



2021

ANNUAL REPORT 年報

SHIMAO GROUP HOLDINGS LIMITED

世茂集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)

Stock Code 股份代號: 813

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Hui Wing Mau (*Chairman*)
Hui Sai Tan, Jason (*Vice Chairman and President*)
Tang Fei
Xie Kun

Non-executive Directors

Lu Yi
Ye Mingjie

Independent Non-executive Directors

Lyu Hong Bing
Lam Ching Kam
Fung Tze Wa

Audit Committee

Fung Tze Wa (*Committee Chairman*)
Lyu Hong Bing
Lam Ching Kam

Remuneration Committee

Lyu Hong Bing (*Committee Chairman*)
Lam Ching Kam
Fung Tze Wa

Nomination Committee

Lam Ching Kam (*Committee Chairman*)
Lyu Hong Bing
Fung Tze Wa

Company Secretary

Lam Yee Mei, Katherine

Auditor

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Registered Office

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

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

Principal Share Registrar and Transfer Office

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Place of Listing

The Stock Exchange of Hong Kong Limited
Stock code: 813

Investor and Media Relations

Investor Relations Department
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FIVE YEARS FINANCIAL SUMMARY

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	107,797,269	135,352,755	111,516,981	85,512,704	70,425,874
Cost of sales	(105,179,409)	(95,685,488)	(77,386,427)	(58,563,625)	(48,996,361)
Gross profit	2,617,860	39,667,267	34,130,554	26,949,079	21,429,513
Fair value (losses)/gains on investment properties	(601,614)	397,539	2,335,257	1,910,251	679,484
Other income/other gains – net	132,360	1,029,335	351,639	297,280	545,095
Selling and marketing costs	(5,376,840)	(4,416,344)	(2,824,871)	(2,023,438)	(1,461,804)
Administrative expenses	(6,002,605)	(5,498,682)	(4,381,122)	(3,429,512)	(2,989,871)
(Provision for)/reversal of impairment losses on financial assets	(4,360,195)	(482,918)	(70,375)	25,529	–
Impairment losses on intangible assets	(2,533,022)	–	–	–	–
Other operating expenses	(2,391,803)	(503,530)	(337,635)	(520,488)	(523,702)
Operating (loss)/profit	(18,515,859)	30,192,667	29,203,447	23,208,701	17,678,715
Finance (costs)/income – net	(2,768,337)	3,315,459	(284,920)	(337,027)	1,328,414
Fair value changes of convertible redeemable preferred shares	–	(75,860)	–	–	–
Fair value changes of convertible bonds	144,746	–	–	–	–
Share of results of associated companies and joint ventures accounted for using the equity method	(432,927)	159,320	96,825	(233,469)	(315,376)
(Loss)/profit before income tax	(21,572,377)	33,591,586	29,015,352	22,638,205	18,691,753
Income tax expenses	(6,804,501)	(14,129,120)	(12,635,387)	(10,327,273)	(8,121,060)
(Loss)/profit for the year	(28,376,878)	19,462,466	16,379,965	12,310,932	10,570,693
(Loss)/profit for the year attributable to equity holders of the Company	(27,092,790)	12,627,679	10,897,600	8,834,790	7,840,494
Non-current assets	138,221,256	134,194,728	117,528,198	88,748,017	85,027,201
Current assets	489,882,813	455,558,422	353,925,869	288,848,834	222,531,472
Total assets	628,104,069	589,753,150	471,454,067	377,596,851	307,558,673
Non-current liabilities	132,671,890	117,162,151	97,399,453	84,421,747	75,334,749
Current liabilities	381,432,496	320,096,247	257,350,428	187,894,927	135,477,127
Total liabilities	514,104,386	437,258,398	354,749,881	272,316,674	210,811,876
Net assets	113,999,683	152,494,752	116,704,186	105,280,177	96,746,797
Equity attributable to equity holders of the Company	57,817,957	88,002,060	66,254,881	59,234,206	57,634,683
Non-controlling interests	56,181,726	64,492,692	50,449,305	46,045,971	39,112,114
Total equity	113,999,683	152,494,752	116,704,186	105,280,177	96,746,797

PRESIDENT'S STATEMENT

Dear shareholders,

I hereby represent Shimao Group Holdings Limited ("Shimao Group", "Shimao" or the "Company", and its subsidiaries, the "Group") to present the annual results of the Group for the year ended 31 December 2021.

Market and Outlook

In 2021, in the face of complex and severe domestic and international market conditions, coupled with the continued spread of the COVID-19 pandemic, the Central Committee of the Communist Party of China (CPC) oversaw the overall situation and overall planning and adhered to the principle of seeking progress while maintaining stability. On the one hand, the CPC continued to consolidate and attain greater achievements in terms of pandemic prevention and control; on the other hand, it made great efforts in ensuring the "six stabilities" work and fully implementing the "six guarantees" mission. With gradual recovery of the national economy, the gross domestic product for the year grew by 8.1% year-on-year, getting off to a good start of the 14th Five-Year Plan.

With respect to the real estate market, the year 2021 was a year of policy. While the principles of "housing is for living in, not for speculation" and "stabilizing land prices, housing prices and expectations" remained unchanged, a number of departments worked together to regulate and control the real estate industry on all fronts, including the financing side, the demand side and the supply side. With the unprecedented intensity of policy introduction, the industry sales first went up and then turned down, with the year-on-year growth in commercial property sales nationwide narrowing down significantly from 38.9% in the first half of the year to 4.8% for the full year. Since the second half of 2021, the market environment has changed, the pressure on real estate enterprises to sell and recover has increased, the overall investment in the industry has contracted and the sales of commercial properties nationwide has been declining, resulting in the further shrinkage of the overall profitability of the industry.

Shimao's Strategies

The philosophy of operation in the real estate industry is shifting from a focus on "quantity" to that on "quality", and the key to the long-term success of an enterprise is to provide quality products and services. To this end, the Group has optimized its management structure, focused on its core business objectives, continued to increase organizational agility, improved operational efficiency, enhanced product quality and innovation across the board, and firmly put into practice the concept of "products as the core and customers as the priority".

In the face of the aforementioned market changes and challenges, Shimao responded bravely and proactively. In 2021, the Group adjusted its pace of supply in response to the market trend and reduced its inventory backlogs, achieving cumulative contracted sales of RMB269.11 billion and contracted sales area of 15.286 million sq.m. at an average selling price of RMB17,605 per sq.m.. On the investment front, due to the dual impact of the "two concentrations" land supply policy and the apparent cooling of the market, the Group became more cautious in replenishing its land reserves, and added 4.16 million sq.m. (before equity) in core cities such as Shenzhen, Hangzhou, Nanjing and Ningbo during the year, striving to keep a steady pace and continue to cultivate in key strategic regions such as the Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze River Delta and the West Coast of the Straits.

In 2021, the financing conditions of the real estate industry continued to tighten. As the industry continued to decline, Shimao has been facing unprecedented pressure on the financing, capital and sales fronts starting from the fourth quarter of 2021. Leveraging on the efficient collaborative operation system within the Company and the support of relevant government departments, Shimao has been able to alleviate the pressure on its liquidity through various measures such as strengthening sales and payment recovery, increasing asset disposal efforts, increasing efficiency and reducing costs, and securing financing arrangements from financial institutions, with actual results achieved. In 2022, Shimao will continue to actively reduce the pressure on its liquidity through measures such as actively strengthening payment recovery, rational disposal of assets, proactive adjustment of operational strategies and proper organization of its existing debt structure to ensure normal production and operation, while attaching utmost importance to risk prevention.

Continued Development of Diversified Businesses

In 2021, diversified businesses continued to grow, with total revenue from property management, commercial operations, hotel operation and other businesses amounting to RMB13.31 billion, accounting for 12.3% of total revenue and representing an increase of 44.3% over 2020. In the face of a volatile real estate market, diversified businesses have not only enhanced Shimao's competitiveness in weathering market cycles, but also continued to drive internal momentum for sustainable development.

With respect to property management business, Shimao Services Holdings Limited ("Shimao Services") achieved growth in both gross floor area ("GFA") under management and contracted GFA in 2021, with 830 projects under management covering 107 cities across the country as of 31 December 2021. The GFA under management and the contracted GFA were 240.5 million sq.m. and 308.0 million sq.m., representing a year-on-year growth of 64.6% and 53.2%, respectively. In addition, third-party bidding expansion achieved remarkable results, 61.6 million sq.m. was added to its area from third-party bidding expansion, representing a significant year-on-year increase of 162.1%. In 2022, Shimao Services will continue to expand its market, secure more third-party projects, strengthen its capabilities and upgrade its strategies across the board to continue to enhance its competitiveness. Meanwhile, Shimao Services will also actively expand its value-added services in a variety of sectors by providing a wide range of value-added services to non-residential projects such as schools, hospitals and industrial parks, with a focus on high-potential areas to build up core competencies.

With respect to commercial and entertainment business, commercial projects under management of Shanghai Shimao Co., Ltd. recorded significant growth in sales and foot traffic in 2021 as compared to the previous year. Chengdu Shimao Festival City and Xiamen Jimei Shimao Festival City, two flagship projects under the brand of Shimao Festival City, opened for business successively during the year, both achieving an occupancy rate of 100% upon commencement of operation. In addition, a number of Shimao's office buildings attained stable operation, with occupancy rates maintaining above 90% for the year. Shenzhen Shimao Qianhai Center and Changsha Shimao Global Financial Center, which commenced operation in the past two years, have also maintained positive momentum and have been attracting a number of renowned enterprises to establish presence there, with the occupancy rate of Shenzhen Shimao Qianhai Center reaching 85% by the end of 2021. Going forward, Shimao Commercial will continue to act in the direction of "Balancing both asset-light and asset-heavy". It will accelerate the development of asset-light commercial management business by relying on its refined operation and professional management capabilities while continuing to cultivate quality commercial projects.

With respect to hotel business, Shimao Hotel continued to implement the strategies of brand internationalization and asset-light output. In 2021, Hilton Changsha Riverside and Minimax Chengdu Longquanyi Hotel officially opened. In 2022, Shimao Hotel will continue to develop its diversified businesses, consolidate the hotel industry ecosystem and empower the hotel projects under management services. Four new hotels are also going to be opened, namely Yu Hotel Xixian, Yuluxe Hotel Lanzhou, MiniMax Hotel Shaoxing Keqiao and Yu Hotel Qingdao Pier, covering destinations with robust economic and tourism development mainly in first- and second-tier cities.

PRESIDENT'S STATEMENT

Social Responsibility

In 2021, Shimao stayed true to its original value and cares for its motherland. It worked to fulfill social responsibility while achieving corporate development. In July 2021, Henan Province suffered the strongest rainfall in history and many places were hit by catastrophic floods. Shimao donated HK\$20 million forthwith to contribute its efforts in supporting the flood control, emergency rescue and post-disaster reconstruction in Henan Province. In October 2021, Shimao again donated more than 20 items of various medical equipment including ambulances and gastroscopes to Shimao Caring Hospitals (世茂愛心醫院). Over the years, Shimao has built more than 100 caring hospitals in nine provinces, including Sichuan, Yunnan, Gansu, Shaanxi and Hebei, to safeguard the health of villagers. Over the past two decades, Shimao has been committed to social welfare and has donated more than RMB1.75 billion in total and served population of more than 22 million.

Acknowledging green ecosystem as the foundation of a sustainable city, Shimao actively develops green building. As of the end of 2021, the total area of green buildings developed by Shimao was 78.97 million sq.m., representing a year-on-year increase of 22%, including seven LEED Gold buildings. As the green industry continues to develop and green growth has become a global economic trend, Shimao followed the market and successfully issued its first green senior notes in September 2021, with a total size of US\$748 million, the proceeds of which will be used for green projects.

Acknowledgement

On behalf of the Board, I would like to thank our shareholders, customers, partners and governments at all levels for their tremendous support. I would also like to extend my heartfelt gratitude and deepest respect to our directors, management and staff for all their valuable contributions. The Group's growth and development to date are attributable to their engagement, understanding and support. Courage is shown by conquering difficulties and accomplishment comes from overcoming challenges. Facing the new era and phase of development, Shimao will keep improving its meticulous management, enhancing risk control, polishing core capabilities of competitiveness, and deepening sustainability development, to be the leading "Fighter" and "Creator" in the path of future development.

Hui Sai Tan, Jason

Vice Chairman and President

Hong Kong, 28 July 2023

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Property Development

1) *Recognized Sales Revenue*

Shimao Group Holdings Limited (“Shimao Group”, “Shimao” or the “Company”, together with its subsidiaries, the “Group”) generates its revenue primarily from sales of properties, commercial properties operation, hotel operation and property management businesses. For the year ended 31 December 2021, revenue of the Group reached RMB107.80 billion. During the year, revenue from property sales amounted to RMB94.49 billion, accounting for 87.7% of the total revenue. The recognized sales area was 6.401 million sq.m., and the average recognized selling price was RMB14,762 per sq.m..

2) *Sales Performance*

With respect to property sales, in 2021, based on its judgment of the market trend, Shimao accelerated the turnover of popular projects in the first half of the year and attained approximately 57% of the sales of the year. In the second half of the year, the market cooled down significantly and the Group quickly adjusted its pace in supply so as to reduce inventory pressure. The Group’s contracted sales amounted to RMB269.11 billion in 2021. The aggregate contracted sales area was 15.286 million sq.m., and the average selling price was RMB17,605 per sq.m..

3) *Adjustment of Construction and Development Plans of Projects in Response to Market Demand and Supply*

In light of market volatility, the Group adjusted its strategies of supply and construction plans, delayed or cancelled the supply for some projects that involved products with similar nature and high inventory level. In 2021, the Group’s floor area under construction was approximately 48.18 million sq.m.. The gross floor area (“GFA”) completed was approximately 12.05 million sq.m..

4) *Prudent Replenishment of Land Bank to Provide the Foundation for Steady Operation in the Future*

In 2021, under the impacts of the “two-centralized” land supply policy and market volatility, the Group maintained a steady development and became even more prudent in replenishing land bank. The Group acquired a total of 4.16 million sq.m. (before interests) land bank in core cities such as Shenzhen, Hangzhou, Nanjing and Ningbo, and strived to expand in the key strategic regions such as the Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze River Delta region, and the West Coast of the Straits. As at 31 December 2021, the Group had over 380 projects and a total area of approximately 71.46 million sq.m. (before interests) land bank. The premium land bank has provided a good foundation for Shimao to achieve steady development in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

The land parcels acquired by the Group during the year are as follows:

New Land Parcels	Usage	Land Cost (Before Interests) (RMB million)	Land Cost (Attributable Interests) (RMB million)	Total Planned GFA (Before Interests) (‘000 sq.m.)	Cost per sq.m. (RMB)
1. Hangzhou Jianqiao Project	Commercial and residential	1,742	1,742	153	11,392
2. Hangzhou Tianmu Pharmacy Harbor Parcel	Commercial and residential	1,808	1,211	249	7,264
3. Jiangmen Xinhui Project	Residential, commercial services as well as commercial and financial	1,060	530	211	5,018
4. Longyan City P20 Parcel	Commercial and residential	459	138	73	6,333
5. G2 Parcel, Banqiao market, Banqiao Street, Yuhuatai District, Nanjing	Commercial and residential	1,570	518	149	10,555
6. Ningbo Jiangbei Cicheng Complex	Commercial and residential	1,984	1,984	194	10,215
7. Shenzhen Henggang Laojie Project	Commercial and residential	2,722	681	750	3,629
8. Parcel at the south of Cuihua Street and the west of Luming Road, Huangyan District, Taizhou	Commercial and residential	519	519	86	6,013
9. A3 Parcel, Tianshui County Project, Tianshui City	Commercial and residential	161	82	56	2,868
10. Xuzhou Gulou Guishan 8-2, 8-3 Parcel	Residential, commercial as well as commercial and financial	274	140	85	3,204
11. Yancheng Nanhai Future City	Commercial and residential	1,282	769	167	7,672
12. Yangzhou GZ189 Parcel	Commercial and residential	654	222	62	10,486
13. Zhangjiagang Zhangdi A04-F Parcel	Residential	383	383	29	13,028
14. Changsha Wang Gua No. 129	Commercial and residential	846	846	113	7,462
15. Ziyang Ziyue Mansion	Residential	300	300	142	2,118
16. Yantai Sunjia Penggai Project	Residential	529	159	151	3,502
17. Jinan Jiyang Skyscraper City Project Phase 1.2	Commercial and residential	697	488	513	1,357
18. Bengbu Longzihu Project	Commercial and residential	783	399	130	6,038
19. Nantong Changtai Road Project	Commercial and residential	1,344	1,344	126	10,696
20. Quanzhou Shimao City No. 2-B Parcel	Commercial and residential	70	36	102	693
21. Nanning Wuming Guangtou Future City Project	Residential and retail	227	111	190	1,199
22. Nanning Jinxiushijia Project	Residential and retail	277	119	71	3,922
23. Ningde Xiapu 2021-08	Commercial and residential	572	572	111	5,130
24. Nantong Tongzhou Bay Demonstration Area Zhujiang Road South, Zhuhai Road East TR21019 Parcel	Residential	409	209	162	2,532
25. North of Xiqiao South Road CN205-A06 Parcel, Nanchang	Residential	519	519	87	5,970
Total		21,191	14,021	4,162	5,092

MANAGEMENT DISCUSSION AND ANALYSIS

Commercial Properties Operation

In respect of commercial properties operation, Shimao Group is principally engaged in the development of commercial properties through its subsidiary, Shanghai Shimao Co., Ltd. (“Shanghai Shimao”). Shanghai Shimao is determined to develop premium commercial complexes to bolster urbanization, and tap into the growing public demand for a better life as its impetus and starting point for its various construction projects.

Confronting a complex market environment in 2021, Shimao maintained a steady pace in its advancement. Although the pandemic remained volatile in the second half of the year and markedly curtailed residents’ consumption, Shimao Commercial achieved constant breakthrough and innovation in its business to stand out amidst intense market competition, and recorded major growth in both the sales and foot traffic of its commercial projects under management as compared with last year. As the flagship projects of Shimao Festival City, Chengdu Shimao Festival City and Xiamen Jimei Shimao Festival City commenced operation successively during the year, leveraging on their unique positioning of “Mini Vacation Lifestyle Center” and “Simple Lifestyle Center”, respectively, to entice multiple brands to establish presence there. Upon commencing operation, both projects had all their shops occupied by businesses. In addition, multiple office buildings of Shimao attained stable operation, maintaining annual occupancy rates of above 90%. Shenzhen Shimao Qianhai Center and Changsha Shimao Global Financial Center, which commenced operation in the past two years, also retained robust growth momentum, ushering in reputable enterprises successively. Their occupancy rates stood at 85% and 74% by the end of 2021, respectively.

In 2021, Shimao Commercial was highly recognized by its peers and received several prizes awarded by professional institutions, such as “Top 100 Commercial Property Enterprises of 2021 Guandian Annual Business Meeting” (「觀點商業年會2021年度商業地產企業表現100強」) and “Outstanding Enterprise for Robust Development of 11th session of IF • Commercial Property Annual Meeting” (「第十一屆IF • 商業地產年會卓越穩健發展企業」), reflecting the increasing brand awareness and recognition of Shimao Commercial during the year. Looking forward, Shimao Commercial will implement its development orientation of “Balancing both asset-light and asset-heavy”. In tandem with its continuous engagement in premium commercial projects, Shimao Commercial will accelerate the development of its asset-light commercial management business with meticulous operation and professional management capabilities.

Property Management

In respect of property management business, Shimao Group is engaged in property management business through its subsidiary, Shimao Services Holdings Limited (“Shimao Services”). Shimao Services is positioned as a leading comprehensive property management provider and a full-scenario provider of city life services in China and works to build three business portfolios, namely comprehensive property management services, diversified value-added services and smart city services, fostering digital service capabilities. At present, Shimao Services has four major business segments – property management services, community value-added services, value-added services to non-property owners and city services.

In 2021, GFA under management and contracted GFA of Shimao Services recorded rapid growth. As of 31 December 2021, Shimao Services had 830 projects under management, covering 107 cities across the country, and GFA under management and contracted GFA were 240.5 million sq.m. and 308.0 million sq.m. respectively, representing respective year-on-year increases of 64.6% and 53.2%. In addition, the third-party bidding expansion attained exceptional performance, with various indicators such as external expansion area and annualized saturated revenue enhanced considerably. Among which, newly-added area from third-party bidding expansion reached 61.6 million sq.m., representing a substantial year-on-year increase of 162.1%.

In future, Shimao Services will continue to extensively expand the market, obtain more third-party projects, enhance capabilities, fully upgrade strategies, and improve competitiveness. At the same time, Shimao Services will actively tap into value-added services in a range of operations by offering diversified value-added services to various non-residential projects such as schools, hospitals and industrial parks, with a focus on high-potential areas to develop capabilities of core competitiveness.

MANAGEMENT DISCUSSION AND ANALYSIS

Hotel Operation

As of 31 December 2021, the Group had a total of 27 hotels in operation, including InterContinental Shanghai Wonderland, Le Royal Méridien Shanghai (currently rebranded as Conrad Shanghai), Conrad Xiamen, Hilton Wuhan Riverside, The Yuluxe Sheshan, A Tribute Portfolio Hotel, Shanghai, InterContinental Fuzhou, Hilton Shenyang, Crowne Plaza Shaoxing, Sheraton Hong Kong Tung Chung Hotel and Four Points by Sheraton Hong Kong Tung Chung. In the second half of 2021, Hilton Changsha Riverside and MiniMax Hotel Chengdu Longquanyi officially commenced operation. Currently, the Group has more than 9,100 hotel guest rooms. In addition, the Group had 6 directly managed leased hotels, including MiniMax Hotel Shanghai Songjiang, MiniMax Premier Hotel Shanghai Hongqiao, MiniMax Hotel Xiamen Central, MiniMax Premier Hotel Chengdu City Center, ETHOS Hotel Xiamen and ETHOS Hotel Wuhan Riverside, offering over 1,100 hotel guest rooms. In 2021, the domestic tourism market recovered, but was still affected by the resurgence of the pandemic. In 2021, the overall revenue reached RMB2,116 million, representing a year-on-year increase of 46.2% as compared with 2020.

Shimao Hotel continues its brand internationalization path and asset-light output strategy, opens up the industrial chain and cooperates with its procurement companies, technology companies and agent construction companies, establishing strong competitiveness to support growth and continuing to contribute to cost saving and product innovation. At the same time, it adheres to adjusting approaches from the perspective of overall digital operation, and launches a series of festival promotions with WeChat Mall, Fliggy, Ctrip, Alipay and Zmjudian (週末酒店), so as to stimulate potential consumption by introducing diversified and more experiential products to meet the multi-level needs of consumers. In addition, Shimao Hotel pays attention to every detail. It launched a quality life experience platform, “Shi” Life Pavilion (「世」品生活館), at the end of October, selecting a variety of quality hotel peripheral products which deliver an experience beyond travel accommodation.

