*

	2012 HK$'000	2011 HK$'000
Financial assets		
Available-for-sale investments	**34,398**	37,761
Financial assets at FVTPL	**12,887**	14,638
Loans and receivables (including cash and cash equivalents)	**6,825,433**	4,249,250
Financial liabilities		
Derivative financial instruments – Warrants	**–**	3
Other financial liabilities	**18,263,954**	16,873,896

b. *Financial risk management objectives and policies*

The Group's major financial instruments include available-for-sale investments, financial assets at FVTPL, restricted and pledged bank deposits, bank balances and cash, trade and other receivables, trade and other payables, amounts due from associates and related companies, amounts due to associates and related companies, dividend payable, dividend payable to non-controlling shareholder, consideration receivables for disposal of assets, consideration payables for acquisition of subsidiaries, bank and other borrowings and senior notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group actively and regularly reviews and manages its capital structure to strictly control the debt level. The Group maintains a strategy on acquiring land only if the project development can commence within a short period of time so as to minimise the time period between acquisition and development of the acquired land, thus the Group's capital can be efficiently deployed.

Market risk

(i) Currency risk

All the revenue-generating operations of the Group are transacted in RMB. The Group is exposed to foreign currency risk on financing transactions denominated in currencies other than RMB. Depreciation or appreciation of the RMB against foreign currencies can affect the Group's results. The Group did not hedge its currency exposure.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
United States dollar ("US$")	**3,183,578**	3,143,244	**1,100**	443,664
HK$	**1,014,630**	1,049,417	**88,750**	116,274

39. Financial Instruments (continued)

b. *Financial risk management objectives and policies (continued)*

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to the currency of US$ and HK$ against RMB, the functional currency of relevant group entities.

The following table details the Group's sensitivity to a 5% (2011: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2011: 5%) is the sensitivity rate used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. A positive/negative number below indicates an increase/decrease in post-tax profit (2011: decrease/increase in post-tax loss) where RMB strengthen 5% (2011: 5%) against US$ and HK$ respectively. For a 5% (2011: 5%) weakening of RMB against US$ and HK$ respectively, there would be an equal and opposite impact on the result.

	US$		**HK$**	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Result for the year	**159,124**	134,979[(i)]	**46,294**	46,657[(ii)]

(i) This is mainly attributable to the exposure outstanding on senior note denominated in US$ at the year end.

(ii) This is mainly attributable to the exposure to outstanding other borrowings due to SIHL denominated in HK$ at 31 December 2012, bank balances and other borrowings due to SIHL denominated in HK$ at 31 December 2011.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable rate bank and other borrowings (see note 33 for details of these borrowings), pledged bank deposits and bank balances. It is the Group's policy to keep its bank borrowings at floating rate of interests so as to minimise the fair value interest rate risks.

The Group is also exposed to fair value interest rate risk in relation to fixed rate borrowings, amounts due to Xuhui SASAC and entities controlled by Xuhui SASAC, senior notes and restricted and pledged bank deposits. The Group currently does not enter into any hedging instrument for fair value interest rate risks.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the Benchmark Lending Rate of the People's Bank of China arising from the Group's RMB and HK$ denominated borrowings.

39. Financial Instruments (continued)

b. *Financial risk management objectives and policies (continued)*

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivity analysis

The Group does not anticipate there is any significant impact on its interest-bearing assets resulting from the changes in interest rates as the interest rate of bank deposits are not expected to change significantly.

The sensitivity analyses below have been determined based on the exposure to interest rates for bank and other borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2011: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2011: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2012 would decrease/increase by HK$42,754,000 (2011: post-tax loss increase/decrease by HK$45,621,000) assuming HK$38,781,000 (2011: HK$35,840,000) interest are capitalised into qualifying assets.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments being utilised for development of qualifying assets.

(iii) Other price risk

The Group is exposed to equity price risk arising from changes in the fair value of its financial assets at FVTPL.

No sensitivity analysis on other price risk is presented as the directors of the Company consider that a reasonable possible change to the fair value of the financial assets at FVTPL will not have a significant effect to the Group's profit and loss.

Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and

- the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 44.

The Group's credit risk is primarily attributable to its trade and other receivables, amounts due from related companies and an associates. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

39. Financial Instruments (continued)

b. *Financial risk management objectives and policies (continued)*

Credit risk (continued)

With respect to the credit risk of the Group's treasury operations, management has established internal procedures to monitor the Group's bank balances and cash, securities investments to be placed and entered into with financial institution of good reputation. These internal procedures also impose limitation on the amount outstanding and to manage the credit ratings on equity investments to be held, so as to minimise the Group's credit risk exposure.

The credit risk on bank balances and restricted and pledged bank deposits is limited because the counterparties are banks with high credit ratings.

The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 100% (2011: 100%) of the total trade receivable as at 31 December 2012.

In relation to the Group providing guarantees to secure obligations of the buyers of the property units for the repayment of their mortgage loans, if there is a default in repayment by these purchasers, the Group is responsible for repaying the outstanding mortgage loans together with any accrued interests and penalties owed by the defaulted purchasers to banks. Under such circumstances, the Group is able to retain the customer's deposits, take over the ownership of the relevant properties and sell the properties to recover any amounts paid by the Group to banks. In this regard, the directors of the Company consider that the Group's credit risk on such guarantees is significantly reduced. Detailed disclosure of these guarantees has been made in note 44.

The Group has concentration of credit risk on amounts due from related companies and an associate. In the opinion of the directors, since the related companies and associate are either with strong financial background or holding valuable assets, the credit risk is limited.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, the Group had no significant concentrations of credit risk within the property development business segment and hotel operations segment.

The Group's credit risk position on other receivables, amounts due from related companies and an associate are closely monitored by management.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2012, the Group has available unutilised overdraft and short-term bank loan facilities of approximately HK$1,386,586,000 (2011: HK$1,378,914,000).

39. Financial Instruments (continued)

b. *Financial risk management objectives and policies (continued)*

Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate %	Less than 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2012 HK$'000
2012							
Non-derivative financial liabilities							
Trade and other payables	N/A	1,718,124	–	–	–	1,718,124	1,718,124
Amounts due to related companies	N/A	606,304	–	–	–	606,304	606,304
Amounts due to associates	N/A	85,688	–	–	–	85,688	85,688
Consideration payables for acquisition of subsidiaries	N/A	316,041	–	–	–	316,041	316,041
Dividend payable	N/A	6,423	–	–	–	6,423	6,423
Dividend payable to non-controlling shareholder	N/A	416,293	–	–	–	416,293	416,293
Bank and other borrowings	5.8–12.0	6,170,036	2,389,737	1,953,232	3,085,685	13,598,690	12,066,170
Senior notes	11.4	303,831	3,424,000	–	–	3,727,831	3,048,911
Financial guarantee contracts issued							
Maximum amount guaranteed (note 44)	N/A	2,430,295	–	–	–	2,430,295	–
		12,053,035	5,813,737	1,953,232	3,085,685	22,905,689	18,263,954

39. Financial Instruments (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Weighted average interest rate %	Less than 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2011 HK$'000
2011							
Non-derivative financial liabilities							
Trade and other payables	N/A	1,087,477	–	–	–	1,087,477	1,087,477
Amounts due to related companies	N/A	700,300	–	–	–	700,300	700,300
Amounts due to associates	N/A	83,913	–	–	–	83,913	83,913
Consideration payables for acquisition of subsidiaries	N/A	387,200	–	–	–	387,200	387,200
Dividend payable	N/A	6,423	–	–	–	6,423	6,423
Dividend payable to non-controlling shareholder	N/A	418,846	–	–	–	418,846	418,846
Bank and other borrowings	5.5-12.7	5,366,582	3,199,582	2,556,059	1,076,858	12,199,081	11,180,258
Senior notes	11.4	304,569	303,831	3,424,200	–	4,032,600	3,009,479
Financial guarantee contracts issued:							
Maximum amount guaranteed (note 44)	N/A	3,282,564	–	–	–	3,282,564	–
		11,637,874	3,503,413	5,980,259	1,076,858	22,198,404	16,873,896

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

39. Financial Instruments (continued)

c. *Fair value*

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis;

- the fair value of derivative instruments is calculated using discounted cash flow analysis using option pricing models for optional derivatives; and

- the fair value of financial guarantee contracts is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantee not been available, where reliable estimates of such information can be made.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

39. Financial Instruments (continued)

c. *Fair value (continued)*

Fair value measurements recognised in the consolidated statement of financial position (continued)

	Level 1 HK$'000	Level 2 HK$'000	Total HK$'000
2012			
Financial assets			
Financial assets at FVTPL	**12,887**	**–**	**12,887**
Total	**12,887**	**–**	**12,887**
2011			
Financial assets			
Financial assets at FVTPL	14,638	–	14,638
Total	14,638	–	14,638
Financial liabilities			
Derivative financial instrument			
– Warrants	–	3	3
Total	–	3	3

There were no transfer between instruments in level 1 and level 2 in both years.