In 2021, Shimao Hotel and Hilton Hotel Group further strengthened their partnership by signing a strategic cooperation agreement on luxury hotels, leading the long-term and quality development of luxury hotels in China and creating a booster to the recovery of the hotel and tourism market. On 1 January 2022, the grand opening of Conrad Shanghai took place at Shanghai Shimao Festival City, presenting a remarkable and refreshing image of the place, which kicked off the second decade of cooperation between the two parties.

In the future, Shimao Hotel will continue to develop its diversified businesses, consolidate the hotel industry ecosystem and support the projects of hotels under management services, covering destinations with robust economic and tourism development mainly in first- and second-tier cities. Yuluxe Hotel Lanzhou (蘭州中山林茂御酒店) was unveiled in the summer vacation of 2022, which was also the first opening hotel after the complete renewal of the brand “Yuluxe” in 2021. The high-end hotel brand “Yu Hotel” with the largest number of contracts will maintain a stable trend, including Yu Hotel Xixian (西咸文創世御酒店) and Yu Hotel, Shanghai Nanqiao (上海南橋臨港科技城世御酒店), etc. The brand “MiniMax” with inspirational business travel experience will also seize the opportunity to expand into emerging tourism cities by establishing presence in regions of Chengdu, Jiaxing and Changchun, so as to enrich consumer experience and escort urban development.

MANAGEMENT DISCUSSION AND ANALYSIS

Outlook

Since the second half of 2021, with changes in market conditions, real estate enterprises have been facing increased pressures from sell-through and recoverability, leading to investment recession of the industry as a whole. The domestic sales of commercial properties continued to decline, further squeezing the overall profit of the industry.

The Group believes that the operational logic of the industry is shifting from “quantity” to “quality”, and the key to the long-term success of an enterprise is to provide quality products, services and assets operation. Accordingly, the Group adjusted and refined its management structure in 2022, so as to focus on the core operation objectives, continually enhance organizational agility, improve operational efficiency, fully strengthen product quality and innovation and firmly adhere to a “product-oriented and user-centered” approach.

In respect of production and operation, the Group will spare no effort to fulfill the responsibility and goal of “ensuring delivery while maintaining stability”, facilitating the work and management at every stage in an orderly manner to safeguard project delivery to the largest possible extent. In respect of financial management, the Group is actively pursuing the restructuring of the onshore and offshore debts and is continuing to engage in constructive dialogues with each of the creditors and their respective advisors with the aim of stabilizing the Group’s situation and alleviating its current liquidity difficulties. In addition, Shimao will continue to guarantee the Group’s normal production and operation and safeguard the interests of its investors through active promotion of sales and collection of receivables, reasonable disposal of assets, proactive adjustment to its operating strategies and proper arrangement of its existing debt profile, while giving top priority to risk prevention.

Financial Analysis

Key consolidated income statement figures are set out below:

	2021 RMB million	2020 RMB million
Revenue	107,797	135,353
Gross profit	2,618	39,667
(Loss)/profit attributable to shareholders	(27,093)	12,628
(Losses)/Earnings per share – Basic (RMB cents)	(762.7)	361.5

Revenue

For the year ended 31 December 2021, the revenue of the Group was approximately RMB107,797 million (2020: RMB135,353 million), representing a decrease of 20.4% over 2020, which was mainly due to the slower completion progress than expected. 87.7% (2020: 93.2%) of the revenue was generated from the sales of properties and 12.3% (2020: 6.8%) from hotel operation, commercial properties operation, property management and others.

The components of the revenue are set out as follows:

	2021 RMB million	2020 RMB million
Sales of properties	94,488	126,133
Hotel operation income	2,116	1,447
Commercial properties operation income	2,033	1,538
Property management income and others	9,160	6,235
Total	107,797	135,353

* The income does not include revenue from the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

(i) Sales of Properties

Sales of properties for the years ended 31 December 2021 and 2020 are set out below:

	2021		2020	
	Area (sq.m.)	RMB million	Area (sq.m.)	RMB million
Straits Development District	2,410,654	38,015	2,959,329	41,643
Zhejiang District	711,386	16,221	1,095,066	23,481
Northern China District	738,144	12,757	404,869	14,006
Jiangsu and Shanghai District	874,322	11,481	1,310,412	20,437
Western District	723,937	6,464	1,120,663	11,588
Shandong District	636,198	5,756	1,081,458	10,322
Central China District	306,282	3,794	333,763	4,656
Total	6,400,923	94,488	8,305,560	126,133

(ii) Hotel Income

Hotel operation income is set out as follows:

	Date of Commencement	2021 RMB million	2020 RMB million
InterContinental Shanghai Wonderland	November 2018	272	265
Le Royal Méridien Shanghai (rebranded as Conrad Shanghai)	September 2006	217	110
Hyatt on the Bund Shanghai	June 2007	197	169
Four Points by Sheraton Hong Kong Tung Chung	January 2021	192	–
The Yuluxe Sheshan, A Tribute Portfolio Hotel, Shanghai	November 2005	141	97
Conrad Xiamen	August 2016	116	118
Hilton Wuhan Riverside	July 2016	111	72
Sheraton Hong Kong Tung Chung Hotel	December 2020	103	6
Hilton Nanjing Riverside	December 2011	78	72
InterContinental Fuzhou	January 2014	74	66
Crowne Plaza Shaoxing	March 2014	73	73
Hilton Shenyang	January 2018	71	64
Hilton Yantai	August 2017	69	49
Le Méridien Hangzhou Binjiang	September 2018	56	49
DoubleTree by Hilton Ningbo Beilun	December 2016	52	43
Hilton Tianjin Eco-City	April 2015	45	45
Yutopia Wuyi Mountain Retreat	September 2020	40	15
Yuluxe Hotel Taizhou	August 2014	28	29
DoubleTree by Hilton Ningbo Chunxiao	December 2015	27	19
Holiday Inn Mudanjiang	December 2010	18	17
Others		136	69
Total		2,116	1,447

Hotel operation income increased by approximately 46.2% to RMB2,116 million in 2021 from RMB1,447 million in 2020. The increase of income was mainly due to the fact that economy and tourism recovered to some extent in China while new hotels opened.

MANAGEMENT DISCUSSION AND ANALYSIS

(iii) Commercial properties operation income

Commercial properties operation income increased by approximately 32.2% to RMB2,033 million in 2021 from RMB1,538 million in 2020. Rental income increased by 28.5%. This was mainly attributable to the opening of Chengdu Shimao Festival City and Xiamen Jimei Shimao Festival City in 2021, Shenzhen Shimao Qianhai Center and Changsha Shimao Global Financial Center in the second half of 2020.

Commercial properties operation income is analysed as follows:

	Date of Commencement	2021 RMB million	2020 RMB million
Rental Income			
Shanghai Shimao Festival City	December 2004	221	208
Jinan Shimao Festival City	May 2014	161	152
Beijing Shimao Tower	July 2009	138	154
Shenzhen Shimao Qianhai Center	July 2020	95	32
Nanjing Yuhua Shimao (Commercial)	December 2018	63	61
Shaoxing Shimao Dear Town (Commercial)	May 2010	61	66
Nanjing Straits City (Commercial)	December 2014	59	55
Shanghai Shimao Tower	December 2018	58	65
Kunshan Shimao Plaza	April 2012	54	52
Xiamen Shimao Straits Mansion	January 2017	51	48
Chengdu Shimao Festival City	April 2021	48	–
Changsha Shimao Global Financial Center	September 2020	35	9
Suzhou Shimao Canal Scene (Commercial)	June 2010	28	30
Shanghai Shimao Shangdu	November 2010	23	24
Quanzhou Shishi Shimao Skyscraper City	January 2017	20	26
Xiamen Jimei Shimao Festival City	April 2021	16	–
Qingdao Shimao 52+	August 2020	13	5
Xuzhou Shimao Dongdu (Commercial)	January 2012	11	10
Wuhu Shimao Riviera Garden (Commercial)	September 2009	10	5
Miscellaneous rental income		218	74
Rental income sub-total		1,383	1,076
Commercial properties operation related service income		650	462
Total		2,033	1,538

(iv) Property management income and others

Property management income and others increased by approximately 46.9% to RMB9,160 million in 2021 from RMB6,235 million in 2020, which were mainly due to increased revenues from property management services, community value-added services, and city services.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

Cost of sales increased by 9.9% to approximately RMB105,179 million in 2021 from RMB95,685 million in 2020, although there was a decline in revenue. It was mainly due to the provision for impairment losses on properties of RMB23,565 million made on the Group's property development business.

Cost of sales are analysed as follows:

	2021 RMB million	2020 RMB million
Land costs and construction costs	68,656	84,794
Capitalised borrowing costs	5,337	6,298
Direct operating costs for hotels, commercial properties operation, property management and others	6,948	3,882
Sales taxes	673	708
Provision for impairment losses on properties	23,565	3
Total	105,179	95,685

Gross Profit Margin

For the year ended 31 December 2021, the Group's gross profit margin was approximately 2.4% (2020: 29.3%). The decrease in gross profit margin was due to the following reasons: provision for impairment losses on properties increased significantly; low margin revenue with high land cost entered settlement. The gross profit margin excluding inventories provision was 24.3%.

Fair Value Losses/Gains on Investment Properties – Net

During the year, the Group recorded aggregate fair value losses of approximately RMB602 million (2020: fair value gains of RMB398 million), mainly caused by the decrease in value of certain investment properties due to the downturn in economy and property market. Aggregate net fair value losses after deferred income tax of approximately RMB150 million (2020: RMB100 million) recognized was RMB452 million (2020: net fair value gains of RMB298 million).

Other Income/Other Gains – Net

Net other income/other gains was approximately RMB132 million (2020: RMB1,029 million). The decrease was mainly due to recognition of a loss of RMB630 million from the disposal of 22.5% interest in the property development project in South West Kowloon, Hong Kong known as "Grand Victoria (維港滙)" to joint venture partners.

Selling and Marketing Costs and Administrative Expenses

During the year, the Group's selling and marketing costs and administrative expenses arising from property sales accounted for 3.0% of contracted sales in 2021 (2020: 2.4%). The increase was mainly due to the continuously input in marketing and promotional activities to promote sales in response to the complex market situation and the impact of the COVID-19 pandemic on the economic environment in certain cities.

Provision for Impairment Losses on Financial Assets

For the year ended 31 December 2021, provision for impairment losses on financial assets recognised by the Group was approximately RMB4,360 million, representing an increase of 802.9% over 2020, mainly due to the further provisions made by the Group for expected credit losses on other receivables such as amounts due from related companies considering the combined impact of multiple unfavorable factors in macroeconomic, industry and financing environments.

MANAGEMENT DISCUSSION AND ANALYSIS

Impairment Losses on Intangible Assets

For the year ended 31 December 2021, the impairment loss on goodwill and customer relationship were RMB2,513 million and RMB20 million, respectively (2020: Nil).

The impairment losses on goodwill was mainly due to the Group's impairment on the goodwill of acquired companies based on a prudent assessment, having considered the following factors: a slowdown in overall economic growth; the volatility and downturn in the real estate industry; the performance growth in the environmental hygiene services and hotel business market were slower than expected; and the number of and revenue from certain acquired companies' expansion projects were lower than expected.

Finance (Costs)/Income – Net

Net finance costs was approximately RMB2,768 million (2020: net finance income RMB3,315 million), mainly due to interest on borrowings increased in 2021.

Share of Results of Associated Companies and Joint Ventures

Share of results of associated companies and joint ventures decreased to losses of approximately RMB433 million in 2021 from profits of RMB159 million in 2020, which was mainly due to the decrease in gross margin of sales of properties and increase in the provision for impairment of properties of the Group's associated companies and joint ventures as compared with the year ended 31 December 2020.

Taxation

The Group's tax provisions amounted to approximately RMB6,805 million for the year, in which PRC land appreciation tax ("LAT") was RMB3,634 million (2020: RMB14,129 million, in which LAT was RMB6,631 million). The decrease in LAT was in line with the decline in gross profit.

(Loss)/Profit Attributable to Shareholders

Profit attributable to shareholders for the year decreased from approximately RMB12.628 billion in 2020 to loss of approximately RMB27.093 billion in 2021. The decrease was mainly due to the decrease in core profit from revenue and gross profit.

The core profit attributable to shareholders represents profit after tax attributable to shareholders excluding major non-recurring or non-cash items, i.e. after-tax impact of fair value losses and gains on investment properties, share of results of associated companies and joint ventures, foreign exchange gains and losses arising from borrowings, provision losses on financial assets, impairment on non-current assets, depreciation and amortization.

Excluding the after-tax impact of non-recurring or non-cash items, profit from core business attributable to shareholders for the year decreased by RMB35.534 billion to loss of approximately RMB23.251 billion (2020: profit of RMB12.283 billion, excluding gain from the disposal of part of the equity of Shimao Services). Profit margin from core business attributable to shareholders was minus 32.4% in 2021.

Amounts due from Associated Companies and Joint Ventures

Amounts due from associated companies and joint ventures, represent proportional funding to the associated companies and joint ventures for the underlying projects by the Group, have increased by RMB25.159 billion by the end of 2021 due to funding to these companies for normal operation and other fund demand. Meanwhile, less cash support comes from these associated companies and joint ventures as less cash collection from sales due to the downturn of market. These balances are expected to be recovered within one year to three years.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

The net gearing ratio is calculated by dividing total borrowings (including current and non-current borrowings) and perpetual capital instruments amounting RMB1.55 billion issued after 1 August 2020 minus cash balances (including restricted cash) by total equity (excluding perpetual capital instruments amounting RMB1.55 billion issued after 1 August 2020). As at 31 December 2021, the Group's net gearing ratio was approximately 156.0% (31 December 2020: 51.8%).

The liabilities to assets ratio after excluding receipts in advance is calculated by dividing total liabilities and perpetual capital instruments amounting RMB1.55 billion issued after 1 August 2020 minus receipts in advance (including contract liabilities and relevant value-added tax amounted approximately RMB129.84 billion as at 31 December 2021) by total assets minus receipts in advance. As at 31 December 2021, the Group's liabilities to assets ratio after excluding receipts in advance was approximately 77.4% (31 December 2020: 68.3%).

The cash to current borrowings ratio is calculated by dividing cash and cash equivalents minus guarantee deposits for construction of pre-sale properties (31 December 2021: approximately RMB25.47 billion) by current borrowings. As at 31 December 2021, the Group's cash to current borrowings ratio was 0.21 (31 December 2020: 1.16).

The maturity of the borrowings of the Group as at 31 December 2021 is set out as follows:

	RMB million
Bank borrowings, borrowings from other financial institutions and bonds	
Within 1 year	92,230
Between 1 and 2 years	51,798
Between 2 and 5 years	37,331
Over 5 years	4,879
Senior notes and convertible bonds	
Within 1 year	15,607
Between 1 and 2 years	1,892
Between 2 and 5 years	15,870
Over 5 years	12,152
Total	231,759

The total amount of borrowings increased by approximately RMB86.616 billion from approximately RMB145.143 billion as at 31 December 2020 to approximately RMB231.759 billion as at 31 December 2021. The increase was mainly due to the following reasons:

First of all, the Group issued new senior notes and drew down new syndicated loan in offshore financing markets.

In January 2021, the Group issued US\$872 million senior notes with 3.45% coupon rate and 10-year maturity periods. In September 2021, the Group issued US\$300 million senior notes with 3.975% coupon rate and 2-year maturity periods and US\$748 million green senior notes with 5.2% coupon rate and 5-year and 4-month maturity periods. In October 2021, the Group redeemed an aggregate principal amount of US\$820 million of all outstanding 6.375% senior notes due in 2021.

In April 2021, the Group obtained 4-year maturity periods dual currency syndicated loan facilities of US\$657.5 million and HK\$5,128.5 million with a Libor/Hibor+2.5% interest rate. Amounts of US\$657.5 million and HK\$5,128.5 million had been drawn down before 31 December 2021. And in April and October 2021, the Group repaid all the outstanding balance of 2017 syndicated loans with a total amount of US\$476 million and HK\$4,123 million.

In October 2021, Shimao Services, a subsidiary of the Group, issued convertible bonds with an aggregate principal amount of HK\$3,110 million, to support the expansion of its business.

MANAGEMENT DISCUSSION AND ANALYSIS

Secondly, the onshore subsidiaries of the Group made new drawdowns to support the construction of the projects. Most of these borrowings are secured by the assets and/or secured by the pledge of shares of the projects. As a result, borrowings secured by assets and/or by the pledge of shares of the onshore subsidiaries increased by approximately RMB61.778 billion by the end of the year.

Thirdly, the national real estate market fell deteriorated sharply from the second half of year 2021 and went worse in the last quarter of the year. There were frequent debt default events of property developers. As a result, some of the partners of joint ventures early withdrew their investment equities to avoid potential liquidity risk. And these joint ventures with borrowings became subsidiaries of the Group, thus increased the total amount of the borrowings of the Group.

Placing and Subscription

On 6 December 2021, the Company entered into the placing and subscription agreement (the "Agreement") with the placing agents and the vendor, Gemfair Investments Limited ("Gemfair"), pursuant to which, the placing agents conditionally agreed to place to not less than six independent professional, institutional and/or individual investors, on a fully underwritten basis, 145,000,000 existing ordinary shares of the Company at the placing price of HK\$8.14 per share and Gemfair conditionally agreed to subscribe for the same number of new ordinary shares of the Company as the placing shares placed by the placing agents at the placing price. The subscription shares have a nominal value of HK\$14.5 million and a market value of HK\$1,290.5 million, based on the closing price of HK\$8.9 per share on the last full trading day prior to the date of the Agreement. The net price of the subscription is HK\$8.09 per share. The directors of the Company (the "Directors") considered that the placing and the subscription represented an opportunity to raise capital for the Company while broadening its shareholder and capital base. The Company intended to apply the net proceeds to repay the Company's debts and for general corporate purposes of the Group. Please refer to the announcement of the Company dated 7 December 2021 for further details. On 14 December 2021, the Company has completed the placing of the existing shares as well as the allotment and issuance of shares under the general mandate granted to the Directors pursuant to an ordinary resolution passed at the 2021 annual general meeting of the Company. The net proceeds received by the Company after deducting relating fees and expense, were approximately HK\$1,173 million. As of 31 December 2021, the Group has applied the net proceeds of approximately HK\$833 million for repaying the Company's debts and approximately HK\$340 million for general working capital.

Foreign Exchange Risks

The Group's foreign exchange exposure is mainly derived from the borrowings denominated in USD and HKD.

The Group has been paying closely attention to the fluctuation of the foreign exchange rate and actively taking measures to mitigate the risk of exchange rate fluctuation.

Pledge of Assets

As at 31 December 2021, the Group's total secured borrowings of approximately RMB170.616 billion were secured by its property and equipment, investment properties, land use rights, properties under development, completed properties held for sale and restricted cash (with a total carrying amount of RMB187.896 billion), and/or secured by the pledge of the shares of certain subsidiaries of the Group.

Capital and Property Development Expenditure Commitments

As of 31 December 2021, the Group had contracted capital and property development expenditure but not provided for amounted to RMB40.904 billion.

Employees and Remuneration Policy

As of 31 December 2021, the Group employed a total of 53,926 employees, among whom 4,973 were engaged in property development. Total remuneration for the year amounted to approximately RMB6.427 billion. The Group has adopted a performance-based rewarding system to motivate its staff. The board of Directors of the Company (the "Board") adopted two share award schemes (the "Share Award Schemes") of the Company on 30 December 2011 and 3 May 2021 respectively. The board of directors of Shimao Services also adopted a share award scheme (the "Shimao Services Share Award Scheme") of Shimao Services on 28 June 2021. The purpose of the Share Award Schemes and the Shimao Services Share Award Scheme is to recognize the contributions by certain selected employees of the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. In relation to staff training, the Group also provides different types of programs for its staff to improve their skills and develop their respective expertise.

REPORT OF THE DIRECTORS

The directors (the “Directors”) of Shimao Group Holdings Limited (the “Company”) have pleasure in presenting their report and the audited financial statements of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2021.

Principal Activities

The Company is an investment holding company. The Group is principally engaged in the development and investment of residential and commercial properties, property management, commercial properties operation and hotel operation in the People’s Republic of China (the “PRC”). The principal activities of its principal subsidiaries are set out in note 38 to the consolidated financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2021 are set out on pages 54 to 162 of this annual report.

The board of directors of the Company (the “Board”) did not recommend the payment of any final dividend for the year ended 31 December 2021 (2020: final dividend of HK90 cents per share and a special dividend of HK20 cents per share).

Business Review

A business review of the Group for the year ended 31 December 2021, a discussion of the Group’s future business development and principal risks and uncertainties that the Group may encounter are provided in the President’s Statement on pages 4 to 6 and the Management Discussion and Analysis on pages 7 to 17 of this annual report. The financial risk management objectives and policies of the Group are shown in note 5 to the consolidated financial statements. An analysis of the Group’s performance during the year using key financial performance indicators is set out in the Five Years Financial Summary on page 3 of this annual report. Particulars of important events affecting the Group that have occurred after the reporting period are set out in note 43 to the consolidated financial statements on pages 159 and 160 of this annual report. Discussions on the Group’s environmental policies and performance and compliance with the relevant laws and regulations and an account of the Group’s key relationships with its employees, suppliers and customers that have a significant impact on the Group are shown in the “Sustainability Report” published on the Company’s website. The above discussions form part of this Report of the Directors.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in notes 45 and 24 to the consolidated financial statements.

Major Customers and Suppliers

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

None of the Directors, their close associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) had any interest in the major suppliers noted above.

Bank and Other Borrowings

Particulars of bank and other borrowings of the Group (including the debentures issued during the year) as at 31 December 2021 are set out in note 26 to the consolidated financial statements. The net proceeds are for refinancing the indebtedness, business development and other general corporate requirements of the Group.

Donations

Charitable and other donations made by the Group during the year amounted to RMB68,837,000 (2020: RMB134,759,000).

Property and Equipment

Details of property and equipment of the Group are set out in note 7 to the consolidated financial statements.

Share Capital

The Company completed a share placing in December 2021. For further details, please refer to the section headed "Management Discussion and Analysis".

The Company declared interim dividend for the six months ended 30 June 2021 in cash (with scrip option) during the year. Accordingly, a total of 120,134,424 shares of the Company, fully paid, were issued for a total consideration of approximately HK\$1,675,635,000.

Details of movements in the share capital of the Company for the year ended 31 December 2021 are set out in note 23 to the consolidated financial statements.

Financial Highlights

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of this annual report.

Pre-Emptive Rights

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

Directors

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

Executive Directors

Mr. Hui Wing Mau (*Chairman*)
 Mr. Hui Sai Tan, Jason (*Vice Chairman and President*)
 Ms. Tang Fei
 Mr. Xie Kun (appointed on 13 December 2021)

Non-executive Directors

Mr. Lu Yi (redesignated from Executive Director to Non-executive Director on 2 August 2023)
 Mr. Ye Mingjie

Independent Non-executive Directors

Mr. Lyu Hong Bing
 Mr. Lam Ching Kam
 Mr. Fung Tze Wa (appointed on 24 August 2022)
 Ms. Kan Lai Kuen, Alice (resigned on 24 August 2022)

In accordance with Article 86(3) of the Articles of Association, Mr. Xie Kun and Mr. Fung Tze Wa who were appointed as Directors after the last annual general meeting of the Company (the "AGM"), will hold office until the forthcoming AGM and, being eligible, have offered themselves for re-election as Directors at the forthcoming AGM.