40. Acquisition of Subsidiaries

On 23 November 2011, the Group acquired the SUD Group by issuing 2,182,191,000 ordinary shares of HK$0.04 each to Novel Good Limited, a wholly-owned subsidiary of SIHL. SUD Group was under common control of SIHL with the Company when the Company was acquired by SIHL on 24 June 2010. The Group applied the principles of merger accounting to the acquisition. The fair value of the ordinary shares of the Company is determined using the published price available at the date of acquisition, amounting to HK$3,338,753,000.

Silvery Champ Limited and Joy Century Limited are incorporated in the British Virgin Islands and Hong Kong respectively and they are investment holding companies. SUD is established in the PRC and engaged in property development in the PRC.

Acquisition-related costs amounting to HK$58,856,000 was recognised in profit or loss in 2011 within "other expenses, gains and losses" in the consolidated statement of comprehensive income.

41. Disposal of Subsidiaries

Year ended 31 December 2012

In December 2012, the Company disposed of its 100% equity interest in Chengdu Zhongxin, a wholly owned subsidiary of the Group through disposal of Leadway Pacific Limited and Zhongzhi (Beijing) Enterprise Management Co., Ltd, wholly owned subsidiaries of the Company, holding 70% and 30% interests in Chengdu Zhongxin respectively, to independent third parties at an aggregate consideration of RMB158,000,000 (equivalent to approximately HK$196,517,000).

	HK$'000
Consideration:	
Cash received	196,517
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	554
Inventories	1,570,036
Trade and other receivables	9,241
Prepare income tax and appreciation tax	13,699
Pledged bank deposit	632
Bank balances and cash	17,221
Pre-sale proceeds received on sales of properties	(189,398)
Bank and other borrowings	(90,796)
Trade and other payables	(415,282)
Amounts due to group companies	(1,078,612)
Net liabilities disposal of attributable to owners of the Company	(162,705)
Gain on disposal:	
Consideration	196,517
Net liabilities disposed of attributable to owners of the Company	162,705
Gain on disposal	359,222
Net cash inflow arising on disposal:	
Cash consideration received	196,517
Less: bank balances and cash disposed of	(17,221)
	179,296

The subsidiaries disposed was principally engaged in property development in Chengdu. The main assets of the subsidiaries were properties held for sale and properties under development including the leasehold land in Chengdu region.

The subsidiaries disposed of during the year ended 31 December 2012 did not have any significant contribution to the results and cash flows of the Group during the period prior to the disposal.

41. Disposal of Subsidiaries (continued)

Year ended 31 December 2011

In March 2011, the Company disposed of its 100% equity interest in Shanghai Hefei, a 59% owned subsidiary of the Group, to an independent third party at a consideration of RMB261,000,000 (equivalent to approximately HK$310,566,000).

	HK$'000
Consideration:	
Cash received	310,566
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	645
Inventories	843,832
Trade and other receivables	25,434
Bank balances and cash	29,099
Trade and other payables	(478,536)
Bank and other borrowings	(71,396)
Non-controlling interests	(143,122)
Net assets disposed of attributable to owners of the Company	205,956
Loss on disposal:	
Consideration	310,566
Net assets disposed of attributable to owners of the Company	(205,956)
Non-controlling interests	(143,122)
Loss on disposal	(38,512)
Net cash inflow arising on disposal:	
Cash consideration received	310,566
Less: bank balances and cash disposed of	(29,099)
	281,467

The subsidiary disposed of during the year ended 31 December 2011 did not have any significant contribution to the results and cash flows of the Group during the period prior to the disposal.

42. Capital Commitments

Capital expenditure in respect of the acquisition of properties under development:

	The Group	
	2012	2011
	HK$'000	HK$'000
Contracted for but not provided for in the consolidated financial statements – additions in properties under development	**6,063,806**	4,681,867

The Group is responsible for payment of any excess amount of the actual amount of the demolishment and resettlement expenses over Minmetals' Contribution. As the demolishment and re-settlement of the property project is still in an early stage, in the opinion of the directors of the Company, the capital commitment cannot be quantified as at 31 December 2012 and 2011.