In accordance with Article 87 of the Articles of Association, three Directors, namely, Mr. Hui Wing Mau, Ms. Tang Fei and Mr. Lu Yi shall retire from office by rotation respectively at the forthcoming AGM and, all being eligible, have offered themselves for re-election as Directors at the forthcoming AGM.

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

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

REPORT OF THE DIRECTORS

Directors' Interests in Transactions, Arrangements and Contracts

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

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

Share Award Schemes

The Group and Shimao Services Holdings Limited ("Shimao Services", together with its subsidiaries, the "Shimao Services Group"), a subsidiary of the Company, have adopted three share award schemes. The purpose of the share award schemes is to recognize the contributions by certain selected employees of the Group and Shimao Services Group and to provide them with incentives in order to retain them for the continual operation and development of the Group and Shimao Services Group and to attract suitable personnel for further development of the Group and Shimao Services Group.

No acceptance price of awarded shares will be payable upon acceptance of the said award and no purchase price is payable by the selected employees upon acceptance of awards granted under each share award scheme.

Details of each of the share award schemes are set out below:

1. 2011 Shimao Group Share Award Scheme

A share award scheme of the Company (the "2011 Shimao Group Share Award Scheme") was initially adopted by the Board on 30 December 2011 (the "Adoption Date I"), with subsequent amendments thereafter. On 26 March 2019, the Board approved the 2011 Shimao Group Share Award Scheme to be valid and effective until 30 December 2027. The participants of the 2011 Shimao Group Share Award Scheme include an employee (including directors, supervisors or senior management) of any member of the Group.

The maximum number of shares which can be awarded under the 2011 Shimao Group Share Award Scheme is 2% of the shares of the Company (the "Shimao Group Shares") in issue as at the Adoption Date I (i.e. 69,319,016 Shimao Group Shares). The maximum number of Shimao Group Shares which may be subject to an award or awards to a selected employee under the 2011 Shimao Group Share Award Scheme must not exceed 1% of the total number of issued shares of the Company as at the Adoption Date I (i.e. 34,659,508 Shimao Group Shares).

The number of Shimao Group Shares granted is determined based on the grantee's position, experience, years of service, performance and contribution to the Group. The Shimao Group Shares granted will automatically lapse if the grantee, among other things, terminates his/her service or employment relationship with the Group and other circumstances as provided in accordance with the rules of the 2011 Shimao Group Share Award Scheme.

REPORT OF THE DIRECTORS

During the year ended 31 December 2021, a total of 5,394,354 Shimao Group Shares was granted under the 2011 Shimao Group Share Award Scheme. Details of the movement of Shimao Group Shares granted under the 2011 Shimao Group Share Award Scheme during the year ended 31 December 2021 are set out below:

Name of grantees	Date of grant	Number of Shimao Group Shares				Outstanding as at 31 December 2021
		Outstanding as at 1 January 2021	Granted during the year	Vested during the year	Lapsed/ cancelled during the year	
Directors ^(Note 1)						
Hui Sai Tan, Jason	15 April 2019 ^(Note 2)	94,795	–	(94,795)	–	–
	15 April 2020 ^(Note 3)	160,419	–	(96,251)	–	64,168
	15 April 2021 ^(Note 4)	–	55,325	–	–	55,325
		255,214	55,325	(191,046)	–	119,493
Tang Fei	15 April 2019 ^(Note 2)	74,273	–	(74,273)	–	–
	15 April 2020 ^(Note 3)	180,681	–	(108,409)	–	72,272
	15 April 2021 ^(Note 4)	–	51,731	–	–	51,731
		254,954	51,731	(182,682)	–	124,003
Xie Kun	15 April 2019 ^(Note 2)	49,786	–	(49,786)	–	–
	15 April 2020 ^(Note 3)	121,113	–	(72,668)	–	48,445
	15 April 2021 ^(Note 4)	–	208,059	–	–	208,059
		170,899	208,059	(122,454)	–	256,504
Lu Yi	15 April 2019 ^(Note 2)	50,793	–	(50,793)	–	–
	15 April 2020 ^(Note 3)	123,560	–	(74,136)	–	49,424
	15 April 2021 ^(Note 4)	–	41,809	–	–	41,809
		174,353	41,809	(124,929)	–	91,233
Ye Mingjie	15 April 2019 ^(Note 2)	40,890	–	(40,890)	–	–
	15 April 2020 ^(Note 3)	103,796	–	(62,278)	–	41,518
		144,686	–	(103,168)	–	41,518
Sub-total		1,000,106	356,924	(724,279) ^(Note 5)	–	632,751
Other Employees of the Group	15 April 2019 ^(Note 2)	2,987,260	–	(1,574,047)	–	1,413,213
	15 April 2020 ^(Note 3)	3,651,945	–	(2,025,986)	–	1,625,959
	15 April 2021 ^(Note 4)	–	5,037,430	–	–	5,037,430
Sub-total		6,639,205	5,037,430	(3,600,033) ^(Note 6)	–	8,076,602
Total		7,639,311	5,394,354	(4,324,312)	–	8,709,353

REPORT OF THE DIRECTORS

Notes:

1. The five highest paid individuals of the Group for the year include five Directors. For details, please refer to notes 32(c) and 33 to the consolidated financial statements. Therefore the Shimao Group Shares granted under the 2011 Shimao Group Share Award Scheme to the five highest paid individuals in aggregate are not disclosed separately.
2. Subject to the satisfaction of the vesting criteria and conditions of the 2011 Shimao Group Share Award Scheme, 60% of awarded Shimao Group Shares will be vested after 12 months from the date of grant and 40% of awarded Shimao Group Shares will be vested after 24 months from the date of grant. The closing price of the Shimao Group Shares immediately before the date on which the awards were granted was HK\$25.80 per share. The fair value of the awards at the date of grant was HK\$26.00 per share, based on the closing price of the Shimao Group Shares on that date.
3. Subject to the satisfaction of the vesting criteria and conditions of the 2011 Shimao Group Share Award Scheme, 60% of awarded Shimao Group Shares will be vested after 12 months from the date of grant and 40% of awarded Shimao Group Shares will be vested after 24 months from the date of grant. The closing price of the Shimao Group Shares immediately before the date on which the awards were granted was HK\$30.00 per share. The fair value of the awards at the date of grant was HK\$29.56 per share, based on the closing price of the Shimao Group Shares on that date.
4. Subject to the satisfaction of the vesting criteria and conditions of the 2011 Shimao Group Share Award Scheme, 60% of awarded Shimao Group Shares will be vested after 12 months from the date of grant and 40% of awarded Shimao Group Shares will be vested after 24 months from the date of grant. The closing price of the Shimao Group Shares immediately before the date on which the awards were granted was HK\$23.10 per share. The fair value of the awards at the date of grant was HK\$23.35 per share, based on the closing price of the Shimao Group Shares on that date.
5. The Shimao Group Shares were vested on 15 April 2021. The weighted average closing price of the Shimao Group Shares immediately before the date on which the awards were vested was HK\$20.89 per Shimao Group Share.
6. 3,542,842 Shimao Group Shares and 57,191 Shimao Group Shares were vested on 15 April 2021 and 26 April 2021 respectively. The weighted average closing prices of the Shimao Group Shares immediately before the dates on which the awards were vested were HK\$20.89 and HK\$20.84 per Shimao Group Share respectively.

Since the Adoption Date I and up to the date of this report, a total of 48,751,338 Shimao Group Shares have been granted under the 2011 Shimao Group Share Award Scheme. The total number of Shimao Group Shares available for future grant under the 2011 Shimao Group Share Award Scheme is 20,567,678 Shimao Group Shares, representing approximately 0.54% of the total number of issued Shimao Group Shares as at the date of this report.

2. 2021 Shimao Group Share Award Scheme

Another share award scheme of the Company (the "2021 Shimao Group Share Award Scheme") was adopted by the Board on 3 May 2021 (the "Adoption Date II"). Unless terminated earlier by the Board, the 2021 Shimao Group Share Award Scheme is valid and effective for a term of ten years commencing on the Adoption Date II. The participants of the 2021 Shimao Group Share Award Scheme include an employee (including directors, supervisors or senior management) of any member of the Group and Shimao Services Group.

The maximum number of shares which can be awarded under the 2021 Shimao Group Share Award Scheme is 0.3% of the shares of Shimao Services (the "Shimao Services Shares") in issue as at the Adoption Date II (i.e. 7,091,919 Shimao Services Shares). The maximum number of Shimao Services Shares which may be subject to an award or awards to a selected employee under the 2021 Shimao Group Share Award Scheme must not exceed 0.3% of the total number of issued shares of Shimao Services as at the Adoption Date II (i.e. 7,091,919 Shimao Services Shares).

The number of Shimao Services Shares granted is determined based on the grantee's position, experience, years of service, performance and contribution to the Group and Shimao Services Group. The Shimao Services Shares granted will automatically lapse if the grantee, among other things, terminates his/her service or employment relationship with the Group or Shimao Services Group and other circumstances as provided in accordance with the rules of the 2021 Shimao Group Share Award Scheme.

REPORT OF THE DIRECTORS

During the year ended 31 December 2021, a total of 6,865,821 Shimao Services Share was granted under the 2021 Shimao Group Share Award Scheme. Details of the movement of the Shimao Services Shares granted under the 2021 Shimao Group Share Award Scheme during the year ended 31 December 2021 are set out below:

Name of grantees	Date of grant ^(Note 2)	Number of Shimao Services Shares				Outstanding as at 31 December 2021
		Outstanding as at 1 January 2021	Granted during the year	Vested during the year	Lapsed/ cancelled during the year	
Directors ^(Note 1)						
Hui Sai Tan, Jason	10 May 2021	–	57,129	–	–	57,129
Tang Fei	10 May 2021	–	53,418	–	–	53,418
Lu Yi	10 May 2021	–	43,172	–	–	43,172
Ye Mingjie	10 May 2021	–	1,104,728	–	–	1,104,728
Sub-total		–	1,258,447	–	–	1,258,447
Other Employees of the Group (including the employees of Shimao Services Group)	10 May 2021	–	5,607,374	–	–	5,607,374
Total		–	6,865,821	–	–	6,865,821

Notes:

1. The five highest paid individuals of the Group for the year include five Directors. For details, please refer to notes 32(c) and 33 to the consolidated financial statements. Therefore the Shimao Services Shares granted under the 2021 Shimao Group Share Award Scheme to the five highest paid individuals in aggregate are not disclosed separately.
2. Subject to the satisfaction of the vesting criteria and conditions of the 2021 Shimao Group Share Award Scheme, 60% of awarded Shimao Services Shares will be vested after 12 months from the date of grant and 40% of awarded Shimao Group Shares will be vested after 24 months from the date of grant. The closing price of the Shimao Services Shares immediately before the date on which the awards were granted was HK\$19.74 per share. The fair value of the awards at the date of grant was HK\$19.80 per share, based on the closing price of the Shimao Services Shares on that date.

Since the Adoption Date II and up to the date of this report, a total of 6,865,821 Shimao Services Shares have been granted under the 2021 Shimao Group Share Award Scheme. The total number of Shimao Services Shares available for future grant under the 2021 Shimao Group Share Award Scheme is 226,098 Shimao Services Shares, representing approximately 0.009% of the total number of issued Shimao Services Shares as at the date of this report.

REPORT OF THE DIRECTORS

3. Shimao Services Shares Award Scheme

A share award scheme of Shimao Services (the “Shimao Services Share Award Scheme”) was adopted by the Board of Shimao Services on 28 June 2021 (the “Adoption Date III”). The Shimao Services Share Award Scheme shall be valid and effective for a term of ten years commencing on the Adoption Date III. The participants of the Shimao Services Share Award Scheme include an employee of any member of the Shimao Services Group.

The maximum number of Shimao Services Shares which can be awarded under the Shimao Services Share Award Scheme is 3% of the Shimao Services Shares in issue as at the Adoption Date III (i.e. 70,919,190 Shimao Services Shares). The maximum number of Shimao Services Shares which may be subject to an award or awards to a selected employee under the Shimao Services Share Award Scheme must not exceed 3% of the total number of issued shares of Shimao Services as at the Adoption Date III (i.e. 70,919,190 Shimao Services Shares).

The number of Shimao Services Shares granted is determined based on the grantee’s position, experience, years of service, performance and contribution to the Shimao Services Group. The Shimao Services Shares granted will automatically lapse if the grantee, among other things, terminates his/her service or employment relationship with the Shimao Services Group and other circumstances as provided in accordance with the rules of the Shimao Services Share Award Scheme.

Since the Adoption Date III and up to the year ended 31 December 2021, no Shimao Services Share was granted under the Shimao Services Share Award Scheme. Therefore, there is no movement for the awarded Shimao Services Shares during the year ended 31 December 2021.

The total number of Shimao Services Shares available for future grant under the Shimao Services Share Award Scheme is 70,919,190 Shimao Services Shares, representing approximately 2.87% of the total number of issued Shimao Services Shares as at the date of this report.

Further details of the above three share award schemes are set out in note 23(b) to the consolidated financial statement.

Equity-Linked Agreements

Save as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

REPORT OF THE DIRECTORS

Disclosure of Interests in Securities**Directors' and Chief Executive's Interests and Short Position in the Company and the Associated Corporation**

As at 31 December 2021, the interests and short position of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise to be notified to the Company and the HKEx pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules were as follows:

(1) Long position in the shares of the Company

Name of Directors	Capacity/Nature of interests	Number of ordinary shares held	Approximate percentage of issued share capital
Hui Wing Mau	Interest of controlled corporation	2,422,840,586 ^(Note 1)	63.795%
Hui Sai Tan, Jason	Beneficial owner	3,682,198 ^(Note 2)	0.097%
Tang Fei	Beneficial owner	1,241,103 ^(Note 3)	0.033%
Xie Kun	Beneficial owner	332,804 ^(Note 4)	0.009%
Lu Yi	Beneficial owner	546,897 ^(Note 5)	0.014%
Ye Mingjie	Beneficial owner	265,086 ^(Note 6)	0.007%

Notes:

- The interests disclosed represent 2,045,746,316 Shimao Group Shares held by Gemfair Investments Limited ("Gemfair") and 377,094,270 Shimao Group Shares held by Shiyong Finance Limited ("Shiyong Finance"). Both Gemfair and Shiyong Finance are directly wholly-owned by Mr. Hui Wing Mau. By virtue of the SFO, Mr. Hui Wing Mau is deemed to be interested in Shimao Group Shares held by Gemfair and Shiyong Finance.
- The interests disclosed include deemed interests in 119,493 Shimao Group Shares granted under the 2011 Shimao Group Share Award Scheme.
- The interests disclosed include deemed interests in 124,003 Shimao Group Shares granted under the 2011 Shimao Group Share Award Scheme.
- The interests disclosed include deemed interests in 256,504 Shimao Group Shares granted under the 2011 Shimao Group Share Award Scheme.
- The interests disclosed include deemed interests in 91,233 Shimao Group Shares granted under the 2011 Shimao Group Share Award Scheme.
- The interests disclosed include deemed interests in 41,518 Shimao Group Shares granted under the 2011 Shimao Group Share Award Scheme.

REPORT OF THE DIRECTORS

(2) Long position in the shares of associated corporation – Shimao Services

Name of Directors	Capacity/Nature of interests	Number of ordinary shares held	Approximate percentage of issued share capital
Hui Wing Mau	Interest of controlled corporation	1,593,276,680 ^(Note 1)	64.272%
	Other	6,865,821 ^(Note 2)	0.277%
Hui Sai Tan, Jason	Beneficial owner	57,129 ^(Note 3)	0.002%
Tang Fei	Beneficial owner	53,418 ^(Note 3)	0.002%
Xie Kun	Beneficial owner	23,600	0.001%
Lu Yi	Beneficial owner	43,172 ^(Note 3)	0.002%
Ye Mingjie	Beneficial owner	1,904,728 ^(Note 4)	0.077%

Note:

1. The interests disclosed represent 31,934,159 Shimao Services Shares held by Gemfair, 10,856,342 Shimao Services Shares held by Shiyang Finance and 1,550,486,179 Shimao Services Shares held by Best Cosmos Limited ("Best Cosmos"), a wholly-owned subsidiary of the Company. The Company is owned as to 53.866% by Gemfair and 9.929% by Shiyang Finance. Both Gemfair and Shiyang Finance are directly wholly-owned by Mr. Hui Wing Mau. By virtue of the SFO, Mr. Hui Wing Mau is deemed to be interested in Shimao Services Shares held by Gemfair, Shiyang Finance and Best Cosmos.
2. The interests disclosed represent deemed interests in 6,865,821 Shimao Services Shares granted under the 2021 Shimao Group Share Award Scheme of which Best Cosmos as the trustee to hold the awarded shares upon a trust established for the 2021 Shimao Group Share Award Scheme until the awarded shares are vested.
3. The interests disclosed include deemed interests in Shimao Services Shares granted under the 2021 Shimao Group Share Award Scheme.
4. The interests disclosed include deemed interests in 1,104,728 Shimao Services Shares granted under the 2021 Shimao Group Share Award Scheme.

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

Directors' Right to Acquire Shares or Debentures

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

REPORT OF THE DIRECTORS

Interests of Substantial Shareholders

As at 31 December 2021, the interests and short position of substantial shareholders in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

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

Name	Nature of interests	Number of shares or underlying shares held	Approximate percentage of issued share capital
Long position			
Gemfair	Note 1	2,045,746,316	53.866%
Overseas Investment Group International Limited ("Overseas Investment")	Note 2	2,045,746,316	53.866%
Shiyang Finance	Note 3	377,094,270	9.929%
BlackRock, Inc.	Note 4	193,082,363	5.084%

Notes:

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

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

Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed below that during the year ended 31 December 2021, the following Director was considered to have interests in the following businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group.

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

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

REPORT OF THE DIRECTORS

Permitted Indemnity Provisions

The Articles of Association provides that the Directors, secretary or other officers of the Company shall be entitled to be indemnified out of the assets and profit of the Company from and against all actions, costs, charges, losses, damages and expenses which he or she may incur or sustain or about the execution of their duties in their respective offices. In addition, the Company has maintained appropriate directors and officers liability insurance in respect of the relevant legal actions against the Directors.

Purchase, Sale or Redemption of Listed Securities

During the year ended 31 December 2021,

- (1) the Company had purchased in aggregate 5,000,000 shares of the Company on the HKEx at an aggregate consideration of HK\$75,548,560 (before expenses). All the purchased shares were subsequently cancelled.

Particulars of the purchases are as follows:

Month of Purchases	Number of Shares Purchased	Purchase Price		Aggregate Purchase Price (before expenses)
		Highest HK\$	Lowest HK\$	HK\$
July 2021	4,000,000	16.60	15.12	62,895,520
September 2021	500,000	15.74	15.54	7,813,040
November 2021	500,000	9.68	9.68	4,840,000
	5,000,000			75,548,560

The above share purchases were made with a view to enhancing the earnings per share of the Company and thus benefit its shareholders as a whole;

- (2) the Company redeemed on the Singapore Exchange Securities Trading Limited (the "SGX") an aggregate principal of RMB2,150,000,000 of senior notes at a fixed interest rate of 5.75% due on 15 March 2021 and an aggregate principal of US\$820,000,000 of senior notes at a fixed interest rate of 6.375% due on 15 October 2021;
- (3) the Company purchased on the SGX an aggregate of US\$1,500,000 of the principal amount of the 4.75% senior notes due 2022;
- (4) Shanghai Shimao Co., Ltd. ("Shanghai Shimao"), a 63.92%-owned subsidiary of the Company, redeemed on Interbank Market Clearing House Co., Ltd., an aggregate principal amount of RMB800,000,000 of medium-term notes at a fixed interest rate of 6.43% due on 7 February 2021, an aggregate principal amount of RMB700,000,000 of medium-term notes at a fixed interest rate of 6.33% due on 8 March 2021 and an aggregate principal amount of RMB30,000,000 of medium-term notes at a fixed interest rate of 4.50% due on 17 December 2021;
- (5) From 13 to 15 September 2021, Shanghai Shimao purchased on the Shanghai Stock Exchange parts of certain long-term bonds, comprising (i) the long-term bonds at a fixed interest rate of 4.65% due on 15 January 2022 in aggregate principal amount of RMB99,861,000; (ii) the long-term bonds at a fixed interest rate of 4.64% due on 19 March 2022 in an aggregate principal amount of RMB49,956,000; (iii) the long-term bonds at a fixed interest rate of 4.15% due on 22 May 2022 in the aggregate principal amount of RMB25,000,000; and (iv) the long-term bonds at a fixed interest rate of 3.76% due on 7 July 2022 in the aggregate principal of RMB49,921,000;

REPORT OF THE DIRECTORS

- (6) the Company allotted and issued 145,000,000 shares of the Company on 14 December 2021 at an issue price of HK\$8.14 per share on completion of the placing and subscription agreement dated 6 December 2021;
- (7) Shimao Services purchased a total of 10,800,000 Shimao Services Shares on the HKEx at an aggregate consideration of HK\$72,302,910 (before expenses) for the period from September to December 2021. All the purchased Shimao Services Shares were subsequently cancelled;
- (8) Shimao Services allotted and issued 115,000,000 Shimao Services Shares on 2 November 2021 at an issue price of HK\$15.18 per Shimao Services Share on completion of a placing and subscription agreement dated 19 October 2021;
- (9) Crystal Idea Group Limited, being a wholly-owned subsidiary of Shimao Services, issued on 2 November 2021 the HK\$3,110,000,000 2.25% guaranteed convertible bonds due on 31 October 2022, which are listed on the SGX. Shimao Services has unconditionally and irrevocably guaranteed the due payment of all sums to be payable by Crystal Idea Group Limited. The convertible bonds are convertible into 170,691,547 Shimao Services Shares at an initial conversion price of HK\$18.22 per Shimao Services Share. As of 31 December 2021, no Shimao Services Share has been issued pursuant to the conversion of the convertible bonds;
- (10) the trustee of the Company's 2011 Shimao Group Share Award Scheme, pursuant to the terms of the rules and trust deed of the 2011 Shimao Group Share Award Scheme, purchased from the market a total of 11,000,000 Shimao Group Shares of the Company at a total consideration of approximately HK\$233,372,230 (before expense); and
- (11) the trustee of the Shimao Services Share Award Scheme, pursuant to the terms of the rules and trust deed of the Shimao Services Share Award Scheme, purchased from the market a total of 500,000 Shimao Services' shares at a total consideration of approximately HK\$8,327,380 (before expenses).

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of its listed securities during the year ended 31 December 2021.

Connected Transaction

On 15 March 2021, 世茂環禹(上海)實業合夥企業(有限合夥) (Shimao Huanyu (Shanghai) Industry Limited Partnership) ("SH(Shanghai)"), which was owned as to 99.005% by Shanghai Shimao as vendor and Comic Eagle Limited ("CEL") as purchaser entered into a sale and purchase agreement, pursuant to which SH(Shanghai) agreed to sell its entire issued share capital in Shimao Aoya Holding Pty Ltd (the "Target Company") to CEL and CEL agreed to assist the Target Company to repay its debt for an aggregate consideration of approximately AUD103.795 million. The Target Company is an investment holding company and together with its subsidiaries are principally engaged in the operation of the cattle stations in Western Australia.