43. Operating Leases

The Group as lessee

Minimum lease payments paid under operating leases during the year in respect of office premises are HK$49,005,775 (2011: HK$42,438,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012	2011
	HK$'000	HK$'000
Within one year	**25,709**	47,000
In the second to fifth years inclusive	**14,309**	34,836
	40,018	81,836

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a term ranging from three months to three years.

The Group as lessor

Property rental income earned during the year was HK$236,471,000 (2011: HK$234,571,000). Certain of the Group's properties have committed tenants for the next 2 to 20 years with an option to renew the lease after that date at which time all terms are renegotiated.

43. Operating Leases (continued)

The Group as lessor (continued)

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2012 HK$'000	2011 HK$'000
Within one year	**246,241**	268,132
In the second to fifth year inclusive	**555,246**	629,221
After five years	**929,581**	1,118,817
	1,731,068	2,016,170

44. Contingent Liabilities

(a) Corporate guarantees

	2012 HK$'000	2011 HK$'000
Guarantee given to banks in respect of banking facilities utilised by:		
– property buyers	**2,037,260**	2,954,655
– an entity controlled by Xuhui SASAC	**393,035**	266,272
–former subsidiaries	**–**	61,637
	2,430,295	3,282,564

As at 31 December 2012, the total amount of loans and credit facilities obtained by the Group in respect of which guarantees were provided by Xuhui SASAC was approximately HK$414,000,000 (2011: HK$720,000,000).

In the opinion of the directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition, and the directors of the Company consider that the possibility of default by the relevant buyers is remote and, in case of default in payments, the net realisable value of the related properties can recover the repayment of the outstanding mortgage principals together with the accrued interest and penalty. Accordingly, no provision has been made in the consolidated financial statements for these guarantees.

(b) Warranty against defects of properties

Properties purchased by buyers are provided with various warranties with terms ranging from one to two years against certain specified defects as stipulated in the PRC laws and regulations which are covered by back-to-back warranties provided by the relevant contractors of the projects.

44. Contingent Liabilities (continued)

(c) *Legal proceedings initiated by a third party against the Company*

On 25 July 2012, a writ of summons (the "Writ") was issued by an independent third party against the Company. Pursuant to the Writ, the independent third party is claiming against the Company for a sum of RMB128,096,000 (equivalent to approximately HK$159,324,000) being the outstanding payment of the consideration payable for the acquisition of the entire issued share capital of Qizhou Island Movie Town in 2007 (the "Consideration Payable"), damages of RMB218,017,000 (equivalent to approximately HK$271,165,000) and daily liquidated damages from 26 July 2012 at RMB128,096 (equivalent to approximately HK$159,323) per day (the "Damages"). The Consideration Payable was recognized and included in consideration payables for acquisition of subsidiaries in the consolidated statement of financial position. The Group has not settled the Consideration Payable because the counterparty failed to satisfy the terms of the contract which led to a significant loss to the Group. The Group has taken action and made application to China International Economic and Trade Arbitration Commission ("CEITAC") for arbitration of the disputes, including the Group's claim of the loss against the counterparty. The first hearing date of CEITAC has not yet been confirmed at date of issuance of these consolidated financial statements. The directors of the Company, after consulting legal advisors, considered it pre-matures to estimate the outcome of such arbitration as the case is complex and the counterparty has not given his responses in arbitration. Accordingly no provision was made for the Damages during the year ended 31 December 2012.

Also, from time to time, the Group may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may harm the Group's business. The director of the Company are currently not aware of any such legal proceedings or claims that they believe will have, individually or in the aggregate, a material adverse effect the Group's business, financial condition or operating results of the Group.

45. Related Party Transactions

(a) *Transactions with key management personnel*

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 10, is as follows:

	2012 **HK$'000**	2011 HK$'000
Short-term employee benefits	**13,203**	21,694
Post-employment benefits	**–**	–
Equity compensation benefits	**4,714**	25,233
	17,917	46,927

Total remuneration is included in "staff costs" (see note 8).

(b) *Balances with related parties*

Details of the balances with related parties as at 31 December 2012 and 2011 are set out in the notes 19, 29 and 33.