Shanghai Shimao is a 63.92%-owned subsidiary of the Company. CEL is beneficially wholly-owned by Mr. Hui Wing Mau, being Executive Director, Chairman of the Board and the controlling shareholder (as defined in the Listing Rules) of the Company. Accordingly, CEL, being an associate of Mr. Hui, is a connected person of the Company and the transaction constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

Details of the transaction were set out in the announcement of the Company dated 15 March 2021.

Related Party Transactions

The major related party transactions which were undertaken in the normal course of business of the Group are set out in note 42 to the consolidated financial statements. Save as disclosed in this annual report, none of these related party transactions constituted connected transactions or continuing connected transactions for the Company which is discloseable pursuant to Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

Deed of Non-Competition

On 16 October 2020, the Company and Mr. Hui, the ultimate controlling shareholder of the Company (collectively the "Undertaking Controlling Shareholders") entered into a deed of non-competition (the "Deed of Non-Competition") in favour of Shimao Services.

Each of the Undertaking Controlling Shareholders has unconditionally and irrevocably undertaken to Shimao Services in the Deed of Non-Competition that it/he will not, and will procure its/his close associates (save for members of Shimao Services Group) not to, directly or indirectly conduct or be involved in any business (other than the business of Shimao Services Group) that directly or indirectly competes, or may compete, with the business of Shimao Services Group, being the provision in the PRC of property management services for residential and other properties (including but not limited to governmental and public facilities), value-added services to non-property owners and community value-added services, or hold shares or interest in any companies or business that compete directly or indirectly with the business engaged by Shimao Services Group from time to time, except where the Undertaking Controlling Shareholders and their close associates hold (i) less than 30% of the total issued share capital of any company (whose shares are listed on the HKEx or any other stock exchange); or (ii) less than 30% of interest of any private company, which is engaged in any business that is or may be in competition with any business engaged by any member of Shimao Services Group and they do not possess the right to control the board of directors of such company.

The Deed of Non-Competition will lapse automatically if the Undertaking Controlling Shareholders cease to hold, whether directly or indirectly, 50% or above of the shares of Shimao Services with voting rights or if the shares of Shimao Services cease to be listed on the HKEx.

The Company has confirmed to Shimao Services that during the year ended 31 December 2021, the Group and its close associates (save for members of Shimao Services Group) have complied with the terms of the Deed of Non-Competition.

Continuing Disclosure Pursuant to Rule 13.21 of the Listing Rules

The Company entered into the following agreements:

- (1) A facility agreement on 30 October 2017 between, among others, the Company as borrower, various banks as lenders and The Hongkong and Shanghai Banking Corporation Limited ("HSBC") as facility agent, dual currency term loan facilities in the amount of US\$680,000,000 and HK\$5,890,000,000 have been made available to the Company for a term of 48 months from the date of the facility agreement;
- (2) A facility agreement on 31 July 2018 between, among others, the Company as borrower and Bank of Communications Co., Ltd. Hong Kong Branch ("BoCom HK") as lender, a term loan facility in the amount of HK\$1,500,000,000 has been made available to the Company for a term of 48 months from the date of the facility agreement;
- (3) A facility agreement on 14 September 2018 between, among others, the Company as borrower, various banks as lenders and HSBC as facility agent, dual currency term loan facilities in the amount of US\$290,000,000 and HK\$2,614,500,000 have been made available to the Company for a term of 48 months from the date of the facility agreement;
- (4) A facility agreement on 26 June 2019 between, among others, the Company as borrower and BoCom HK as lender, a term loan facility in the amount of HK\$1,500,000,000 has been made available to the Company for a term of 48 months from the date of the facility agreement;
- (5) A facility agreement on 9 August 2019 between, among others, the Company as borrower, various banks as lenders and HSBC as facility agent, dual currency term loan facilities in the amount of US\$837,850,000 and HK\$3,994,000,000 have been made available to the Company for a term of 48 months from the date of the facility agreement; and

REPORT OF THE DIRECTORS

- (6) A facility agreement on 22 April 2021 between, among others, the Company as borrower, various banks as lenders and HSBC as facility agent, a term loan facility in the amount of US\$1,315,000,000 or its equivalent has been made available to the Company for a term of 48 months from the date of the facility agreement.

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

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2021 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

Auditor

On 24 March 2022, PricewaterhouseCoopers resigned as auditor of the Company and ZHONGHUI ANDA CPA Limited ("ZHONGHUI ANDA") has been appointed as the new auditor of the Company to hold office until the conclusion of the next AGM. Please refer to the announcement of the Company dated 25 March 2022 for further details.

The consolidated financial statements for the year ended 31 December 2021 have been audited by ZHONGHUI ANDA. A resolution for the re-appointment of ZHONGHUI ANDA as the Company's auditor will be proposed at the forthcoming AGM.

On behalf of the Board
Hui Wing Mau
Chairman

Hong Kong, 28 July 2023

CORPORATE GOVERNANCE REPORT

A. Corporate Governance Practices

Shimao Group Holdings Limited (the “Company”) is committed to achieving and maintaining high standards of business ethics and corporate governance. It believes that, in the achievement of long term objectives of the Company and its subsidiaries (together the “Group”), it is of utmost importance to conduct business with accountability, transparency and fairness. The Group’s interests as well as those of its shareholders will be maximized in the long run by adhering to these principles.

The Company complied with the code provisions set out in the Corporate Governance Code (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “HKEx”) throughout the financial year ended 31 December 2021 with the exception of one deviation, namely, code provision F.2.2 providing for the chairman of the board should attend the annual general meeting. The reason of the said deviation from the relevant code provision is set out under the paragraph on “F.1 Shareholders Communication Policy” below.

B. Directors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the directors of the Company (the “Directors”). The Company has made specific enquiry of all Directors and all Directors confirmed that they had complied with the required standard set out in the Model Code during the financial year.

C. Directors

C.1 The Board

The board of directors of the Company (the “Board”), which is accountable to the shareholders of the Company, is responsible for the leadership and control of the Company and oversees the Group’s businesses, strategic decisions and performances. The management is entrusted by the Board with the authority and responsibility for the day-to-day management of the Group and assumes full accountability to the Board for the operation of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for the Board’s approval before publication, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements, rules and regulations. It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company’s circumstances and to ensure processes and procedures are in place to achieve the Company’s corporate governance objectives.

The Company has established internal policies, including but not limited to the articles of association (the “Articles”), and terms of references of the audit committee (the “Audit Committee”), the remuneration committee (the “Remuneration Committee”) and the nomination committee (the “Nomination Committee”) of the Company, to ensure that the Board has access to independent views and opinions. These policies cover the Company’s procedures and selection criteria for the election and appointment of Directors, the mechanism for Directors to abstain from voting on relevant proposals considered by the Board, and the authority of the independent board committee to engage independent financial advisors or other professional consultants. The Company has reviewed the implementation and effectiveness of the aforesaid mechanisms and considers that the aforesaid mechanisms can ensure the independent views and opinions of the Board.

CORPORATE GOVERNANCE REPORT

Currently, the Board consisted of nine Directors, comprising four Executive Directors, two Non-executive Directors together with three Independent Non-executive Directors who all possess appropriate academic and professional qualifications or related financial management expertise and have brought a wide range of business and financial experience to the Board.

The Board has four scheduled meetings a year at approximately quarterly interval and meets as and when required. During the financial year ended 31 December 2021, four Board meetings were held, all of which were attended by all Directors. All Directors attended Board meetings in person or through electronic means of communication during the year. Details of the attendance records of the Directors are set out in the table on page 37. Apart from formal meetings, matters requiring the Board approval were dealt with by way of written resolutions.

The Board is responsible for performing the corporate governance duties set out in the code provision A.2.1 of the Code. This corporate governance report has been reviewed by the Board in discharge of its corporate governance function.

The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Company by directing and supervising the Company's affairs. The Board is committed to the Company's objective of consistent growth and development and increase in shareholder value. The Board sets strategies for the Company and monitors the performance and activities of the management.

C.2 Chairman and President

Mr. Hui Wing Mau, the Chairman, is responsible for providing leadership to the Board in terms of establishing policies and business directions and ensures that the Board discharges its responsibilities. Mr. Hui Sai Tan, Jason, the Vice Chairman and the President, is responsible for the overall operation and executive responsibilities of the Group as well as leading the management of the Group in implementing the strategies and policies established by the Board.

The other Executive Directors are delegated with responsibility to oversee and monitor the operations of specific business areas and to implement the strategies and policies formulated by the Board.

C.3 Board Composition

The Board has a balance of skills and experience appropriate for the Company's businesses. Given below are names of Directors during the financial year ended 31 December 2021 and up to the date of this report:

Executive Directors

Mr. Hui Wing Mau (*Chairman*)
 Mr. Hui Sai Tan, Jason (*Vice Chairman and President*)
 Ms. Tang Fei
 Mr. Xie Kun (appointed on 13 December 2021)

Non-executive Directors

Mr. Lu Yi
 (redesignated from Executive Director to
 Non-executive Director on 2 August 2023)
 Mr. Ye Mingjie

Independent Non-executive Directors

Mr. Lyu Hong Bing
 Mr. Lam Ching Kam
 Mr. Fung Tze Wa (appointed on 24 August 2022)
 Ms. Kan Lai Kuen, Alice (resigned on 24 August 2022)

CORPORATE GOVERNANCE REPORT

Brief biographical particulars of all existing Directors, together with information relating to the relationship among them, are set out in the “Directors and Senior Management Profiles” section under this annual report.

The Independent Non-executive Directors, who represent one-third of the Board, bring independent advice, judgment and scrutiny of executives and review of performance and risks.

The Board considers that all the Independent Non-executive Directors are independent in character and judgment and meet the guidelines for assessment of independence as set out in Rule 3.13 of the Listing Rules during their tenure of services. Confirmation has been received from all Independent Non-executive Directors that they are independent as set out in Rule 3.13 of the Listing Rules during their tenure of services. In addition, Mr. Fung Tze Wa has the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

Independent Non-executive Directors are identified as such in all corporate communications containing the names of the Directors.

C.4 Appointments, Re-election and Removal

During the financial year ended 31 December 2021, other than Mr. Lu Yi, Mr. Ye Mingjie and Mr. Xie Kun, each of the Directors has entered into a service contract with the Company for a specific term. However, such term is subject to his/her re-appointment by the Company at annual general meeting upon retirement by rotation pursuant to the Articles. The Articles state that each Director shall retire from office by rotation at least once every three years after he/she was last elected or re-elected and Directors holding offices as chairman and managing director are also subject to retirement by rotation. Accordingly, the term of appointment of all Directors is effectively not more than about three years. The Articles also provide that any Director appointed by the Board, either to fill a casual vacancy on the Board or as an addition to the existing Board, shall hold office only until the upcoming annual general meeting of the Company and shall then be eligible for re-election.

C.5 Board Diversity

The Company recognizes the benefits of having a Board that has a balance of skills, experience and diversity of perspective appropriate to the requirements of the Company’s businesses. The Board adopted a board diversity policy for the Company (the “Board Diversity Policy”) which stipulates that for identifying individuals suitably qualified to become Directors, the Nomination Committee should, while reviewing the Board’s composition, consider from a wide range of aspects for Board diversity, including, but not limited to gender, age, cultural and educational background, ethnicity, professional experience, required expertise, skills, knowledge and length of service, and any other factors that the Board may consider relevant and applicable from time to time. All appointments of Directors should have taken into account the aforesaid factors as a whole for the benefits of the Company. Selection of candidates will be based on the Company’s Nomination Policy and will take into account the Board Diversity Policy. The ultimate decision will be based on merit against objective criteria and contribution that the candidate will bring to the Board. The Nomination Committee will monitor the implementation of the Board Diversity Policy. It will also from time to time review the Board Diversity Policy, as appropriate, to ensure the effectiveness of the policy.

The Nomination Committee considered that the Board consists of a diverse mix of members and has provided a good balance of skills and experience appropriate to the business needs of the Group. Our Board currently has one female Director out of nine Directors, and is committed to improving gender diversity as and when suitable candidates are identified.

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The current board diversity mix is shown below:

	Number of Directors
Designation	
Executive Directors	4
Non-executive Directors	2
Independent Non-executive Directors	3
Gender	
Male	8
Female	1
Age	
31–40 years old	1
41–50 years old	2
51–60 years old	3
61–70 years old	2
Above 70 years old	1

	Directors' skills, expertise and experience				
	Executive leadership & strategy/directorship experience with other listed company(ies)	Property Development, Property Management & Construction	Mainland China Exposure	Accounting professionals/ financial management expertise	Legal professionals/ regulatory & compliance
Executive Directors					
Mr. Hui Wing Mau (<i>Chairman</i>)	✓	✓	✓		
Mr. Hui Sai Tan, Jason (<i>Vice Chairman and President</i>)	✓	✓	✓		
Ms. Tang Fei	✓	✓	✓	✓	
Mr. Xie Kun (appointed on 13 December 2021)	✓	✓	✓		
Non-executive Directors					
Mr. Lu Yi (redesignated from Executive Director to Non-executive Director on 2 August 2023)	✓	✓	✓		
Mr. Ye Mingjie	✓	✓	✓		
Independent Non-executive Directors					
Mr. Lyu Hong Bing	✓		✓		✓
Mr. Lam Ching Kam	✓	✓	✓		
Mr. Fung Tze Wa (appointed on 24 August 2022)	✓		✓	✓	✓
Coverage (% of entire Board)	100%	78%	100%	22%	22%

CORPORATE GOVERNANCE REPORT

To ensure there is gender diversity on the Board, the Board has set a target that there should have at least one Director of different gender on the Board, subject to the Directors (i) being satisfied with the competence and experience of the relevant candidates after a holistic review process based on reasonable criteria; and (ii) fulfilling their fiduciary duties to act in the best interest of the Company and the shareholders as a whole when deliberating on the appointment.

To develop a pipeline of potential successors of different genders to the Board, the Company will (i) ensure that there is emphasis on gender diversity when recruiting staff at all levels; and (ii) engage fair resources in training staff of different genders with the aim of promoting them to be members of senior management or the Board. Through this, the Company is committed to identifying suitable candidates of different genders both internally and externally in order to achieve the abovementioned target.

In striving to maintain gender diversity, similar considerations are used when recruiting and selecting key management and other personnel across the Company's operations. As at 31 December 2021, we maintained a 51:49 ratio of men to women in the workplace.

C.6 Directors' Induction and Continuous Professional Development

Every newly appointed Director receives briefings and orientation containing their legal and other responsibilities as a Director and the role of the Board together with materials on the Company's businesses and operations from the Company Secretary. The Company provides appropriate and sufficient information to Directors in a timely manner to keep them apprised of the latest development of the Group and to enable them to make an informed decision as well as to discharge their duties and responsibilities as Directors of the Company. Each Director has independent access to senior executives on operating issues.

The Directors are continually updated with legal and regulatory developments, business and market changes and strategic development of the Group to facilitate the discharge of their responsibilities.

According to the records maintained by the Company Secretary, all Directors pursued continuous professional development during the year and relevant details are set out below:

Directors	Reading materials
Mr. Hui Wing Mau	✓
Mr. Hui Sai Tan, Jason	✓
Ms. Tang Fei	✓
Mr. Xie Kun	✓
Mr. Lu Yi	✓
Mr. Ye Mingjie	✓
Mr. Lyu Hong Bing	✓
Mr. Lam Ching Kam	✓
Ms. Kan Lai Kuen, Alice (resigned on 24 August 2022)	✓

CORPORATE GOVERNANCE REPORT

C.7 Board and Committee Meetings

Individual attendance records of the Directors at board meetings, board committees' meetings and annual general meeting during the financial year ended 31 December 2021, are set out below:

Directors	Attendance/Number of Meeting(s)				
	Board meeting	Audit Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	Annual general meeting
Mr. Hui Wing Mau	4/4	N/A	N/A	N/A	0/1
Mr. Hui Sai Tan, Jason	4/4	N/A	N/A	N/A	1/1
Ms. Tang Fei	4/4	N/A	N/A	N/A	0/1
Mr. Xie Kun (appointed on 13 December 2021)	2/2	N/A	N/A	N/A	N/A
Mr. Lu Yi	4/4	N/A	N/A	N/A	0/1
Mr. Ye Mingjie	4/4	N/A	N/A	N/A	0/1
Mr. Lyu Hong Bing	4/4	2/2	1/1	2/2	0/1
Mr. Lam Ching Kam	4/4	2/2	1/1	2/2	0/1
Ms. Kan Lai Kuen, Alice (resigned on 24 August 2022)	4/4	2/2	1/1	2/2	1/1

C.8 Supply of and Access to Information

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying Board papers are circulated in full to all Directors in a timely manner to enable the Directors to make informed decisions on matters to be raised at the Board meetings.

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

D. Board Committees

The Company has established three Board Committees, namely, Audit Committee, Remuneration Committee and Nomination Committee, with specific terms of reference which clearly define their authorities and responsibilities. The terms of reference of these committees are available on the Company's website at www.shimaogroup.hk.

All three Board Committees are required by their terms of reference to report to the Board with respect to their decisions, findings or recommendations.

D.1 Nomination Committee

The Nomination Committee currently comprises three members, namely, Mr. Lam Ching Kam, Mr. Lyu Hong Bing and Mr. Fung Tze Wa, all of whom are Independent Non-executive Directors. The Nomination Committee is chaired by Mr. Lam Ching Kam.

There was one Nomination Committee meeting held during the financial year ended 31 December 2021. Details of attendance of the Nomination Committee members are set out in the table on page 37.

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

The work performed by the Nomination Committee for the financial year ended 31 December 2021 is the review of the structure, size and composition (including the mix of skills, knowledge and experience) of the Board and recommendation to the Board for approval the appointment of Mr. Xie Kun as the Executive Director.

The Board has adopted a nomination policy (the "Nomination Policy") which sets out procedure, process and criteria in evaluating and selecting candidates for directorships of the Company. Pursuant to the Nomination Policy, the Nomination Committee shall consider the following criteria in evaluating and selecting candidates for directorships:

- (a) character and integrity;
- (b) qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- (c) commitment of the candidate to devote sufficient time to effectively carry out his/her duties. In this regard, the number and nature of offices held by the candidate in public companies or organizations, and other executive appointments or significant commitments will be considered;
- (d) independence of the candidate;
- (e) Board Diversity Policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board; and
- (f) other factors considered to be relevant by the Nomination Committee on a case by case basis.

The nomination procedure and process for appointment of new Director, re-appointment of Directors and nomination by shareholders of the Company have been adopted and included in the Nomination Policy. The Nomination Committee will review and monitor from time to time the implementation of the Nomination Policy to ensure its effectiveness. In December 2021, the Nomination Committee reviewed the qualification, experience, expertise and other factors of candidates for appointment as Executive Director with reference to the Nomination Policy.

D.2 Remuneration Committee

The Remuneration Committee currently comprises three members, namely, Mr. Lyu Hong Bing, Mr. Lam Ching Kam and Mr. Fung Tze Wa, all of whom are Independent Non-executive Directors. The Remuneration Committee is chaired by Mr. Lyu Hong Bing.

There was two Remuneration Committee meetings held during the financial year ended 31 December 2021. Details of attendance of the Remuneration Committee members are set out in the table on page 37.

The primary functions of the Remuneration Committee are to evaluate the performance and make recommendations to the Board on the remuneration package of the Directors and senior management and to evaluate as well as make recommendations on the Company's share award scheme.

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The work performed by the Remuneration Committee for the financial year ended 31 December 2021 is summarized below:

- (a) review of the Company's policy and structure for all remunerations of Directors and senior management of the Company; and
- (b) consideration and recommendation to the Board on the remunerations for all Directors and senior management of the Company.

Details of the Directors' remunerations (including the Executive Directors who are also the senior management of the Company) are set out in note 33 to the consolidated financial statements of this annual report.

D.3 Audit Committee

The Audit Committee currently comprises three Independent Non-executive Directors, being Mr. Fung Tze Wa (as the chairman of the Audit Committee), Mr. Lyu Hong Bing and Mr. Lam Ching Kam.

There were two Audit Committee meetings held during the financial year ended 31 December 2021. Details of attendance of the Audit Committee members are set out in the table on page 37.

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

Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings will be sent to all members of the Audit Committee for their comments and records, within a reasonable time after each meeting.

The work performed by the Audit Committee for the financial year ended 31 December 2021 is summarized below:

- (a) review of the audit plan of the external auditor and discussion with them about the nature and scope of the audit;
- (b) approval of the remuneration and terms of engagement of external auditor;
- (c) review of the external auditor's independence and objectivity and the effectiveness of audit process according to applicable standards; and
- (d) review of the annual result of the Group before submission to the Board.

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

The consolidated annual results of the Group for the year ended 31 December 2021 have been reviewed by the Audit Committee.

The Audit Committee meets the external auditor at least twice a year. A statement by the auditor about their reporting responsibilities is included in the Independent Auditor's Report set out on pages 52 to 53 of this annual report.

CORPORATE GOVERNANCE REPORT

The remuneration to the Company's auditor in respect of the services rendered for the year ended 31 December 2021 is set out as follows:

Services rendered	RMB'000
Audit services	23,000
Other services	
– Service in connection with the notes offering	2,600
– Others	2,180
Total	27,780

E. Accountability and Audit

E.1 Financial Reporting

All Directors are provided with a review of the Group's major business activities and key financial information on a monthly basis.

The Directors are responsible for overseeing the preparation of the financial statements for each financial period which gives a true and fair view of the Group's state of affairs, results and cash flows for relevant period.

The Company recognizes that high quality corporate reporting is important in reinforcing the long term and trustworthy relationship with the Company's shareholders and aims at presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects in all corporate communications.

The Directors acknowledge their responsibilities for preparing all information and representations contained in the consolidated financial statements of the Group for the year ended 31 December 2021 which give a true and fair view of the financial position of the Group and of the operating results and cash flow for the year then ended. The Directors consider that the financial statements have been prepared in conformity with all applicable accounting standards and disclosure requirements and reflect amounts that are based on the best estimates, reasonable information and prudent judgment of the Board and the management, and the Directors have prepared the consolidated financial statements of the Group on a going concern basis.

The statements of the auditor of the Group about its reporting responsibility on the consolidated financial statements of the Group are set out in the section headed "Independent Auditor's Report" on pages 52 to 53 of this report.

Going Concern and Mitigation Measures

As a result of the matters described in the section headed "Basis for Disclaimer of Opinion – Multiple uncertainties relating to going concern" in the "Independent Auditor's Report" on page 52 of this annual report, the Company's independent auditor, ZHONGHUI ANDA CPA Limited (the "Auditor"), did not express an opinion on the consolidated financial statements of the Group for the year ended 31 December 2021.

The Directors have given due consideration to the matters that give rise to material doubt as to its ability to continue as a going concern, and accordingly, have proactively come up with debt solutions to alleviate the liquidity pressure, details of which are set out in note 2(a) to the consolidated financial statements as contained in this annual report.