45. Related Party Transactions (continued)

(c) Transactions with related parties

The Group entered into the following significant transactions with related parties during the year:

Name of related company	Nature of transactions	2012 HK$'000	2011 HK$'000
Entities controlled by SIHL	Interest expenses	**61,933**	55,030
Ultimate holding company	Interest expenses	**90,528**	71,523
Entity controlled by an independent non-executive director of SIHL	Rental expense, rate and management fee	**5,881**	3,471
Associates	Property agency fees	**38,802**	34,692
	Rental income	**(4,075)**	(2,310)
Entities controlled by Xuhui SASAC	Interest income	**8,300**	6,396
	Interest expenses	**776**	655
Non-controlling shareholder of a subsidiary	Interest expenses	**7,806**	4,512
	Management fee expenses	**–**	2,447

Except for the above transactions, the Group has entered the following guarantees and loans arrangement during the year:

(i) The Group entered into the loan agreements with SIIC and a subsidiary of SIHL and set out in the note 33.

(ii) The Group also granted financial guarantees to an entity controlled by Xuhui SASAC and Xuhui SASAC granted financial guarantees to the Group. Details of which are set out in note 44(a).

(d) Government-related entities

The Group itself is part of a larger group of companies under SIIC Group which is controlled by the PRC government. The directors consider that the Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predenominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("PRC government-related entities"). Apart from the transactions with the SIIC Group and Xuhui SASAC which have been disclosed above and in other notes to the financial information, the Group also conducts businesses with other PRC government-related entities in the ordinary course of business. The Group's deposits placements, borrowings and other general banking facilities are entered into with certain banks which are PRC-government related entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosures would not be meaningful.

In addition, the Group has entered into various transactions, including sales, purchases and other operating expenses with other PRC government-related entities. In the opinion of the directors, these transactions are considered as individually and collectively insignificant to the operation of the Group during the years ended 31 December 2012 and 2011.

46. Particulars of Principal Subsidiaries of the Company

Name of subsidiary	Place of incorporation/ registration and operation	Particulars of issued and paid-up share capital/registered capital	Percentage of issued share capital/ and paid-up registered capital held 2012 Directly	2012 Indirectly	2011 Directly	2011 Indirectly	Principal activities
Shenzhen Phoenix Real Estates Company Limited 深圳鳳凰置業有限公司 (note (i))	The PRC	US$10,000,000	–	82%	–	82%	Property investment
中置(北京)企業管理有限公司 (note (ii))	The PRC	HK$200,000,000	–	100%	–	100%	Investment holding
北京金馬文華園房地產開發有限公司 (note (i))	The PRC	US$12,000,000	–	100%	–	100%	Property development
北京新松房地產開發有限公司 (note (i))	The PRC	RMB190,000,000	–	100%	–	100%	Property development
北京市御水苑房地產開發有限責任公司 (note (iii))	The PRC	RMB20,000,000	–	90%	–	90%	Property development
北京新松置地投資顧問有限公司 (note (iii))	The PRC	RMB30,000,000	–	100%	–	100%	Investment holding
成都中新錦泰房地產開發有限公司 (note (i))	The PRC	RMB200,000,000	–	–	–	100%	Property development
西安滻灞建設開發有限公司 (note (i))	The PRC	US$86,880,000	–	71.5%	–	71.5%	Property development
西安中新滻灞歐亞酒店發展有限公司 (note (iii))	The PRC	RMB50,000,000	–	71.5%	–	71.5%	Hotel operations
西安中新永榮房地產開發有限公司 (note (iii))	The PRC	RMB10,000,000	–	71.5%	–	71.5%	Property development
西安中新佳園房地產開發有限公司 (note (iii))	The PRC	RMB10,000,000	–	71.5%	–	71.5%	Property development
西安中新永佳房地產開發有限公司 (note (iii))	The PRC	RMB10,000,000	–	71.5%	–	71.5%	Property development
西安中新沁園房地產開發有限公司 (note (iii))	The PRC	RMB10,000,000	–	71.5%	–	71.5%	Property development

46. Particulars of Principal Subsidiaries of the Company (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Particulars of issued and paid-up share capital/registered capital	Percentage of issued share capital/ and paid-up registered capital held 2012 Directly	2012 Indirectly	2011 Directly	2011 Indirectly	Principal activities
西安中新柳域房地產開發有限公司 (note (iii))	The PRC	RMB10,000,000	–	**71.5%**	–	71.5%	Property development
西安中新華勝房地產開發有限公司 (note (iii))	The PRC	RMB10,000,000	–	**71.5%**	–	71.5%	Property development
西安中新榮景房地產開發有限公司 (note (iii))	The PRC	RMB10,000,000	–	**71.5%**	–	71.5%	Property development
西安中新濱河房地產開發有限公司 (note (iii))	The PRC	RMB10,000,000	–	**71.5%**	–	71.5%	Property development
西安中新永景房地產開發有限公司 (note (iii))	The PRC	RMB10,000,000	–	**71.5%**	–	71.5%	Property development
湖南淺水灣湘雅溫泉花園有限公司 (note (iii))	The PRC	RMB30,000,000	–	**67%**	–	67%	Property development
重慶中華企業房地產發展有限公司 (note (iii))	The PRC	RMB200,000,000	–	**100%**	–	100%	Property development
天津中新濱海房地產開發有限公司 (note (ii))	The PRC	HK$100,000,000	–	**100%**	–	100%	Property development
天津中新華安房地產開發有限公司 (note (ii))	The PRC	RMB240,000,000	–	**100%**	–	100%	Property development
天津中新華城房地產開發有限公司 (note (ii))	The PRC	RMB80,000,000	–	**100%**	–	100%	Property investment
天津中新嘉業房地產開發有限公司 (note (ii))	The PRC	RMB120,000,000	–	**100%**	–	100%	Property development
天津中新信捷房地產開發有限公司 (note (ii))	The PRC	RMB240,000,000	–	**100%**	–	100%	Property development
天津凱津房地產開發有限公司 (note (iii))	The PRC	RMB210,000,000	–	**100%**	–	100%	Property development

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Particulars of issued and paid-up share capital/registered capital	Percentage of issued share capital/ and paid-up registered capital held 2012 Directly	2012 Indirectly	2011 Directly	2011 Indirectly	Principal activities
上海九久廣場投資開發有限公司 (note (iii))	The PRC	RMB226,160,000	–	100%	–	100%	Property development
瀋陽向明長益置業有限公司 (note (i))	The PRC	USD63,750,000	–	80%	–	80%	Property development
珠海市淇洲島影視城有限公司 (note (i))	The PRC	RMB90,000,000	–	100%	–	100%	Property development
中歐城開有限公司 (note (iii))	The PRC	RMB100,000,000	–	100%	–	100%	Property development
北京盈通房地產開發有限公司 (note (i))	The PRC	USD6,000,000	–	67.5%	–	67.5%	Primary land development
上海城開(集團)有限公司 (note (i))	The PRC	RMB3,200,000,000	–	59%	–	59%	Investment holding and property development
上海城開商用物業發展有限公司 (note (iii))	The PRC	RMB5,000,000	–	59%	–	59%	Property management
上海申大物業有限公司 (note (iii))	The PRC	RMB5,000,000	–	59%	–	59%	Property management
上海萬源房地產開發有限公司 (note (iii))	The PRC	RMB300,000,000	–	53%	–	53%	Property development and sales
上海石龍工業區聯合發展有限公司 (note (iii))	The PRC	RMB20,000,000	–	59%	–	59%	Property development and sales
上海城開集團晶傑置業有限公司 (note (iii))	The PRC	RMB150,000,000	–	59%	–	59%	Property development and sales
上海城開(集團)無錫置業有限公司 (note (iii))	The PRC	RMB500,000,000	–	59%	–	59%	Property development and sales

46. Particulars of Principal Subsidiaries of the Company (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Particulars of issued and paid-up share capital/registered capital	Percentage of issued share capital/ and paid-up registered capital held 2012 Directly	2012 Indirectly	2011 Directly	2011 Indirectly	Principal activities
上海城開集團晶實置業有限公司 (note (iii))	The PRC	RMB300,000,000	–	59%	–	59%	Property development and sales
上海城開集團龍城置業有限公司 ("上海龍城") (note (i))	The PRC	RMB2,100,000,000	–	69%	–	69%	Property development and sales
昆山城開房地產開發有限公司 (note (iii))	The PRC	RMB167,000,000	–	53%	–	53%	Property development and sales
城開綠碳(天津)股權投資基金合夥企業 ("SUDG JV") (note (iv))	The PRC	RMB1,135,900,000	–	59%	–	59%	Investment holding

Notes:

(i) These companies were established in the PRC in the form of sino-foreign equity joint ventures.

(ii) These companies were established in the PRC in the form of wholly-owned foreign enterprises.

(iii) These companies were established in the PRC in the form of limited liability company.