CORPORATE GOVERNANCE REPORT

The Directors are of the opinion that, assuming the aforesaid plans and measures can be successfully implemented as scheduled, the Group is able to continue as a going concern and would have sufficient financial resources to finance the Group's operations and meet its financial obligations as and when they fall due within the following twelve months from 31 December 2021. Accordingly, it is appropriate to prepare the consolidated financial statements on a going concern basis.

The Audit Committee has discussed with the Board and the Group's management regarding the going concern issue, and on the basis of the successful implementation of the plans and measures, agreed with the position taken by the Group's management and the Board regarding the accounting treatment adopted by the Company.

The Audit Committee also discussed and understood the concerns of the Auditor that uncertainties exist as to whether the Group's management will be able to achieve its plans and measures. There is no disagreement by the Board, the Group's management nor the Audit Committee with the position taken by the Auditor regarding the going concern issue.

Further details on the material uncertainties relating to the Group's going concern and their mitigation measures are set out in note 2(a) to the consolidated financial statements in this annual report.

Major Judgmental Areas

With reference to the accounting treatment on a financing arrangement entered into between a subsidiary of the Group and a third-party trust company described in the Independent Auditor's Report on page 53 of this annual report, the management judged the transaction with a third-party trust company as a long-term equity cooperation to jointly develop and manage the project before March 2022 and changed to interest-bearing debt afterwards. The basis was as follows:

- (i) The project was a large-size complex project and would take more than 10 years to complete. Long-term and sustainable shareholder structure and funding were more favorable to the project. The trust company and the Group reached the cooperation with this common understanding.
- (ii) The trust company held 30% equity interest of a subsidiary of the Group and appointed a director to participate in the management and operation of the subsidiary.
- (iii) Unfavorable change of business and economic environment happened in 2022, when the trust needed to repay its investor funds again, and the Group was caught by its liquidity issue and failed to pay the trust on schedule. Subsequently, the Group received an enforcement notice from the trust, which implied that the trust no longer claims to exercise its shareholder's right, but require the Group to repay as a fixed-term debt.

Based on the above reasonable commercial grounds, the Group treated the amount related to the trust as non-controlling interest and amount due to related parties by the end of 2021, and changed to treat the balance as borrowings since 2022 and accrued the interests.

The auditor shared the same view with the management that the remaining balance of the trust was a fixed-term debt by the end of 2022. Since the auditor was unable to i) obtain direct evidence from the trust whether the balance by the end of 2020 and 2021 should be treated as non-controlling interest or a fixed-term debt; and ii) get evidence to verify if the accumulated accrued interest expenses should be recognized in 2021 or before 2021; the related accounting treatment was qualified accordingly.

The Board and the Audit Committee confirmed that they have reviewed and agreed with the management's position and the basis of assessment on the major judgmental area.

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E.2 Risk Management and Internal Control

The Board is responsible for the Group's risk management and internal control systems and reviews their effectiveness annually. Such systems are designed to manage the Group's risks within an acceptable risk profile and provide reasonable assurance against material misstatement or loss.

The senior management under the supervision of the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the risk management and internal control framework when there are changes in business, external environment or legal and regulatory guidelines.

The Audit Committee assists the Board in fulfilling its oversight role in the Group's risk management and internal control systems. The Audit Committee reviews, among others, the financial controls, risk management and internal control systems of the Group and any significant internal control issues identified by the internal audit department, external auditor and senior management.

The internal audit function assesses and monitors the effectiveness of the Group's risk management and internal control systems and reports to the Audit Committee on a half-yearly basis. It has unrestricted access to the company records that allows it to review all aspects of the Group's control and governance process. The scope of work includes financial and operational review, recurring and unscheduled audit, fraud investigation and whistleblowing.

Following the issues raised by PricewaterhouseCoopers, the former auditor of the Company, in its resignation letter, the Company has engaged an independent investigator to conduct an independent investigation on the above issues and engaged an internal control consultant to perform a review on the Group's internal control systems and procedures. As disclosed in the Company's announcement dated 23 June 2023 relating to the key findings of the independent investigation and announcement dated 21 July 2023 relating to the key findings of internal control review, certain internal control issues and deficiencies were identified. Major internal control issues identified are as follow:

- (1) The Company did not have a risk register at the Group level and a written summary record of the assessment of various types of risk matters;
- (2) The former auditor of the Company identified four trust loan arrangements (the "Trust Loans") where the Company and its subsidiaries have provided guarantees and pledges as security for the Trust Loans. However, the Company did not include the credit enhancement arrangements in relation to the Trust Loans in the lists of pledges and guarantees provided to the previous auditor in 2020 and mid-2021;
- (3) With regards to the other trust loan arrangements for 14 trade and procurement associated companies and joint ventures and 13 development associated companies and joint ventures, the Company's subsidiaries have provided asset pledges and corporate guarantees for these trust loans. However, the list of pledges and guarantees provided by the Company to the former auditor in 2020 and mid-2021 did not include those credit enhancement arrangements provided to the relevant trust institutions;
- (4) The Group failed to comply with the requirements of Rules 13.49(1) and 13.46(2)(a) of the Listing Rules to publish the 2021 annual results and annual report within the specified period after the end of the year ended 31 December 2021;
- (5) The Group failed to meet the requirements under Rules 13.49(6) and 13.48(1) of the Listing Rules to publish the 2022 interim results and interim report within the specified period;

CORPORATE GOVERNANCE REPORT

- (6) In the Group's "Financing Business Risk Management System", the standard approval process for mortgages/pledges involving assets of the Group to lenders, including self-operated loans, guarantees for bank loans of third parties, joint ventures and associated companies, etc. and its record keeping requirements were not clearly specified;
- (7) The relevant departments involved, including the legal department and the administrative department, used SAP system to approve the relevant bank loans in accordance with the requirements of the "Funds Allocation System" and "Implementation Rules for the Management of Shimao Group's Seal Borrowing". However, the internal control consultant has noted (i) one case of variation to terms, and (ii) three cases of execution of the loan documents prior to the approval by the SAP system;
- (8) A wholly-owned subsidiary of the Group provided a shareholder loan in the amount of RMB3.76 billion to its subsidiary. However, the relevant loan did not stipulate interest rate, repayment method and due date in accordance with the requirements in the "Management Measures for the Calculation of Internal Fund Costs" of the "Fund Allocation System";
- (9) A subsidiary of the Group entered into a trust financing arrangement for a project in 2020 and the outstanding balance of the loan was RMB6 billion in March 2022. If it had been known at the time of providing collateral that all or part of the relevant trust financing amount would be diverted back to the Group, the relevant amount should have been listed in the SAP approval process in advance or at the same time. However, in the SAP approval process, it was not stated that all or part of the proceeds would be diverted back to the Group;
- (10) In September 2020, a RMB1.4 billion trust loan arrangement was established where the borrower was an associated company of the Group. A wholly-owned subsidiary of the Group provided a guarantee and a pledge of assets (land and shares) as security for the trust loan. The completion date of the SAP system approval was on 10 September 2020, where the relevant loan and guarantee documents were signed on 8 September 2020. The borrower subsequently defaulted on the repayment, and the subsidiary guarantor become an obligor and signed the Debt Confirmation Agreement on 19 November 2021. However, the relevant departments did not keep written records of monitoring repayment of the loan by the borrower;
- (11) In June 2020, a trust corporation established a trust loan arrangement with an associated company of the Group and subsequently granted a loan of RMB500 million. Certain subsidiaries of the Company provided guarantee and asset (real estate and land) pledge as security and the proceeds of the loan was diverted back to the Group. If it had been known that the whole or part of the relevant trust loan amount would be diverted back to the Group when the collateral was provided, the relevant amount should have been listed in the SAP approval process in advance or at the same time;
- (12) A trust corporation established a trust loan arrangement with a joint venture of the Company in 2020 and the outstanding balance of the trust loan at the end of 2021 was RMB330 million. Certain subsidiaries of the Company provided guarantee and asset (real estate and land) pledge as security and the proceeds of the loan was diverted back to the Group. If it had been known that the whole or part of the relevant trust loan amount would be diverted back to the Group when the collateral was provided, the relevant amount should have been listed in the SAP approval process in advance or at the same time;
- (13) The "Shimao Group Investment Management System" did not state the evaluation of the background and qualifications of target companies and keeps relevant records during the approval of equity investment projects;

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(14) According to the fund management requirements of the “Financial Management System Manual” of the Group, bank accounts should be cleared up from time to time, and infrequently used bank accounts should be canceled in a timely manner. However, the review identified that certain companies in the Group did not regularly check whether the bank accounts were still valid; and

(15) It was found that in terms of the custody of the documents of the Group, some of the agreements under the Trust Loans could not be retrieved by the Group’s personnel due to the resignation of the employees of the subsidiaries, and there were also situations where the Group headquarters personnel could not confirm the status of whether the relevant documents have finally been signed. In addition, in relation to the sales and procurement, it was also found that the personnel of the Group’s financial management center failed to retrieve relevant supporting documents in time due to the resignation of the employees of subsidiaries.

Based on these findings and rectification recommendations made by the internal control consultant, the Company has put in place measures to address the deficiencies identified and implement the rectification recommendations.

The internal control consultant has further conducted a follow-up review and was satisfied that the Company has in place adequate internal controls and procedures. Based on the findings of the follow-up review by the internal control consultant, the Board and the Audit Committee are also satisfied that the Company has in place adequate internal controls and procedures.

The Company has formulated an inside information policy. This ensures timely reporting and disclosure as well as fulfilment of the Company’s continuous disclosure obligations. Directors and employees are regularly reminded for the compliance of all policies related to inside information.

F. Communication with Shareholders

F.1 Shareholders Communication Policy

A Shareholders Communication Policy has been adopted by the Company to ensure that the Company’s shareholders, both individual and institutional (collectively, the “Shareholders”), and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable the Shareholders to exercise their rights in an informed manner, and to allow the Shareholders and the investment community to engage actively with the Company.

The Company makes full use of the internet to make information broadly available to the Shareholders. Electronic copies of annual and interim reports, announcements, circulars and general information about the Group’s businesses are made available on the Company’s website at www.shimaogroup.hk. The Company’s website also provides email address, postal address, fax number and telephone number by which the Shareholders may at any time address their enquiries to the Company.

The 2021 Annual General Meeting (the “2021 AGM”) of the Company was held on 8 June 2021. Details of attendance of the Directors in the 2021 AGM are set out in the table on page 37. The Company’s external auditor, PricewaterhouseCoopers, attended the 2021 AGM, during which its representative was available to answer questions raised by the Shareholders. The Chairman of the Board was unable to attend the 2021 AGM (as required by the code provision F.2.2 of the Code) due to the sudden change of the schedule. Meanwhile, the other Board members, the senior management and the external auditor attended the 2021 AGM to answer the questions raised by and understand the views of the shareholders thereat.

The Board conducted a review of the implementation and effectiveness of the Shareholders Communication Policy. Having considered the multiple channels of communication in place, the Board is satisfied that the Shareholders Communication Policy has been properly implemented during 2021 and is effective.

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F.2 Dividend Policy

Policy on payment of dividends of the Company is in place setting out the factors in determination of dividend payment which shall include but not limited to the Group's general financial condition, actual and future operations and liquidity position, and expected working capital requirements and future expansion plans. The policy will continue to be reviewed in light of the financial position of the Company, and submitted to the Board for approval if amendments are required.

G. Company Secretary

Ms. Lam Yee Mei, Katherine is a full-time employee of the Company with professional qualifications and extensive experience to discharge the functions of Company Secretary of the Company. During the year, Ms. Lam undertook over 15 hours of professional training to update her skills and knowledge. The Company Secretary plays an important role in supporting the Board by ensuring efficient information flow within the Board and that Board procedures, and all applicable law, rules and regulations are followed. The Company Secretary reports to the Board through the Chairman and Vice Chairman whilst all Directors have access to the advice and services of the Company Secretary.

H. Shareholders' Rights

H.1 Procedures for convening an extraordinary general meeting ("EGM")

Pursuant to Article 58 of the Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "EGM Requisitionists") shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The EGM Requisitionists can deposit the written request at the Company's principal place of business in Hong Kong (the "Principal Office"), which is presently situated at 38th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong. The EGM Requisitionists must state in their request(s) the objects of the EGM, and such request(s) must be signed by all the EGM Requisitionists, and may consist of several documents in like form, each signed by one or more of the EGM Requisitionists.

The Company's branch share registrar and transfer office in Hong Kong will verify the EGM Requisitionists' particulars at the EGM Requisitionists' request. Promptly after receipt of confirmation from the Company's branch share registrar and transfer office in Hong Kong that the EGM Requisitionists' request is valid, the Company Secretary will arrange the Board to convene an EGM by serving sufficient notice to all the registered shareholders in accordance with all the relevant statutory and regulatory requirements. On the contrary, if the EGM Requisitionists' request is confirmed invalid, the requested EGM will not be convened and notification will be made to the EGM Requisitionists accordingly.

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

H.2 Procedures for putting forward proposals at general meeting(s)

There are no provisions allowing the Shareholders to propose new resolution(s) at a general meeting(s) under the Cayman Islands Companies Law. However, the Shareholders are requested to follow Article 58 of the Articles for moving proposing resolution(s) at a general meeting(s). The requirements and procedures are set out above.

CORPORATE GOVERNANCE REPORT

H.3 Procedures for proposing a person to be elected as a director of the Company

Pursuant to Article 88 of the Articles, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a member of the Company (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the Company's Principal Office or at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules. The procedures for the Shareholders to propose a person for election as Director is posted on the Company's website.

H.4 Procedures for sending enquiries to the Board

Shareholders should direct their enquiries about their shareholdings to the Company's share registrar, Tricor Investor Services Limited, at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong, or call its customer service hotline at (852) 2980 1333.

Shareholders may at any time send their enquiries in respect of the Company via email at the email address ir@shimaogroup.com.

I. Significant Amendments to Constitutional Documents

During the financial year ended 31 December 2021, there is no significant change in the constitutional documents of the Company.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Executive Directors

Hui Wing Mau (Chairman)

Mr. Hui Wing Mau, aged 73, the Chairman and Executive Director of Shimao Group Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) and the founder of the Group. With over 33 years’ experience in property development, property investment and hotel operation, he is primarily responsible for the Group’s overall strategic planning and business management. Mr. Hui is currently the president of China Federation of Overseas Chinese Entrepreneurs, Life Honourary Chairman of New Home Association, Hong Kong and chairman of Hong Kong Federation of Overseas Chinese Associations etc.. Mr. Hui obtained a Master’s Degree in Business Administration from the University of South Australia. Mr. Hui is also the non-executive chairman of Shanghai Shimao Co., Ltd. (“Shanghai Shimao”), a subsidiary of the Company listed on the Shanghai Stock Exchange and the chairman and a director of Shimao International Holdings Limited. He is a director of Gemfair Investments Limited and Shiyang Finance Limited, substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). He has been the Chairman and Executive Director of the Company since 8 November 2004. Mr. Hui is the father of Mr. Hui Sai Tan, Jason, the Vice Chairman, President and an Executive Director of the Company and the chairman and executive director of Shimao Services Holdings Limited (“Shimao Services”), a subsidiary of the Company listed on The Stock Exchange of Hong Kong Limited (the “HKEx”), and Ms. Hui Mei Mei, Carol, the vice chairman of Shanghai Shimao.

Hui Sai Tan, Jason (Vice Chairman and President)

Mr. Hui Sai Tan, Jason, aged 46, joined the Group in March 2000 and has been an Executive Director, the Vice Chairman and President of the Company since 17 November 2004, 21 April 2008 and 30 January 2019 respectively. Mr. Jason Hui obtained a Master of Science Degree in Real Estate from the University of Greenwich, the United Kingdom in 2001 and a Master’s Degree in Business Administration from the University of South Australia in 2004. He has more than 24 years’ experience in property development and management. He is a member of Shanghai Committee of the Chinese People’s Political Consultative Conference and the president of New Home Association, Hong Kong. Mr. Jason Hui is also a director of Shanghai Shimao, and the chairman and an executive director of Shimao Services. Mr. Jason Hui is the son of Mr. Hui Wing Mau, the Chairman, an Executive Director and a controlling shareholder (as defined in the Rules Governing the Listing of Securities (the “Listing Rules”) on the HKEx) of the Company, and the brother of Ms. Hui Mei Mei, Carol, the vice chairman of Shanghai Shimao.

Tang Fei

Ms. Tang Fei, aged 52, has joined the Group since July 2004 and was appointed an Executive Director of the Company since 6 February 2013. Ms. Tang is currently a Vice President of the Group, responsible for the financial control of the Group. Ms. Tang is also a non-executive director of Shimao Services. Ms. Tang holds a Master’s Degree in Business Administration from the University of South Australia and has over 29 years’ experience in financial management and internal audit. Prior to joining the Group, Ms. Tang worked in the internal audit department of Bank of China, Head office from 1992 to 1998. She also worked in the audit department and treasury department of Bank of China (Hong Kong) Limited from 1999 to 2004. Ms. Tang is a Senior International Finance Manager of the International Financial Management Association and an associate member of The Association of International Accountants (the “AIA”). She was also awarded as one of the Top 10 Accountants of AIA in China in 2018.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Xie Kun

Mr. Xie Kun, aged 54, was appointed an Executive Director of the Company since 13 December 2021. Mr. Xie joined the Group in July 2010 and successively served as vice president of the Group, chief executive officer of Central South Region and chairman and chief executive officer of Zhejiang Regional Corporation, and the senior vice president of the Group and chairman and chief executive officer of Zhejiang and Central China Regional Corporation. Mr. Xie graduated from Southwest Jiaotong University (西南交通大學) with a Master's Degree in Structural Engineering in 1993 and obtained an Executive Master of Business Administration from China Europe International Business School (中歐國際工商學院) and Shanghai Advance Institute of Finance (上海高級金融學院) in 2009 and 2016 respectively. Before joining the Group, Mr. Xie has 9 years of experience in rail transit design and research work in China Railway Shanghai Design Institute Group Co., Ltd. and has extensive experience in urban planning and rail transit network planning and design. Mr. Xie has over 22 years of experience in senior corporate management and project development and operation management in the real estate industry.

Non-Executive Directors

Lu Yi

Mr. Lu Yi, aged 39, was redesignated as a Non-executive Director of the Company on 2 August 2023. He joined the Group since 2008 and was appointed an Executive Director and Executive President of the Company since 2 January 2020 and 23 June 2022 respectively. Mr. Lu is currently the largest regional development controller of the Group, responsible for overseeing the overall operation, development and management of the Group in the Straits district (mainly including Fujian, Guangdong and Hainan). Mr. Lu holds a Master's Degree from Zhejiang University (浙江大學) and has over 14 years' experience in real estate operation and management.

Ye Mingjie

Mr. Ye Mingjie, aged 45, was appointed a Non-executive Director of the Company since 1 January 2021. Mr. Ye is also an executive director and the president of Shimao Services. Mr. Ye joined the Group in February 2004 and successively served as an assistant president of the Group as well as the head of the engineering management center of the Group and was promoted to the position of vice president of the Group in January 2018, where he was responsible for overseeing the engineering management of the Group and the business operations of Shimao Services. Mr. Ye graduated from Tongji University (同濟大學) in the PRC and specialised in engineering management. Mr. Ye has over 17 years of experience in the property management and related industry. Mr. Ye was appointed as an expert of the Assessment Committee of the Commercial Office Grade Evaluation Criteria (商務寫字樓等級評價標準評審委員會) by China Real Estate Association (中國房地產協會) for the years from June 2019 to June 2023 and was elected as an honorary vice president of the Fifth Council Committee of China Property Management Association (中國物業管理協會) on 30 March 2021.

Independent Non-Executive Directors

Lyu Hong Bing

Mr. Lyu Hong Bing, aged 56, has been an Independent Non-executive Director of the Company since 17 November 2004. Mr. Lyu obtained a Master's Degree in law from East China University of Political Science and Law in 1991 and has more than 30 years' experience in corporate and securities laws in China. Mr. Lyu currently serves as an independent director of Shandong Airlines Co., Ltd. (a company publicly listed on the main board of the Shenzhen Stock Exchange), Shanghai New Huang Pu Industrial Group Co., Ltd. (a company publicly listed on the main board of the Shanghai Stock Exchange) and Cambricon Technologies Corporation Limited (a company publicly listed on the STAR Market of the Shanghai Stock Exchange). Mr. Lyu was formerly an independent director of Shanghai Shentong Metro Co., Ltd., a company publicly listed on the Shanghai Stock Exchange, from 2014 to 2020, and an independent non-executive director of Virtual Mind Holding Company Limited (formerly known as "CEFC Hong Kong Financial Investment Company Limited"), a company publicly listed on the HKEx, from 2017 to 2020. Mr. Lyu is the chief executive partner of the Grandall Law Firm, a chief supervisor of the All China Lawyers Association, an arbitrator and member of the Shanghai International Economic and Trade Arbitration Commission, an arbitrator of the Shanghai Arbitration Commission, a concurrent professor of East China University of Political Science and Law and other higher education institutions, a member of the Review Board of the China Securities Regulatory Commission for Mergers, Acquisitions, and Restructurings of Listed Companies and a commissioner of the Listing Committee of the Shanghai Stock Exchange.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Lam Ching Kam

Mr. Lam Ching Kam (Alias: Jacob Lam), aged 62, has been an Independent Non-executive Director of the Company since 1 June 2006. He is currently a fellow member of The Hong Kong Institute of Surveyors. Mr. Lam obtained a Master's Degree in Business Administration from the Hong Kong Open University in 2004 and is a fellow member of the Royal Institution of Chartered Surveyors. Mr. Lam was the Vice Chairman of the Royal Institution of Chartered Surveyors China Group from 2003 to 2006. He is a member of the China Civil Engineering Society (中國土木工程學會會員) and also a registered China Cost Engineer (中國造價工程師執業資格). Mr. Lam has been a consultant to the Beijing Construction Project Management Association (北京市建設監理協會) since 2003 and has engaged in professional training and vocational education in China for more than 21 years. Mr. Lam has been in the property development and construction industry for 39 years, and has worked for construction contractors such as Shui On Building Contractors Limited, China State Construction Engineering Corporation and Hopewell Construction Co., Ltd. Mr. Lam was employed as a quantity surveyor and worked in London from 1990 to 1991. He was employed by certain consultant firms and the Architectural Services Department of the Hong Kong Government before he emigrated to Australia in 1996 and operated a project management firm in Sydney. Mr. Lam was the project controller of Sino Regal Ltd. (HK) for investment projects in China from 1994 to 1996. In 1998, Mr. Lam established a surveying and management consultant firm which has been participating in many large-scale projects in Mainland China and Macau, including a Beijing Olympic 2008 project involving hotels, offices towers and commercial complex in Olympic Park, Beijing. In October 2016, Mr. Lam's company merged with 信永中和工程管理有限公司 (ShineWing Engineering Management Co., Ltd.) and he became a partner from 1 October 2016.

Fung Tze Wa

Mr. Fung Tze Wa, aged 66, has been an Independent Non-executive Director of the Company since 24 August 2022. Mr. Fung is a certified public accountant and a director of an accounting firm in Hong Kong. Mr. Fung has many years of experience in auditing, taxation and company secretarial practice in Hong Kong. He obtained a master degree in professional accounting from the Hong Kong Polytechnic University in 2000. He is a member of the HKICPA, the Chartered Association of Certified Accountants, the Taxation Institute of Hong Kong and the Society of Chinese Accountants and Auditors. Mr. Fung was an independent non-executive director of China Wood International Holding Co., Limited (Stock Code: 1822) from May 2020 to December 2020, an independent non-executive director of Citychamp Watch & Jewellery Group Limited (Stock Code: 256) from April 2004 to September 2020, an independent non-executive director of Freeman FinTech Corporation Limited (currently known as "Arta TechFin Corporation Limited") (Stock Code: 279) from January 2017 to September 2021 and an independent non-executive director of Sheng Yuan Holdings Limited (Stock Code: 851) from May 2018 to June 2020. He is currently an independent non-executive director of Imperium Technology Group Limited (Stock Code: 776) since October 2012. All of the above companies were listed on the main board of HKEx.

Senior Management

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

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Change in Information of Directors

The change in the information of the Directors of the Company since the publication of the interim report of the Company for the six months ended 30 June 2021 required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

Name of Directors	Details of Changes
Mr. Hui Wing Mau	No longer served as a member of the Standing Committee of the Thirteenth National Committee of the Chinese People's Political Consultative Conference, vice president of China Overseas Friendship Association, vice president of Friends of Hong Kong Association Ltd. and executive president of China Red Ribbon Foundation and position of New Home Association, Hong Kong changed from founding president and chairman of the board of directors to Life Honourary Chairman
Mr. Lu Yi	Appointed as Executive President of the Company on 23 June 2022 and redesignated as Non-executive Director on 2 August 2023
Mr. Lyu Hong Bing	Position of the All-China Lawyers Association changed from vice-president to chief supervisor and no longer a member of the Shanghai Arbitration Commission
Mr. Fung Tze Wa	Appointed as an Independent Non-executive Director of the Company, the chairman of the Audit Committee, a member of the Remuneration Committee and the Nomination Committee of the Company on 24 August 2022
Ms. Kan Lai Kuen, Alice	Resigned as an Independent Non-executive Director of the Company and ceased to be the chairman of the Audit Committee, a member of the Remuneration Committee and the Nomination Committee of the Company on 24 August 2022

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

INFORMATION FOR SHAREHOLDERS

ANNUAL REPORT

This annual report is now available in printed form and on the websites of the Company (www.shimaogroup.hk) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). If shareholders who have received or chosen (or are deemed to have chosen) to receive this annual report by electronic means but (i) wish to receive a printed copy; or (ii) for any reason have difficulty in receiving or gaining access to this report on the Company's website, they may obtain a printed copy free of charge by sending a request to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited ("Tricor Investor") by email at shimao-ecom@hk.tricorglobal.com or by post to 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF SHIMAO GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Shimao Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 160, which comprise the consolidated statement of financial position as at 31 December 2021, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Multiple uncertainties relating to Going Concern

We draw attention to note 2(a) to the consolidated financial statements which mentions that the Group incurred a loss attributable to equity holders of the Company of approximately RMB27.1 billion. As at 31 December 2021, the Group had borrowings in total of approximately RMB231.8 billion, out of which approximately RMB107.8 billion will be due for repayment within the next twelve months, while its total cash (including cash and cash equivalents and restricted cash) amounted to approximately RMB57.9 billion. As at 31 December 2021, the Group had not repaid borrowings of RMB1.3 billion in aggregate according to their scheduled repayment dates. Up to the date of this report, the Group had not repaid borrowings with the outstanding amount of RMB82.5 billion in aggregate according to their scheduled repayment dates. In addition, the Group was involved in various litigation and arbitration cases for various reasons as disclosed in note 39(c) to the consolidated financial statements. The above events or conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

The consolidated financial statements have been prepared on a going concern basis. The directors of the Company have been undertaking a number of plans and measures to mitigate the liquidity pressure and improve its financial position. The validity of the going concern assumption on which the consolidated financial statements have been prepared depends upon the successful implementation of these measures, which are subject to multiple uncertainties, including (i) the success of completing the proposed offshore debt restructuring plans and extension of onshore debts with multiple lenders and creditors; (ii) the Group's ability to successfully obtain other alternative financing and borrowings; (iii) the success of resolving the pending litigations of the Group; (iv) the success of business strategy plan to accelerate the sales of its properties; and (v) the success of dispose of its equity interests in certain project development companies to generate additional cashflow.

Should the Group fail to achieve the abovementioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements. However, in view of the extent of the multiple uncertainties relating to achieving the abovementioned plans and measures, we disclaim our opinion in respect of the multiple uncertainties relating to the going concern basis.

Other Matters

Had we not disclaimed our opinion regarding the matters described in the Basis for Disclaimer of Opinion section above, we would otherwise have qualified our opinion regarding the scope limitations on our audit relating to the matters detailed below.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Accounting treatment on a financing arrangement entered into between a subsidiary of the Group and a third-party trust company

As at 31 December 2021 and 2020, the Group had a non-controlling interest attributable to a non-wholly owned subsidiary of the Group (the "Subsidiary") that amounted to approximately RMB5.9 billion and RMB5.7 billion, respectively, which was initially a paid-up capital of approximately RMB4.9 billion contributed by an entity (the "Contributed Capital"), which is beneficially owned by a third-party trust company (the "Trust"), for the 30% equity interest of the Subsidiary. Subsequently in 2022, the Group and the Trust reached a consensus and renegotiated a temporary repayment plan to treat the arrangement as a fixed-term debt.

We are not able to obtain direct confirmation or clarification from the Trust to verify the nature of the Contributed Capital and no other sufficient information is available up to the date of this report to justify whether the Contributed Capital still met the applicable criteria of equity instruments under Hong Kong Accounting Standard 32 "Financial Instruments: Presentation" as at 31 December 2021 and 2020. Accordingly, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the classification as equity of non-controlling interest balances attributable to the Subsidiary of approximately RMB5.9 billion and RMB5.7 billion, respectively, as at 31 December 2021 and 2020, and whether the potential profit or loss effect on the provision of accrued interests for the year ended 31 December 2021 and 2020 are properly reflected in the Group's consolidated financial statements.

Any adjustments to the figures as described above might have a consequential effect on the Group's financial performance and cash flows for the years ended 31 December 2021 and 2020 and the financial position of the Group as at 31 December 2021 and 2020, and the related disclosures thereof in the consolidated financial statements.

Responsibilities of Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the 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 (the "HKICPA") 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Tse Kit Yan

Audit Engagement Director

Practising Certificate Number P08158

Hong Kong, 28 July 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	Year ended 31 December	
		2021 RMB'000	2020 RMB'000
Revenue	6	107,797,269	135,352,755
Cost of sales	30	(105,179,409)	(95,685,488)
Gross profit		2,617,860	39,667,267
Fair value (losses)/gains on investment properties – net	9	(601,614)	397,539
Other income/other gains or losses – net	29	132,360	1,029,335
Selling and marketing costs	30	(5,376,840)	(4,416,344)
Administrative expenses	30	(6,002,605)	(5,498,682)
Provision for impairment losses on financial assets	30	(4,360,195)	(482,918)
Impairment losses on intangible assets	30	(2,533,022)	–
Other operating expenses	30	(2,391,803)	(503,530)
Operating (loss)/profit		(18,515,859)	30,192,667
Finance income		3,170,705	5,629,202
Finance costs		(5,939,042)	(2,313,743)
Finance (costs)/income – net	31	(2,768,337)	3,315,459
Fair value changes of convertible redeemable preferred shares		–	(75,860)
Fair value changes of convertible bonds	26	144,746	–
Share of results of associated companies and joint ventures accounted for using the equity method		(432,927)	159,320
(Loss)/profit before income tax		(21,572,377)	33,591,586
Income tax expenses	34	(6,804,501)	(14,129,120)
(Loss)/profit for the year		(28,376,878)	19,462,466
Other comprehensive (loss)/income for the year			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value losses on financial assets at fair value through other comprehensive income, net of tax		(488,334)	(271,072)
Share of other comprehensive income of joint ventures accounted for using the equity method		35,730	49,035
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		(80,841)	(166,508)
Total comprehensive (loss)/income for the year		(28,910,323)	19,073,921
(Loss)/profit for the year attributable to:			
– Equity holders of the Company		(27,092,790)	12,627,679
– Non-controlling interests		(1,284,088)	6,834,787
		(28,376,878)	19,462,466
Total comprehensive (loss)/income for the year attributable to:			
– Equity holders of the Company		(27,544,968)	12,216,352
– Non-controlling interests		(1,365,355)	6,857,569
		(28,910,323)	19,073,921
(Losses)/earnings per share for (loss)/profit attributable to the equity holders of the Company			
– Basic (RMB cents)	35	(762.7)	361.5
– Diluted (RMB cents)	35	(762.7)	361.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	As at 31 December	
		2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Property and equipment	7	17,614,321	16,864,312
Right-of-use assets	8	8,286,458	8,316,268
Investment properties	9	66,319,235	63,175,590
Intangible assets	10	2,727,473	3,826,812
Investments accounted for using the equity method	12	27,720,624	30,936,756
Amounts due from related parties	13	6,460,176	1,978,774
Financial assets at fair value through other comprehensive income	14	2,184,336	1,974,946
Financial assets at fair value through profit or loss	15	–	168,016
Deferred income tax assets	16	3,352,443	3,231,065
Other non-current assets	17	3,556,190	3,722,189
		138,221,256	134,194,728
Current assets			
Inventories	18	332,890,055	313,787,270
Trade and other receivables and prepayments	19	23,727,928	21,387,554
Prepayment for acquisition of land use rights	20	4,838,963	13,483,055
Prepaid income taxes		4,473,623	4,452,805
Amounts due from related parties	13	66,056,509	33,978,392
Derivative financial instruments	21	11,412	2,337
Restricted cash	22	10,069,923	7,428,982
Cash and cash equivalents	22	47,814,400	61,038,027
		489,882,813	455,558,422
Total assets		628,104,069	589,753,150
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	23	384,165	362,850
Reserves	24	57,433,792	87,639,210
		57,817,957	88,002,060
Non-controlling interests			
Perpetual capital instruments	25	5,091,000	5,141,000
Other non-controlling interests		51,090,726	59,351,692
		56,181,726	64,492,692
Total equity		113,999,683	152,494,752

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2021

	Notes	As at 31 December	
		2021 RMB'000	2020 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	26	123,921,866	108,602,305
Lease liabilities	8	45,740	39,452
Deferred income tax liabilities	16	8,704,284	8,520,394
		132,671,890	117,162,151
Current liabilities			
Trade and other payables	27	91,163,159	102,506,442
Contract liabilities		124,124,133	106,126,631
Dividend payable		787,817	–
Income tax payable		27,133,799	30,480,635
Borrowings	26	107,836,757	36,540,759
Derivative financial instruments	21	57	33,114
Lease liabilities	8	50,601	37,495
Amounts due to related parties	28	30,336,173	44,371,171
		381,432,496	320,096,247
Total liabilities		514,104,386	437,258,398
Total equity and liabilities		628,104,069	589,753,150

Approved and authorised for issue by the Board of Directors on 28 July 2023.

Hui Wing Mau
Director

Hui Sai Tan, Jason
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Notes	Attributable to the equity holders of the Company				Total RMB'000
		Share capital RMB'000	Reserves RMB'000	Perpetual capital instruments RMB'000	Other non-controlling interests RMB'000	
Balance as at 1 January 2021		362,850	87,639,210	5,141,000	59,351,692	152,494,752
Comprehensive (loss)/income						
(Loss)/profit for the year		–	(27,092,790)	310,216	(1,594,304)	(28,376,878)
Other comprehensive (loss)/income for the year						
<i>Items that will not be reclassified to profit or loss</i>						
Fair value losses on financial assets at fair value through other comprehensive income, net of tax		–	(394,180)	–	(94,154)	(488,334)
Share of other comprehensive income of joint ventures accounted for using the equity method		–	22,843	–	12,887	35,730
<i>Items that may be reclassified to profit or loss</i>						
Exchange differences on translation of foreign operations		–	(80,841)	–	–	(80,841)
Total comprehensive (loss)/income for the year		–	(27,544,968)	310,216	(1,675,571)	(28,910,323)
Transfer from joint ventures to subsidiaries	41(a)	–	–	–	2,264,695	2,264,695
Acquisition of subsidiaries	41(a)	–	–	–	1,126,585	1,126,585
Capital contribution from non-controlling interests of subsidiaries	41(c)(i)	–	–	–	2,495,459	2,495,459
Changes in ownership interests in subsidiaries without change of control	41(c)(ii)	–	(883,323)	–	(10,769,517)	(11,652,840)
Placing of shares of Shimao Services Holdings Limited (“Shimao Services”)	41(d)	–	1,337,371	–	90,347	1,427,718
Disposal of subsidiaries	41(b)	–	–	–	(440,785)	(440,785)
Equity-settled share-based payment						
– Value of employee services	23(b)	–	138,434	–	–	138,434
– Purchase of shares	23(b)	–	(196,339)	–	–	(196,339)
– Dividend received	23(b)	–	6,190	–	–	6,190
Shares repurchased and cancelled	23(a)	(415)	(62,273)	–	–	(62,688)
Repurchase of shares of Shimao Services	41(d)	–	(66,414)	–	–	(66,414)
Placing and subscription of shares	23(a)	11,860	952,312	–	–	964,172
Issue of scrip shares	23(a)	9,870	1,366,898	–	–	1,376,768
Perpetual capital instruments redeemed	25	–	–	(50,000)	–	(50,000)
Perpetual capital instruments dividends		–	–	(310,216)	–	(310,216)
Dividends and distributions	24, 36	–	(5,253,306)	–	(1,352,179)	(6,605,485)
Total transactions with owners		21,315	(2,660,450)	(360,216)	(6,585,395)	(9,584,746)
Balance at 31 December 2021		384,165	57,433,792	5,091,000	51,090,726	113,999,683

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2021

	Attributable to the equity holders of the Company		Perpetual capital instruments RMB'000	Other non- controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Reserves RMB'000			
Balance as at 1 January 2020	341,575	65,913,306	4,665,000	45,784,305	116,704,186
Comprehensive income					
Profit for the year	-	12,627,679	312,270	6,522,517	19,462,466
Other comprehensive income for the year					
<i>Items that will not be reclassified to profit or loss</i>					
Fair value (losses)/gains on financial assets at fair value through other comprehensive income, net of tax	-	(276,168)	-	5,096	(271,072)
Share of other comprehensive income of joint ventures accounted for using the equity method	-	31,349	-	17,686	49,035
<i>Items that may be reclassified to profit or loss</i>					
Exchange differences on translation of foreign operations	-	(166,508)	-	-	(166,508)
Total comprehensive income for the year	-	12,216,352	312,270	6,545,299	19,073,921
Transfer from joint ventures to subsidiaries	-	-	-	560,631	560,631
Acquisition of subsidiaries	-	-	-	539,970	539,970
Capital contribution from non-controlling interests of subsidiaries	-	-	-	13,209,041	13,209,041
Other transactions with non-controlling interests of Shimao Services	-	8,680,355	-	1,735,924	10,416,279
Changes in ownership interests in subsidiaries without change of control	-	(575,364)	-	(5,804,687)	(6,380,051)
Disposal of subsidiaries	-	-	-	(1,218,735)	(1,218,735)
Equity-settled share-based payment					
- Value of employee services	-	119,457	-	-	119,457
- Dividends received	-	4,935	-	-	4,935
Placing and subscription of shares	21,275	6,238,448	-	-	6,259,723
Perpetual capital instruments issued	-	-	2,276,000	-	2,276,000
Perpetual capital instruments redeemed	-	-	(1,800,000)	-	(1,800,000)
Perpetual capital instruments dividends	-	-	(312,270)	-	(312,270)
Dividends and distributions	-	(4,958,279)	-	(2,000,056)	(6,958,335)
Total transactions with owners	21,275	9,509,552	163,730	7,022,088	16,716,645
Balance at 31 December 2020	362,850	87,639,210	5,141,000	59,351,692	152,494,752

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	Year ended 31 December	
		2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Net cash generated from operations	37	13,361,088	23,006,977
Interest received		889,247	1,229,203
Interest paid		(14,535,491)	(8,986,376)
PRC income tax paid		(9,306,647)	(8,408,133)
Net cash (used in)/generated from operating activities		(9,591,803)	6,841,671
Cash flows from investing activities			
Additions of property and equipment and investment properties		(1,477,635)	(6,387,990)
Disposal of property and equipment		204,233	37,924
Additions of land use rights		(29,582)	(310,601)
Purchase of intangible assets		(72,707)	(113,359)
Disposal of intangible assets		352	2,161
Acquisition of derivative financial instruments		–	(13,033)
Settlement of derivative financial instruments		(3,696)	38,662
Decrease in prepayments for acquisition of equity interests		450,221	2,934,516
Increase in prepayments for acquisition of equity interests		(245,206)	(332,757)
Net cash (outflow)/inflow on acquisition of subsidiaries		(2,372,975)	260,367
Net cash inflow/(outflow) on disposal of subsidiaries		514,336	(65,530)
Capital injections to associated companies		(1,857,663)	(844,207)
Capital injections to joint ventures		(672,161)	(7,789,494)
Disposal of shares of joint ventures		2,406,865	762,272
Disposal of shares of an associated company		208,028	225
Closure of joint ventures		–	4,602
Capital distribution from a joint venture		264,700	286,126
Dividends received from associated companies and joint ventures		1,431,328	997,725
Advances to joint ventures and associated companies		(35,891,831)	(11,460,311)
Disposal of investment properties		203,000	–
Decrease of financial assets at fair value through other comprehensive income		810,516	239,041
Increase of financial assets at fair value through other comprehensive income		(217)	(1,491,355)
Disposal of financial assets at fair value through profit or loss		302,844	–
Net cash used in investing activities		(35,827,250)	(23,245,016)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2021

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Cash flows from financing activities		
Proceeds from borrowings	127,253,612	67,013,797
Repayments of borrowings	(68,965,555)	(59,877,989)
Repurchases of shares	(62,688)	–
Repurchase of shares of Shimao Services	(66,414)	–
Purchases of shares under the Share Award Scheme	(196,339)	–
Capital contribution from non-controlling interests of subsidiaries	2,495,459	13,209,041
Acquisition of additional interests in subsidiaries	(11,535,349)	(6,546,560)
Proceeds from placing the shares of a subsidiary	1,427,718	–
Proceeds from convertible redeemable preferred shares of subsidiary	–	1,729,000
Proceeds from the issue of convertible bonds of a subsidiary – net of transaction costs	2,517,722	–
Proceeds from ordinary shares pursuant to initial public offering and exercise of over-allotment option – net of transaction costs	–	8,611,419
Proceeds from issue of perpetual capital instruments	–	2,276,000
Redemption of perpetual capital instruments	(50,000)	(1,800,000)
Interest for the holders of perpetual capital instruments	(310,216)	(312,270)
Dividends paid to the equity holders of the Company	(3,069,518)	(4,958,278)
Dividends paid to non-controlling interests	(1,352,179)	(2,000,056)
(Decrease)/increase in amounts due to non-controlling interests	(11,471,661)	1,526,105
Decrease in amounts due to joint ventures and associated companies	(8,904,940)	–
Advances from entities controlled by the controlling shareholder	4,631,762	–
Dividends received	6,190	4,935
Lease payment	(66,566)	(187,283)
(Increase)/decrease in restricted cash pledged for borrowings	(1,316,942)	351,761
Placing and subscription of shares	964,172	6,259,723
Net cash generated from financing activities	31,928,268	25,299,345
Net (decrease)/increase in cash and cash equivalents	(13,490,785)	8,896,000
Cash and cash equivalents at the beginning of the year	61,038,027	52,357,251
Effect of foreign exchange rate changes	267,158	(215,224)
Cash and cash equivalents at the end of the year	47,814,400	61,038,027

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. General information

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

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

These consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Mainboard of The Stock Exchange and by the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, financial assets at fair value through other comprehensive income (“FVOCI”), financial assets at fair value through profit or loss (“FVPL”) and derivative financial instruments which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors of the Company (the “Directors”) to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 to the consolidated financial statements.

(a) Going concern basis

For the year ended 31 December 2021, the Group incurred a loss attributable to equity holders of the Company of approximately RMB27.1 billion. As at 31 December 2021, the Group had borrowings in a total of approximately RMB231.8 billion, out of which approximately RMB107.8 billion will be due for repayment within the next twelve months, while its total cash (including cash and cash equivalents and restricted cash) amounted to approximately RMB57.9 billion. As at 31 December 2021, the Group had not repaid borrowings of RMB1.3 billion in aggregate according to their scheduled repayment dates. Up to the date of approval of these consolidated financial statements, the Group had not repaid borrowings with the outstanding amount of RMB82.5 billion in aggregate according to their scheduled repayment dates. In addition, the Group was involved in various litigation and arbitration cases for various reasons.

The above events or conditions indicate the existence of material uncertainties which may cast significant doubt on the Group’s ability to continue as a going concern and, therefore, that the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

In view of such circumstances, the Directors have devised a number of plans and measures to mitigate the liquidity pressure and to improve its financial position. Certain plans and measures have been or will be taken by the Directors include, but are not limited to, the following:

- (i) subsequent to 31 December 2021, the Group has been actively pushing forward the proposed restructuring of the offshore indebtedness of the Group, including the US\$-denominated senior notes with a total principal amount of approximately US\$6.8 billion and borrowings from various offshore banks and financial institutions with the total principal amounts of approximately US\$2.1 billion and HK\$20.9 billion. The Group, together with its financial advisers, continues to maintain constructive dialogues with various groups of creditors and endeavours to reach agreements with them on the proposed restructuring of the offshore indebtedness as soon as possible. The Directors are confident in obtaining support from the relevant creditors and completing the proposed restructuring;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

2. Basis of preparation (CONTINUED)**(a) Going concern basis** (continued)

- (ii) the Group has also been actively negotiating with other onshore lenders and creditors on the extension of borrowings and has agreed to the extension of long-term bonds and medium-term notes of approximately RMB5.9 billion and RMB11.6 billion which were originally due in 2022 and 2023, respectively. Due to the diverse lender base and changing market conditions, time is still required to determine the extension plans on a case-by-case basis. Taking into account the successful extension cases and the Group's credit history and longstanding relationships with the relevant lenders and creditors, the Directors believe that the Group will be able to complete the signing of the relevant extension agreements for the existing borrowings step by step;
- (iii) the Group will actively seek other alternative financing and borrowings to finance the settlement of its existing financial obligations and future operating and capital expenditures;
- (iv) the Group will actively face the current situation and seek various ways to resolve the pending litigations of the Group. The Group is positive that it will be able to reach an solution to the litigations which have not yet reached a definite outcome at the current stage;
- (v) the Group has prepared a business strategy plan mainly focusing on the acceleration of the sales of properties; and
- (vi) the Group will continue to seek suitable opportunities to dispose of its equity interests in certain project development companies in order to generate additional cash inflows.