(iv) SUDG JV was established in the PRC in the form of joint venture enterprise. 64.7% of the paid-in capital of SUDG JV was contributed by the Group. Investor of SUDG JV, other than the Group, which contributed the remaining 35.3% of the paid-in capital of SUDG JV, are entitled to annual return of 9.6% per annum on their paid-in capital. One of the other investors which contributed 34.9% of the paid in capital of SUDG JV has an option to dispose its equity interests in SUDG JV to the Group after 24 months from February 2011 (the "Option"). The Group has an obligation to acquire such equity interests in SUDG JV from that investor in February 2013 (if the Option has not been exercised) at an annual effective interest rate of 9.6% per annum net of any result previously distributed. This arrangement is accounted for as a financing activity and SUDG JV is thus accounted for as a wholly-owned subsidiary of the Group. The remaining 0.4% of paid-in capital of SUDG JV contributed by a fund management company which only entitled a fixed return of 9.6% per annum.

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

None of the subsidiaries had issued any debt securities at the end of the year except SUD which has issued RMB1,500,000,000 of advance bond during the year, in which the Group has no interest. Details of advance bond are set out in note 33.

47. Statement of Financial Position of the Company

	2012 HK$'000	2011 HK$'000
Non-current assets		
Property, plant and equipment	**1,789**	3,088
Investments in subsidiaries	**2,568,335**	2,499,760
Amounts due from subsidiaries	**15,511,377**	15,763,438
	18,081,501	18,266,286
Current assets		
Deposit and prepayment	**14,165**	107,240
Dividend receivables	**469,589**	469,589
Bank balances and cash	**84,055**	262,982
	567,809	839,811
Current liabilities		
Other payables and accruals	**692,761**	726,645
Amount due to immediate holding company	**102,696**	102,696
Amounts due to subsidiaries	**1,328,373**	1,326,951
Amount due to a related company	**2,466**	2,466
Dividend payable	**6,423**	6,423
Derivative financial instrument	**–**	3
Other borrowings	**1,000,000**	1,000,000
	3,132,719	3,165,184
Net current liabilities	**(2,564,910)**	(2,325,373)
Total assets less current liabilities	**15,516,591**	15,940,913
Non-current liability		
Senior notes	**3,048,911**	3,009,479
Total assets less total liabilities	**12,467,680**	12,931,434
Capital and reserves		
Share capital	**192,461**	192,461
Reserves	**12,275,219**	12,738,973
	12,467,680	12,931,434

48. Statement of Changes in Equity of the Company

	Share capital HK$'000	Share premium HK$'000	Convertible notes reserve HK$'000	Share options reserve HK$'000	Exchange reserve HK$'000	Shareholders' contribution HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2011	105,173	7,073,988	20	63,743	1,012,917	–	(633,743)	7,622,098
Loss for the year	–	–	–	–	–	–	(976,413)	(976,413)
Exchange difference	–	–	–	–	431,087	–	(200)	430,887
Total comprehensive income (expense) for the year	–	–	–	–	431,087	–	(976,613)	(545,526)
Transfer to accumulated losses upon the redemption of convertible loan note	–	–	(20)	–	–	–	20	–
Recognition of equity-settled share-based payments	–	–	–	40,998	–	–	–	40,998
Transfer to accumulated losses upon cancellation of share options	–	–	–	(11,720)	–	–	11,720	–
Contribution from SIHL arising from control combination	87,288	3,251,465	–	–	–	2,475,111	–	5,813,864
At 31 December 2011	192,461	10,325,453	–	93,021	1,444,004	2,475,111	(1,598,616)	12,931,434
Loss for the year	–	–	–	–	–	–	(581,534)	(581,534)
Exchange difference	–	–	–	–	109,106	–	–	109,106
Total comprehensive income (expense) for the year	–	–	–	–	109,106	–	(581,534)	(472,428)
Recognition of equity-settled share-based payments	–	–	–	8,674	–	–	–	8,674
Transfer to accumulated losses upon cancellation of share options	–	–	–	(31,358)	–	–	31,358	–
At 31 December 2012	192,461	10,325,453	–	70,337	1,553,110	2,475,111	(2,148,792)	12,467,680

Financial Summary

	Year ended 30 April 2009 HK$'000	8 months ended 31 December 2009 HK$'000	Year ended 31 December 2010 HK$'000	2011 HK$'000 (restated)	**2012 HK$'000**
Revenue	2,534,580	513,086	4,881,135	4,433,476	**8,782,561**
Profit (loss) before taxation	338,698	(2,034,501)	(656,784)	166,442	**421,612**
Income tax expense	(249,142)	(149,798)	(161,374)	(731,953)	**(388,301)**
Profit (loss) for the year	89,556	(2,184,299)	(818,159)	(565,511)	**33,311**
Attributable to:					
Owners of the Company	126,567	(2,106,392)	(740,523)	(601,668)	**(190,166)**
Non-controlling interests	(37,011)	(77,907)	(77,636)	36,157	**223,477**
Profit (loss) for the year	89,556	(2,184,299)	(818,519)	(565,511)	**33,311**

	As at 30 April 2009 HK$'000	As at 31 December 2009 HK$'000	2010 HK$'000 (restated)	2011 HK$'000 (restated)	**2012 HK$'000**
Assets and liabilities					
Total assets	29,295,748	25,991,780	49,854,617	54,051,725	**53,613,512**
Total liabilities	(20,223,605)	(19,331,798)	(31,398,110)	(35,080,033)	**(34,521,916)**
	9,072,143	6,659,982	18,456,507	18,971,692	**19,091,596**
Equity					
Owners of the Company	8,316,384	6,073,429	11,865,017	12,275,488	**12,162,193**
Non-controlling interests	755,759	586,553	6,591,490	6,696,204	**6,929,403**
	9,072,143	6,659,982	18,456,507	18,971,692	**19,091,596**

Term used	Brief description
"2013 AGM"	forthcoming annual general meeting of the Company is scheduled to be held on Thursday, 16 May 2013
"Audit Committee"	audit committee of the Company
"Board"	the board of Directors of the Company
"CGU"	Cash generating unit
"Chengdu Zhongxin"	成都中新錦泰房地產開發有限公司
"Code"	Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012)
"Company" or "SIUD"	Shanghai Industrial Urban Development Group Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange
"Company's website"	www.siud.com
"DTZ"	DTZ Debenham Tie Leung Limited
"EIT"	Enterprise Income Tax
"EIT LAW"	the Law of the People's Republic of China on Enterprise Income Tax
"FVTPL"	Fair value through profit or loss
"G.F.A."	Gross Floor Area
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars
"HKFRSs"	Hong Kong Financial Reporting Standards
"HKICPA"	The Hong Kong Institute of Certified Public Accountants
"Interim Report"	2012 Interim Report of the Company
"Investment Appraisal Committee"	investment appraisal committee of the Company
"Jun He Bai Nian"	北京君合百年房地產開發有限公司
"LAT"	Land Appreciation Tax
"Leadway"	Leadway Pacific Limited, a company incorporated in the British Virgin Islands with limited liability
"Listing Rules"	Rules Governing the Listing of Securities of the Stock Exchange
"Minmetals"	五礦置業有限公司
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules
"MPF scheme"	Mandatory Provident Fund Scheme

Term used	Brief description
"Nomination Committee"	nomination committee of the Company
"PRC"	the People's Republic of China
"Qizhou Island Movie Town"	珠海市淇州島影視城有限公司
"Remuneration Committee"	remuneration committee of the Company
"RMB"	Renminbi
"SFO"	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Shanghai Hefei"	上海城開集團合肥置業有限公司
"Shareholder(s)"	holder(s) of share(s) of the Company
"Share Option Scheme"	ordinary resolutions passed by shareholders of the Company at its special general meeting held on 12 December 2002, the Company adopted a share option scheme
"Shenyang Xiangming"	瀋陽向明長益置業有限公司
"SIHL"	Shanghai Industrial Holdings Limited, a company incorporated in Hong Kong, the Shares of which are listed on the main board of the Stock Exchange (Stock Code: 363)
"SIIC"	Shanghai Industrial Investment (Holdings) Company Limited
"SIIC Group"	SIIC and its subsidiaries
"State-owned Management Company"	上海徐滙國有資金投資經營有限公司 Shanghai Xuhui State-owned Assets Management Co., Ltd.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SUD"	上海城開(集團)有限公司 (Shanghai Urban Development (Holdings) Co., Ltd.), a sino-foreign equity joint venture company established in the PRC and is indirectly owned by the Company as to 59% and by Xuhui SASAC as to 41%
"Retirement Scheme"	defined contribution retirement scheme
"Xuhui SASAC"	上海市徐匯區國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Shanghai Xuhui District), a government authority authorised by and established directly under Shanghai Xuhui District People's Government for supervising and managing state-owned assets in the possession of Xuhui District, including but not limited to, exercising state-owned shareholders' right over SUD and a shareholder holding 41% of the equity interest in SUD
"Zhong Ou Cheng Kai"	中歐城開有限公司

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