The Directors are of the opinion that, assuming the above plans and measures can be successfully implemented as scheduled, the Group is able to continue as a going concern and would have sufficient financial resources to finance the Group's operations and meet its financial obligations as and when they fall due within the following twelve months from 31 December 2021. Accordingly, it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets and non-current liabilities as current liabilities. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

(b) Adoption of new or amended HKFRSs

In the current year, the Group has adopted all the new and revised HKFRSs issued by the HKICPA, that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. HKFRSs comprise HKFRS; Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not resulting in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

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

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the 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 the owners of the Company.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Business combinations or asset acquisitions*****Optional concentration test***

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income, the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing. Goodwill is included in the item under intangible assets.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Associates**

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the joint venture's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part 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 is recognised in the consolidated profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Joint venture (continued)**

The Group's share of a joint venture's post-acquisition profits or losses is recognised in the income statement, and its share of the post-acquisition movements in reserves is recognised in the reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

The gain or loss on the disposal of a joint venture that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that joint venture and (ii) the Group's share of the net assets of that joint venture plus any remaining goodwill relating to that joint venture and any related accumulated foreign currency translation reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation**(i) Functional and presentation currency**

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

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Property and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	50 years or the remaining lease period of the land use rights, whichever is shorter
Building improvements	10 to 20 years
Furniture and equipment	5 to 12 years
Jet plane and motor vehicles	10 to 20 years

The useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

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

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in consolidated profit or loss.

Investment property

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Leases**

The Group leases various offices, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods of 12 to 60 months. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to consolidated profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

The lease payments are discounted using incremental borrowing rate of the Group which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date. Depreciation on right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated lease period.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for intangible assets with a finite useful life are reviewed at least at each financial year end.

(i) Computer software

Acquired software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5 to 10 years). The Group's computer software mainly includes the acquired software license for financial systems. Based on the current functionalities equipped by the software and the Group's daily operation needs, the Group considers useful lives of 5 to 10 years are the best estimation under the current financial reporting needs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Intangible assets (other than goodwill)** (continued)**(ii) Customer relationship**

Customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of 96 to 120 months for the customer relationship. The useful life of 96 to 120 months for customer relationship is determined with reference to the Directors' best estimate of the expected contract period for property management services with customers (including renewal) based on the historical renewal pattern and the industry practice.

(iii) Service concession intangible assets

Where the Group has entered into contractual service concession arrangements with local government authorities for its participation in the municipal sanitation public infrastructure construction business, the Group carries out the construction or upgrade work of municipal sanitation public infrastructures for the granting authorities and receives in exchange of a right to operate the public infrastructures concerned. Concession intangible assets correspond to the right granted by the respective concession grantors to the Group to charge users of the sanitation services and the fact that the concession grantors (the respective local governments) have not provided any contractual guarantees in respect of the amounts of construction costs incurred to be recoverable. Amortisation of concession intangible assets is calculated using the straightline method over the concession period of 5 to 26 years.

(iv) Brand name

Brand acquired in the business combination is recognised at fair value at the acquisition date. It has a finite useful life and is subsequently carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straightline method over the expected useful lives of 9 years.

Art works

Art works is classified as non-current assets at cost less accumulated impairment loss, if any.

Art works is derecognised upon disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

Properties for sale under development

Properties for sale under development are stated at the lower of cost and net realisable value. Costs include acquisition costs, prepaid land lease payments, construction costs, borrowing costs capitalised and other direct costs attributable to such properties. Net realisable value is determined by reference to sale proceeds received after the reporting period less selling expenses, or by estimates based on prevailing market condition. On completion, the properties are reclassified to properties held for sale at the then carrying amount.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Costs of properties include acquisition costs, prepaid land lease payments, construction costs, borrowing costs capitalised and other direct costs attributable to such properties. Net realisable value is determined by reference to sale proceeds received after the reporting period less selling expenses, or by estimates based on prevailing market condition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Recognition and derecognition of financial instruments**

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

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in consolidated profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in consolidated profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in consolidated profit or loss.

Financial assets of the Group are classified under the following categories:

- Financial assets at amortised cost;
- Financial assets at fair value through other comprehensive income; and
- Financial assets at fair value through profit or loss.

(i) Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(ii) Financial assets at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair values recognised in other comprehensive income and accumulated in the financial assets at FVOCI reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the financial assets at FVOCI reserve are not reclassified to consolidated profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Financial assets (continued)****(iii) Financial assets at fair value through profit or loss**

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of financial assets at fair value through other comprehensive income unless the Group designates an financial asset that is not held for trading as at fair value through other comprehensive income on initial recognition.

Financial assets at fair value through profit or loss are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in consolidated profit or loss. The fair value gains or losses recognised in consolidated profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in consolidated profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Group currently has legally enforceable rights to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

Derivative financial instruments and hedging activities

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

For derivative financial instruments do not qualify for hedge accounting, changes in fair value are recognised immediately in the in the consolidated profit or loss.

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in consolidated profit or loss as an impairment gain or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Financial liabilities and equity instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Convertible bond contains debt and derivative components

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

At the date of issue, both the debt component and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible bond carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit and loss.

Transaction costs that relate to the issue of the convertible bond are allocated to the debt and derivative components in proportion to their relative fair values. Transactions costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible bond using the effective interest method.

Derivatives are initially recognised at fair value at the date when derivative contracts are 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 unless the derivative is designated and effective as hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Convertible redeemable preferred shares

Holders of convertible redeemable preferred shares issued by a subsidiary of the Group are redeemable upon occurrence of certain future events. They can also be converted into ordinary shares at any time at the option of the holders, or automatically upon occurrence of an initial public offering of the subsidiary, or when agreed by majority of the holders.

Convertible redeemable preferred shares are initially recognised at fair value and are subsequently re-measured to their fair value at the end of each reporting period. The subsequent changes in fair value is recognised immediately in the consolidated profit or loss.

Perpetual capital instruments

Perpetual capital instruments with no contractual obligation to repay its principal or to pay any distribution are classified as part of equity.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**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 capitalised as part of 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.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

Other financial liabilities

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

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

Revenue recognition

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

(i) Sales of properties

Revenues are recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may be transferred over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Revenue recognition (continued)****(i) Sales of properties (continued)**

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Group to the customer; or
- the Group's efforts or inputs to the satisfaction of the performance obligation.

For property development and sales contracts for which the control of the property is transferred at a point in time, revenue is recognised when the customer obtains the physical possession or the legal title of the completed property and the Group has the present right to payment and the collection of the consideration is probable. For revenue from sales of properties recognised over time, the Group recognised revenue by measuring the progress towards complete satisfaction of the performance obligation using in input method, which recognises revenue based on the proportion of actual costs incurred relative to the estimated total costs for satisfaction of the performance obligation.

(ii) Property management services

Revenue arising from property management services is recognised in the accounting period in which the services are rendered. If contracts involve the sale of multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the standard-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

(iii) Hotel operation income

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

(iv) Rental income

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

(v) Interest income

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

(vi) Commission income

Commission income from concessionaire sales is recognised upon sales of goods by the relevant stores.

(vii) Dividend income

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

Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Dividend distribution**

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

Financial guarantee contract liabilities

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of (i) the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments and (ii) the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

Employee benefits**(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Employee benefits** (continued)*(iii) Equity-settled share-based payment transactions*

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

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

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

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

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

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

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

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in consolidated profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Taxation (continued)**

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, 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.

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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in consolidated profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities 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 for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business 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 for such investment properties are measured based on the expected manner as to how the properties will be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Related parties**

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

(B) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;
- (vi) The entity is controlled or jointly controlled by a person identified in (A);
- (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets 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 any impairment loss. Where 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.

Recoverable amount is the higher of fair value less costs of disposal 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in consolidated profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

3. Significant accounting policies (CONTINUED)**Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Critical judgements and key accounting estimates**(a) Critical judgments in applying accounting policies**

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

(i) Going concern consideration

In the process of applying the Group's accounting policies, apart from those involving estimations, management has prepared the consolidated financial statements on the assumption that the Group will be able to operate as a going concern in the coming year, which is a critical judgement that has the most significant effect on the amounts recognised in the consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the Directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Directors consider that the Group has the capability to continue as a going concern and the major events or conditions, which may give rise to business risks, that may individually or collectively cast a significant doubt upon the going concern assumption are set out in note 2(a) to the consolidated financial statements.

(ii) Classification between subsidiaries, joint ventures and associates

In the normal course of business, the Group develops properties together with other developers or institutions, through entering into cooperation agreements with these parties. The rights and obligations of the Group and the other parties are stipulated by respective co-operation agreements, articles of associations of the project companies, etc. Because of the complexity of the arrangements, significant judgement is needed in determining whether the project company is subsidiary, joint venture or associate of the Group.

The Group has made judgment on the classification of these entities to subsidiaries, joint ventures or associates in accordance with the respective agreements, articles of associations and the involvement of the Group and the other parties in these entities. The Group will continuously evaluate the situation and such investments are accounted for in accordance with accounting policies set out in note 3 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

4. Critical judgements and key accounting estimates (CONTINUED)**(a) Critical judgments in applying accounting policies** (continued)*(iii) Classification between investment properties and owner-occupied properties*

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

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

(b) Key sources of estimation uncertainty

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

(i) Income taxes and deferred income tax assets

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

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

(ii) PRC land appreciation tax ("LAT")

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

(iii) Impairment of goodwill

The Group tests at least annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3 to the consolidated financial statements. The recoverable amounts of cash-generating units have been determined based on the higher of the fair value (less cost to sell) and value in use calculation of the underlying assets, mainly properties. The fair value of the properties, when applicable, is determined by independent valuers. These valuations and calculations require the use of estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

4. Critical judgements and key accounting estimates (CONTINUED)**(b) Key sources of estimation uncertainty** (continued)*(iv) Fair value of investment properties*

The fair value of investment properties is determined by using valuation techniques. Details of the judgement and assumptions have been disclosed in note 9 to the consolidated financial statements.

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

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

(vi) Impairment of trade and other receivables and amount due from related parties

The Group's management determines the provision for impairment of trade and other receivables and amount due from related parties based on the expected credit losses which use a lifetime expected loss allowance for all trade receivables. The loss allowances for trade and other receivables and amount due from related parties are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Management reassesses the provision at the end of each reporting period.

(vii) Judgements and estimates in revenue recognition for property development activities

The Group develops and sells residential and commercial properties in different areas. Revenue is recognised over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date; otherwise, revenue is recognised at a point in time when the buyer obtains control of the completed property. The properties have generally no alternative use for the Group due to contractual restrictions. However, whether there is an enforceable right to payment and hence the related contract revenue is recognised over time, depends on the terms of each contract and the relevant laws that apply to that contract. To assess the enforceability of right to payment, the Group has reviewed the terms of its contracts, the relevant local laws, the local regulators' views and obtained legal advice, when necessary.

The Group recognises property development revenue over time by reference to the progress towards complete satisfaction of that performance obligation at the reporting date. This is measured based on the Group's efforts or budgeted inputs to the satisfaction of the performance obligation. Significant judgement and estimation are required in determining the completeness and accuracy of the budgets and the extent of the costs incurred and the allocation of cost to that property unit. Changes in cost estimates in future periods can have effect on the Group's revenue recognised. In making the above estimation, the Group relies on past experience and work of contractors and surveyors.

For property development and sales contracts for which the control of the property is transferred at a point in time, revenue is recognised when the buyer obtains the physical possession or legal title of the completed property and the consideration amount is collected. The Group seldom provides long credit or payment terms to its property buyer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

5. Financial risk management

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

(a) Market risk**(i) Foreign exchange risk**

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

The Company and most of its subsidiaries' functional currency is RMB, so that the fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations. For the year ended 31 December 2021, the Group manages its foreign exchange risk by using foreign currency option contracts and interest rate swaps contracts. Such contracts have the economic effect of setting a strike rate for agreed amount of foreign currency amount. Under these contracts, the Group agrees with a third party to exchange, at specified intervals, the difference between strike and spot exchange rate amounts calculated by reference to the agreed notional amount.

As at 31 December 2021, if RMB had strengthened/weakened by 5%, against US dollar and HK dollar with all other variables held constant without capitalization of exchange gains and losses, post-tax profit for the year would have been RMB4,639,561,000 (2020: RMB3,594,251,000) higher/lower, mainly as a result of net foreign exchange gains/losses on translation of US dollar and HK dollar denominated bank deposits, senior notes, convertible bonds and borrowings.

As at 31 December 2021, borrowings with a total carrying amount of RMB60,974,090,000 (2020: RMB50,052,429,000) are denominated in US dollar, borrowings with a total carrying amount of RMB37,513,567,000 (2020: RMB27,703,827,000) are denominated in HK dollar and borrowings with a total carrying amount of RMB482,154,000 (2020: RMB891,628,000) are denominated in JPY yen.

(ii) Price risk

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

At 31 December 2021, if the fair values of the Group's financial assets at FVOCI increase/decrease by 10%, the financial assets at FVOCI reserve would have been RMB218,434,000 (2020: RMB197,495,000) higher/lower, arising as a result of the fair value gain/loss of the financial assets.

(iii) Cash flow and fair value interest rate risk

Except for cash deposits in the banks, the Group has no other significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, especially long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The interest rate and terms of repayments of borrowings are disclosed in note 26 to the consolidated financial statements. The Group manages certain of its fair value interest rate risk by using fixed-to-floating interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from fixed rates to floating rates. As at 31 December 2021, the Group converted no borrowings from fixed rate to floating rate through interest rate swaps (2020: nil).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

5. Financial risk management (CONTINUED)**(a) Market risk (continued)****(iii) Cash flow and fair value interest rate risk (continued)**

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

If interest rates on RMB denominated variable rate borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax loss for the year would have been RMB144,443,000 (2020: RMB80,816,000) higher/lower mainly as a result of higher/lower interest expenses on borrowings with variable rates as at 31 December 2021. If interest rates on US dollar and HK dollar denominated variable rate borrowings had been 100 basis points higher/lower with all other variables held constant, the post-tax loss for the year would have been RMB520,850,000 (2020: RMB339,510,000) higher/lower mainly as a result of higher/lower interest expenses on borrowings with variable rates as at 31 December 2021.

(b) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables, amounts due from related parties, pledged bank deposits and cash and cash equivalents. In order to minimise credit risk, the Directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the Directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. The credit risk on pledged bank deposits and bank and cash balances is limited because the counterparties are banks and financial institutions with high credit-ratings assigned by international credit-rating agencies. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

(i) Cash in banks

The Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

Cash transactions are limited to high-credit-quality institutions. The table below shows the bank deposit balances of the major counterparties as at 31 December 2021.

Counterparty	Rating (Note)	2021 RMB'000	2020 RMB'000
Bank A	A	7,157,591	9,534,157
Bank B	BBB+	5,886,635	8,310,093
Bank C	A	3,645,672	5,375,992
Bank D	A	2,734,748	4,116,263
Bank E	BBB	2,567,307	3,271,513

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

(ii) Trade receivables

The Group applies HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 3 years before 31 December 2021 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on factors affecting the ability of the customers to settle the receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

5. Financial risk management (CONTINUED)**(b) Credit risk** (continued)*(iii) Other receivables and amounts due from related parties*

The Group uses three categories for other receivables and amounts due from related parties which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

A summary of assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group definition of category	Basis for recognition of expected credit loss provision
Stage one	Customers have a low risk of default and a strong capacity to meet contractual cash flow	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Stage two	Receivables for which there is a significant increase in credit risk since initial recognition	Lifetime expected losses
Stage three	Receivables for which there is credit loss since initial recognition	Lifetime expected losses

The Group accounts for its credit risk by appropriately providing for expected losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data. The Group has identified the GDP, CPI and industry key drivers to be the most relevant factors.

On that basis, the loss allowance as at 31 December 2021 and 31 December 2020 was determined as follows for trade receivables and other receivables and amounts due from related parties:

31 December 2021	Current and within 6 months RMB'000	7 months to 12 months RMB'000	Over 1 year RMB'000	Total RMB'000
Trade receivables				
Gross carrying amount	7,141,473	1,537,346	588,518	9,267,337
Expected loss rate	1.00%	7.50%	10.00%	
Loss allowance	71,415	115,301	58,852	245,568

31 December 2021	Expected Loss Rate	Gross Carrying Amount RMB'000	Loss allowance provision RMB'000
Other receivables and amounts due from related parties			
Loan receivables	1.00% – 10.00%	968,226	84,087
Other receivables	0.50% – 20.00%	14,920,679	1,098,659
Amounts due from related parties	0.10% – 10.00%	76,300,572	3,783,887
		92,189,477	4,966,633

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

5. Financial risk management (CONTINUED)

(b) Credit risk (continued)

(iii) Other receivables and amounts due from related parties (continued)

31 December 2020	Current and within 6 months RMB'000	7 months to 12 months RMB'000	Over 1 year RMB'000	Total RMB'000
Trade receivables				
Gross carrying amount	5,902,275	299,532	447,258	6,649,065
Expected loss rate	0.50%	5.00%	10.0%	
Loss allowance	29,511	14,977	44,726	89,214
Other receivables and amounts due from related parties				
31 December 2020		Expected Loss Rate	Gross Carrying Amount RMB'000	Loss allowance provision RMB'000
Loan receivables	1.00% – 10.00%	1,528,513	92,604	
Other receivables	0.50% – 20.00%	13,976,666	584,872	
Amounts due from related parties	0.10% – 2.00%	36,042,482	85,316	
		51,547,661	762,792	

The closing loss allowances for trade receivables and other receivables and amounts due from related parties as at 31 December 2021 reconcile to the opening loss allowances as follows:

	Trade receivables RMB'000	Other receivables and amounts due from related parties RMB'000	Total RMB'000
As at 1 January 2021	89,214	762,792	852,006
Increase in loss allowance recognised in profit or loss during the year	156,354	4,203,841	4,360,195
As at 31 December 2021	245,568	4,966,633	5,212,201

Trade receivables and other receivables and amounts due from related parties are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on trade receivables and other receivables and amounts due from related parties are recognised in profit or loss within "provision for impairment losses on financial assets". Subsequent recoveries of amounts previously written off are credited against the same line item.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

5. Financial risk management (CONTINUED)**(c) Liquidity risk**

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

The Group has a number of alternative plans to mitigate the potential impacts on anticipated cash flows should there be significant adverse changes in the economic environment. These include adjusting and further slowing down the construction progress as appropriate to ensure available resources for developing properties for sale, implementing cost control measures, accelerating sales with more flexible pricing and placing shares. In addition, the Group will, based on its assessment of the relevant future costs and benefits, pursue such options as are appropriate.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the year-end date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

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

	On demand or less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2021					
Borrowings and interest payments	118,077,859	59,693,643	57,244,875	18,981,628	253,998,005
Trade and other payables (excluding other taxes payables)	83,170,565	–	–	–	83,170,565
Amounts due to related parties	30,336,173	–	–	–	30,336,173
Lease liabilities	53,589	27,610	36,438	–	117,637
	231,638,186	59,721,253	57,281,313	18,981,628	367,622,380
At 31 December 2020					
Borrowings and interest payments	40,981,489	57,047,672	47,397,960	15,419,731	160,846,852
Trade and other payables (excluding other taxes payables)	92,158,808	44,499	58,474	37,833	92,299,614
Amounts due to related parties	44,371,171	–	–	–	44,371,171
Derivative financial instruments	33,114	–	–	–	33,114
Lease liabilities	37,495	13,884	24,768	800	76,947
	177,582,077	57,106,055	47,481,202	15,458,364	297,627,698

Note:

The interest on borrowings is calculated based on borrowings outstanding as at 31 December 2021 and 2020 without taking into account of future issues. Floating-rate interest is estimated using the applicable interest rate as at 31 December 2021 and 2020 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

5. Financial risk management (CONTINUED)**(d) Capital risk management**

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

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

Based on the relevant regulator in the PRC and consistent with others in the industry, the Group monitors capital on the basis of the net gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position and the perpetual capital instruments amounted to approximately RMB1.55 billion issued after 1 August 2020) less restricted cash and cash and cash equivalents. Total capital is the total equity as shown in the consolidated statement of financial position excluding the perpetual capital instruments amounted to approximately RMB1.55 billion issued after 1 August 2020.

The net gearing ratios at 31 December 2021 and 2020 are as follows:

	2021 RMB'000	2020 RMB'000
Total borrowings	233,308,623	146,693,064
Less: Cash and cash equivalents (note 22)	(47,814,400)	(61,038,027)
Restricted cash (note 22)	(10,069,923)	(7,428,982)
Net debt	175,424,300	78,226,055
Total equity	112,449,683	150,944,752
Net gearing ratio	156.0%	51.8%

(e) Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

5. Financial risk management (CONTINUED)**(e) Fair values** (continued)*i) Disclosures of level in fair value hierarchy for the Group's financial assets and liabilities:*

Description	Fair value measurement using:			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2021				
Financial assets				
Derivative financial instruments	–	11,412	–	11,412
Financial assets at FVOCI				
– investment in listed equity securities	595,053	–	–	595,053
– investment in unlisted entities	–	–	588,313	588,313
– investment in structured products	–	–	1,000,970	1,000,970
Financial liabilities				
Derivative financial instruments	–	57	–	57
At 31 December 2020				
Financial assets				
Derivative financial instruments	–	2,337	–	2,337
Financial assets at FVOCI				
– investment in listed equity securities	1,382,554	–	–	1,382,554
– investment in unlisted entities	–	–	592,392	592,392
Financial assets at FVPL	–	–	168,016	168,016
Financial liabilities				
Derivative financial instruments	–	33,114	–	33,114

Derivative financial instruments included in Level 2 as at 31 December 2021 are one interest rate swaps contract with the Morgan Stanley & Co International PLC (“Morgan Stanley”) and seven interest rate swaps contracts with The Hongkong and Shanghai Banking Corporation Limited (“HSBC”), the fair value of which is determined using interest rates that are quoted by financial institutions.

Derivative financial instruments included in Level 2 as at 31 December 2020 are one interest rate swaps contract and two currency options contract with the Morgan Stanley and nine interest rate swaps contracts with HSBC, the fair value of which is determined using forward exchange rates and interest rates that are quoted by financial institutions.

Financial assets at FVOCI included in Level 1 as at 31 December 2021 and 2020 are the equity securities traded in Shanghai Stock Exchange, Shenzhen Stock Exchange, Hong Kong Exchanges and Clearing Limited, NASDAQ and New York Stock Exchange, the fair value of which is based on quoted market prices at the end of the reporting period.

Financial assets at FVOCI as at 31 December 2021 and 2020 included in Level 3 are the investment in unlisted entities and structured products entered into with financial institutions, the fair value of which are determined using the valuation model for which not all inputs are market observable rates, such as discount rates. The higher of the discount rates, the lower fair value of the financial assets at FVOCI measured at fair value based on level 3.

Financial assets at FVPL as at 31 December 2020 included in Level 3 is the investment in an unlisted entity recognised as a debt investment with cash flows not solely payments of principal and interest, the fair value of which is determined using the valuation model for which not all inputs are market observable rates, such as discount rates. The higher of the discount rates, the lower fair value of the financial assets at FVPL measured at fair value based on level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

5. Financial risk management (CONTINUED)**(e) Fair values** (continued)*ii) Reconciliation of the Group's financial assets and liabilities measured at fair value based on level 3:***Financial assets at FVOCI at fair value:**

	2021 RMB'000	2020 RMB'000
Opening balances of assets	592,392	378,126
Additions	217	420,184
Additions through acquisitions of subsidiaries	1,350,970	–
Disposals	(368,044)	(239,041)
Fair value gains recognised in OCI	13,748	33,123
Closing balances of assets	1,589,283	592,392

Financial assets at FVPL at fair value:

	2021 RMB'000	2020 RMB'000
Opening balances of assets	168,016	179,637
Disposals	(302,844)	–
Fair value gains/(losses) recognised in profit or loss	134,828	(11,621)
Closing balances of assets	–	168,016
Changes in unrealised losses for assets held at end of reporting period	–	(11,621)

6. Segment information

The Group's operating segments are identified on the basis of internal report about the components of the Group that are regularly received by the chief operating decision maker ("CODM") in order to allocate resources to segments and to assess their performance.

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

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

(a) Revenue

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

	2021 RMB'000	2020 RMB'000
Sales of properties	94,487,931	126,132,570
Hotel operation income	2,116,438	1,447,039
Commercial properties operation income	2,033,243	1,538,465
Property management income, and others	9,159,657	6,234,681
	107,797,269	135,352,755

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

6. Segment information (CONTINUED)**(b) Segment information**

The segment results for 31 December 2021 are as follows:

	Property development and investment				Total RMB'000
	Shanghai Shimao Co., Ltd. ("Shanghai Shimao")* RMB'000	Others RMB'000	Shimao Services** RMB'000	Unallocated*** RMB'000	
Revenue					
– Sales of properties	17,537,444	76,950,487	–	–	94,487,931
– Recognised at a point in time	17,537,444	75,854,570	–	–	93,392,014
– Recognised over time	–	1,095,917	–	–	1,095,917
– Hotel operation income	199,354	1,917,084	–	–	2,116,438
– Commercial properties operation income	1,299,005	734,238	–	–	2,033,243
– Property management income, and others	239,506	1,319,491	8,343,432	–	9,902,429
Total revenue before elimination	19,275,309	80,921,300	8,343,432	–	108,540,041
Elimination					(742,772)
Total revenue					107,797,269
Operating profit/(loss)	(3,659,399)	(15,167,660)	634,927	(323,727)	(18,515,859)
Finance income	130,354	2,997,578	30,775	11,998	3,170,705
Finance costs	(406,770)	(5,125,577)	(53,761)	(352,934)	(5,939,042)
Fair value changes of convertible bonds	–	–	144,746	–	144,746
Share of results of associated companies and joint ventures accounted for using the equity method	(63,313)	(383,010)	13,396	–	(432,927)
Profit/(loss) before income tax	(3,999,128)	(17,678,669)	770,083	(664,663)	(21,572,377)
Income tax expense					(6,804,501)
Loss for the year					(28,376,878)
Other segment items are as follows:					
Capital expenditures	33,885	1,323,284	193,173	–	1,550,342
Fair value (losses)/gains on investment properties	(724,928)	123,314	–	–	(601,614)
Fair value losses on derivative financial instruments	–	–	–	38,493	38,493
Depreciation and amortisation charge	121,526	520,852	149,969	62,506	854,853
Amortisation of right-of-use assets	46,359	99,860	26,745	–	172,964
Provision for impairment on financial assets	588,609	3,520,438	251,148	–	4,360,195
Impairment loss on intangible assets	1,709,730	97,672	725,620	–	2,533,022
Provision for impairment losses on properties under development and completed properties held for sale	5,289,487	18,275,243	–	–	23,564,730
Impairment loss on investment properties under construction measured at cost	–	836,456	–	–	836,456
Impairment losses on property and equipment	–	1,186,354	–	–	1,186,354

* The Group owns an effective equity interest of 63.92% in Shanghai Shimao as at 31 December 2021

** The Group owns an effective equity interest of 62.82% in Shimao Services as at 31 December 2021

*** Unallocated mainly represent corporate level activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

6. Segment information (CONTINUED)**(b) Segment information** (continued)

The segment assets and liabilities at 31 December 2021 are as follows:

	Property development and investment			Total RMB'000
	Shanghai Shimao* RMB'000	Others RMB'000	Shimao Services** RMB'000	
Investments accounted for using the equity method	1,089,481	26,588,959	42,184	27,720,624
Intangible assets	–	176,167	2,551,306	2,727,473
Other segment assets	134,042,730	442,916,115	13,826,344	590,785,189
Total segment assets	135,132,211	469,681,241	16,419,834	621,233,286
Deferred income tax assets				3,352,443
Financial assets at FVOCI				2,184,336
Derivative financial instruments				11,412
Other assets				1,322,592
Total assets				628,104,069
Borrowings	37,629,736	119,870,649	3,206,370	160,706,755
Other segment liabilities	51,194,503	216,245,368	4,712,655	272,152,526
Total segment liabilities	88,824,239	336,116,017	7,919,025	432,859,281
Corporate borrowings				71,051,868
Deferred income tax liabilities				8,704,284
Derivative financial instruments				57
Other liabilities				1,488,896
Total liabilities				514,104,386

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

6. Segment information (CONTINUED)**(b) Segment information (continued)**

The segment results for 31 December 2020 are as follows:

	Property development and investment		Shimao Services**	Unallocated***	Total
	Shanghai Shimao*	Others			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue					
– Sales of properties	20,243,795	105,888,775	–	–	126,132,570
– Recognised at a point in time	20,116,160	104,794,398	–	–	124,910,558
– Recognised over time	127,635	1,094,377	–	–	1,222,012
– Hotel operation income	193,203	1,253,836	–	–	1,447,039
– Commercial properties operation income	1,041,624	496,841	–	–	1,538,465
– Property management income, and others	226,720	1,777,308	5,025,688	–	7,029,716
Total revenue before elimination	21,705,342	109,416,760	5,025,688	–	136,147,790
Elimination					(795,035)
Total revenue					135,352,755
Operating profit/(loss)	5,910,993	24,018,043	897,052	(633,421)	30,192,667
Finance income	133,429	5,448,541	11,407	35,825	5,629,202
Finance costs	(299,059)	(1,137,447)	(14,587)	(862,650)	(2,313,743)
Fair value changes of convertible redeemable preferred shares	–	(75,860)	–	–	(75,860)
Share of results of associated companies and joint ventures accounted for using the equity method	(16,265)	164,670	10,915	–	159,320
Profit/(loss) before income tax	5,729,098	28,417,947	904,787	(1,460,246)	33,591,586
Income tax expense					(14,129,120)
Profit for the year					19,462,466
Other segment items are as follows:					
Capital expenditures	8,298	6,359,261	133,790	–	6,501,349
Fair value gains on investment properties	256,489	141,050	–	–	397,539
Fair value losses on derivative financial instruments	–	–	–	(68,152)	(68,152)
Depreciation and amortisation charge	88,808	537,962	65,648	60,649	753,067
Amortisation of right-of-use assets	125,519	96,545	9,541	–	231,605
(Reversal of)/provision for impairment on financial assets	(30,284)	442,675	70,527	–	482,918
Provision for impairment losses on completed properties held for sale	–	2,653	–	–	2,653

* The Group owns an effective equity interest of 63.92% in Shanghai Shimao as at 31 December 2020

** The Group owns an effective equity interest of 65.88% in Shimao Services as at 31 December 2020

*** Unallocated mainly represent corporate level activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

6. Segment information (CONTINUED)**(b) Segment information (continued)**

The segment assets and liabilities at 31 December 2020 are as follows:

	Property development and investment		Shimao Services** RMB'000	Total RMB'000
	Shanghai Shimao* RMB'000	Others RMB'000		
Investments accounted for using the equity method	1,651,650	29,251,032	34,074	30,936,756
Intangible assets	1,709,730	243,785	1,873,297	3,826,812
Other segment assets	144,354,358	394,589,664	8,930,119	547,874,141
Total segment assets	147,715,738	424,084,481	10,837,490	582,637,709
Deferred income tax assets				3,231,065
Financial assets at FVOCI				1,974,946
Financial assets at FVPL				168,016
Derivative financial instruments				2,337
Other assets				1,739,077
Total assets				589,753,150
Borrowings	23,512,691	59,193,544	30,000	82,736,235
Other segment liabilities	70,638,183	208,020,833	4,012,016	282,671,032
Total segment liabilities	94,150,874	267,214,377	4,042,016	365,407,267
Corporate borrowings				62,406,829
Deferred income tax liabilities				8,520,394
Derivative financial instruments				33,114
Other liabilities				890,794
Total liabilities				437,258,398

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

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

The Group has recognised the following liabilities related to contracts with customers:

	2021 RMB'000	2020 RMB'000
Related to development and sales of properties contracts		
Contract liabilities (Note)	124,124,133	106,126,631

Note: Contract liabilities have been disclosed with the value-added tax of approximately RMB5.7 billion deducted in 2021 (2020: approximately RMB5.3 billion).

Revenue from sales of properties totalled approximately RMB64 billion was recognised in the current reporting year that was included in the contract liability balance at the beginning of the year. Management expects that the majority of the contract amounts allocated to unsatisfied performance obligations totalled approximately RMB42 billion as of 31 December 2021 will be recognised as revenue from sales of properties during the next reporting year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

7. Property and equipment

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment and others RMB'000	Jet plane and motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2021	1,332,456	17,165,091	594,536	1,283,408	1,214,008	21,589,499
Additions	256,987	97,205	90,076	757	739	445,764
Additions through acquisitions of subsidiaries	55,472	-	78,208	149,942	12,883	296,505
Disposal of subsidiaries	-	-	(110)	(38,861)	-	(38,971)
Disposals	-	(145,217)	(13,352)	(321,053)	(1,175)	(480,797)
Transfer upon completion	(127,842)	-	1,583	-	126,259	-
Transfer (to)/from properties under development	(330,337)	2,162,249	-	-	533,226	2,365,138
Cost adjustments	-	(226,265)	-	-	-	(226,265)
At 31 December 2021	1,186,736	19,053,063	750,941	1,074,193	1,885,940	23,950,873
Accumulated depreciation and impairment loss						
At 1 January 2021	-	3,763,261	321,727	319,898	320,301	4,725,187
Charge for the year	-	483,100	51,861	71,466	95,213	701,640
Impairment loss	-	1,186,354	-	-	-	1,186,354
Disposal of subsidiaries	-	-	(65)	-	-	(65)
Disposals	-	(100,902)	(6,005)	(168,881)	(776)	(276,564)
At 31 December 2021	-	5,331,813	367,518	222,483	414,738	6,336,552
Carrying amount						
At 31 December 2021	1,186,736	13,721,250	383,423	851,710	1,471,202	17,614,321

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

7. Property and equipment (CONTINUED)

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment and others RMB'000	Jet plane and motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2020	3,491,204	14,361,933	894,666	604,299	1,125,905	20,478,007
Reclassified to intangible assets	–	–	(404,520)	–	–	(404,520)
Additions	1,069,581	50,719	100,139	675,304	6,903	1,902,646
Additions through acquisitions of subsidiaries	54,008	–	34,848	15,044	80,568	184,468
Transfer from investment properties	339,000	–	–	–	–	339,000
Disposal of subsidiaries	–	(804,204)	(8,065)	–	–	(812,269)
Disposals	–	(62,110)	(24,484)	(11,239)	–	(97,833)
Transfer upon completion	(3,621,337)	3,618,753	1,952	–	632	–
At 31 December 2020	1,332,456	17,165,091	594,536	1,283,408	1,214,008	21,589,499
Accumulated depreciation and impairment loss						
At 1 January 2020	–	3,551,003	469,147	265,870	269,045	4,555,065
Reclassified to intangible assets	–	–	(211,887)	–	–	(211,887)
Charge for the year	–	466,550	87,618	59,607	51,256	665,031
Disposal of subsidiaries	–	(216,834)	(6,279)	–	–	(223,113)
Disposals	–	(37,458)	(16,872)	(5,579)	–	(59,909)
At 31 December 2020	–	3,763,261	321,727	319,898	320,301	4,725,187
Carrying amount						
At 31 December 2020	1,332,456	13,401,830	272,809	963,510	893,707	16,864,312

Depreciation charge of approximately RMB701,640,000 for the year ended 31 December 2021 (2020: RMB665,031,000) has been recorded in cost of sales and administrative expenses in the consolidated statement of profit or loss and other comprehensive income (note 30).

In view of the continuing adverse changes in the local market conditions in which the hotel property of the Group operates, the management of the Group concluded that there were indicators for impairment and conducted an impairment assessment on certain hotel buildings and improvements. The recoverable amount of these assets has been determined based on their fair value less costs of disposal measured by reference to the depreciated replacement cost (level 3 fair value measurements) assessed by an independent professional valuer. As a result, an impairment loss of approximately RMB1,186,354,000 was recognised in consolidated profit or loss for the year ended 31 December 2021.

As at 31 December 2021, assets under construction and buildings of the Group with a total carrying amount of approximately RMB8,370,397,000 (2020: RMB2,435,534,000) were pledged as collateral for certain borrowings of the Group (note 26).

For the year ended 31 December 2021, the Group has capitalised borrowing costs amounting to approximately RMB22,799,000 (2020: RMB75,048,000) in assets under construction. Borrowing costs were capitalised at the weighted average rate of 5.40% (2020: 4.70%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

8. Leases**(a) Amounts recognised in the consolidated statement of financial position**

The carrying amounts of the right-of-use assets relating to leases:

	At 31 December	
	2021 RMB'000	2020 RMB'000
Right-of-use assets		
Land use rights and leasehold land	8,174,978	8,227,912
Buildings	105,579	73,607
Vehicles	5,901	14,749
	8,286,458	8,316,268
Lease liabilities		
Current	50,601	37,495
Non-current	45,740	39,452
	96,341	76,947

(b) Amounts recognised in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to leases:

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Amortisation charge of right-of-use assets		
Land use rights and leasehold land	(109,784)	(71,971)
Buildings	(59,591)	(145,518)
Vehicles	(3,589)	(14,116)
	(172,964)	(231,605)
Interest expense (included in finance cost) (note 31)	(9,195)	(11,763)

The total cash outflow for leases in 2021 was approximately RMB66,566,000 (2020: RMB187,283,000). As at 31 December 2021, land use rights of approximately RMB3,484,318,000 (2020: RMB457,433,000) were pledged as collateral for the Group's borrowings (note 26).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

9. Investment properties

	2021	2020
	RMB'000	RMB'000
Opening balance at 1 January	63,175,590	56,062,747
Additions – Construction cost and others	1,031,871	4,485,344
Additions – Acquisitions of subsidiaries	487,900	–
Transfer from properties under development	3,264,944	2,568,960
Transfer to property and equipment	–	(339,000)
Disposals	(203,000)	–
Impairment loss on investment properties under construction measured at cost	(836,456)	–
Fair value (losses)/gains – net	(601,614)	397,539
Closing balance at 31 December	66,319,235	63,175,590

As at 31 December 2021, investment properties under construction of approximately RMB465,363,000 were measured at cost, because their constructions were at a very early stage and related fair values were not reliably determinable (31 December 2020: approximately RMB1,301,819,000). These investment properties under development shall be measured at cost until either their fair values become reliably determinable or development is completed, whichever is earlier.

(a) Amounts recognised in the consolidated profit or loss for investment properties

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Commercial properties operation income	2,033,243	1,538,482
Direct operating expenses from properties that generated rental income	23,100	23,091
Direct operating expenses from properties that did not generate rental income	6,120	1,816

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

9. Investment properties (CONTINUED)**(b) Valuation**

The following table analyses the investment properties carried at fair value, by valuation method and fair value hierarchy as at 31 December 2021 and 2020.

Description	Fair value measurements at 31 December 2021 using		
	Quoted prices in active markets for identical assets (Level 1) RMB'000	Significant other observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Recurring fair value measurements Investment properties: – Commercial buildings – China	–	–	65,853,872

Description	Fair value measurements at 31 December 2020 using		
	Quoted prices in active markets for identical assets (Level 1) RMB'000	Significant other observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Recurring fair value measurements Investment properties: – Commercial buildings – China	–	–	61,873,771

There were no transfers between Levels 1, 2 and 3 during the year.

Fair value measurements using significant unobservable inputs (Level 3)

	Year ended 31 December 2021 Significant unobservable Inputs-Commercial buildings-China (Level 3)		
	Completed investment properties RMB'000	Investment properties under development RMB'000	Total RMB'000
Opening balance	35,736,162	26,137,609	61,873,771
Additions – Construction cost and others	–	1,031,871	1,031,871
Additions – Acquisitions of subsidiaries	487,900	–	487,900
Transfer from properties under development	–	3,264,944	3,264,944
Transfer from investment properties under development	6,134,080	(6,134,080)	–
Disposals	(203,000)	–	(203,000)
Net losses from fair value adjustment	(19,271)	(582,343)	(601,614)
Closing balance	42,135,871	23,718,001	65,853,872

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

9. Investment properties (CONTINUED)**(b) Valuation** (continued)*Fair value measurements using significant unobservable inputs (Level 3) (continued)*

	Year ended 31 December 2020		
	Significant unobservable Inputs-Commercial buildings-China (Level 3)		
	Completed investment properties RMB'000	Investment properties under development RMB'000	Total RMB'000
Opening balance	35,104,492	19,657,000	54,761,492
Additions	–	4,484,780	4,484,780
Transfer from properties under development	459,167	2,109,793	2,568,960
Transfer to property and equipment	–	(339,000)	(339,000)
Net gains from fair value adjustment	172,503	225,036	397,539
Closing balance	35,736,162	26,137,609	61,873,771

Valuation processes of the Group

The Group's investment properties were valued at 31 December 2021 and 2020 by independent and professionally qualified valuers, Vigers Appraisal and Consulting Limited ("Vigers"), who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued. For all the investment properties, their current use equates to the best use.

The Group's finance department includes a team that review the valuations performed by the independent valuers for financial reporting purposes. Discussions of valuation processes and results are held between the financial department and the valuation team at least once every six months, in line with the Group's interim and annual reporting dates. This team reports directly to the executive Directors and the audit committee of the Company.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

Valuation techniques

For completed investment properties, the fair values were determined using term and reversionary method on the basis of capitalisation of net rental income derived from the existing tenancies and the reversionary value by reference to recent comparable sales transactions or capitalisation of comparable market rents in the relevant property market. The significant unobservable inputs adopted in the valuation included market prices, market rents, term and reversionary yields.

For investment properties under development, the valuation was determined using residual method by making reference to market capitalisation rates and recent comparable sales transactions on the assumption that the property had already been completed in accordance with latest development scheme at the valuation date by deducting the estimated costs to be incurred to complete the project and the developer's estimated profit margin.

There were no changes to the valuation techniques during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

9. Investment properties (CONTINUED)**(b) Valuation** (continued)*Information about fair value measurements using significant unobservable inputs (Level 3)*

Description	Fair value at 31 Dec 2021 (RMB'000)	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Completed commercial buildings – China	42,135,871	Term and reversionary method	Market prices	RMB3,986-RMB112,142 per square meter (RMB27,790 per square meter)	The higher the market prices, the higher the fair value
			Market rents	RMB7-RMB317 per square meter (RMB72 per square meter)	The higher the market rents, the higher the fair value
			Term yields	3.75%-8.50%(5.76%)	The higher the term yields, the lower the fair value
			Reversionary yields	4.00%-8.50%(5.87%)	The higher the reversionary yields, the lower the fair value
Commercial buildings – China (under development)	23,718,001	Discounted cash flows with estimated costs to complete	Market prices	RMB2,011-RMB33,950 per square meter (RMB15,808 per square meter)	The higher the market prices, the higher the fair value
			Estimated costs to be incurred	RMB4,000-RMB8,500 per square meter (RMB6,484 per square meter)	The higher the estimated costs to be incurred, the lower the fair value
			Yields	4.75%	The higher the capitalisation rate, the lower the fair value
Description	Fair value at 31 Dec 2020 (RMB'000)	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Completed commercial buildings – China	35,736,162	Term and reversionary method	Market prices	RMB5,200-RMB124,891 per square meter (RMB30,828 per square meter)	The higher the market prices, the higher the fair value
			Market rents	RMB12-RMB421 per square meter (RMB111 per square meter)	The higher the market rents, the higher the fair value
			Term yields	3.75%-8.00% (5.56%)	The higher the term yields, the lower the fair value
			Reversionary yields	4.00%-8.00% (5.62%)	The higher the reversionary yields, the lower the fair value
Commercial buildings – China (under development)	26,137,609	Discounted cash flows with estimated costs to complete	Market prices	RMB10,300-RMB33,950 per square meter (RMB19,191 per square meter)	The higher the market prices, the higher the fair value
			Estimated costs to be incurred	RMB496-RMB8,444 per square meter (RMB4,395 per square meter)	The higher the estimated costs to be incurred, the lower the fair value
			Yields	4.75%	The higher the capitalisation rate, the lower the fair value

There are inter-relationships between unobservable inputs. For investment property under development, increases in construction costs that enhance the property's features may result in an increase of future market prices. An increase in future market prices may be linked with higher costs. There is no indication that any slight increases/(decreases) in market prices in isolation would result in a significantly higher/(lower) fair value of the investment properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

9. Investment properties (CONTINUED)**(c) Pledge**

As at 31 December 2021, the Group's investment properties were held in the PRC on leases of between 10 to 50 years. Investment properties with a carrying amount of RMB48,083,050,000 (2020: RMB22,164,124,000) were pledged as collateral for the Group's borrowings (note 26).

(d) Leasing arrangements

Some of the investment properties are leased to tenants under long term operating leases with rentals receivable monthly. Minimum lease rental receivable under non cancellable operating leases of investment properties are as follows:

	At 31 December	
	2021 RMB'000	2020 RMB'000
Within one year	1,560,354	1,335,608
Between one to two years	1,270,608	1,076,158
Between two to three years	891,180	800,952
Between three to four years	576,196	551,884
Between four to five years	412,572	455,202
Later than five years	612,367	882,761
	5,323,277	5,102,565

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

10. Intangible assets

	Computer Software RMB'000	Goodwill RMB'000	Customer relationship RMB'000	Concession intangible assets RMB'000	Brand names RMB'000	Total RMB'000
Year ended 31 December 2020						
Opening net book amount	–	2,009,346	–	–	–	2,009,346
Reclassified from property and equipment	102,821	–	89,812	–	–	192,633
Additions	113,359	–	–	–	–	113,359
Additions from acquisition of subsidiaries	19,471	1,045,091	539,000	–	–	1,603,562
Disposals	(2,161)	–	–	–	–	(2,161)
Disposal of subsidiaries with loss of control	(1,891)	–	–	–	–	(1,891)
Amortisation charge	(52,840)	–	(35,196)	–	–	(88,036)
Closing net book amount	178,759	3,054,437	593,616	–	–	3,826,812
As at 31 December 2020						
Cost	432,666	3,983,425	634,800	–	–	5,050,891
Accumulated amortisation and impairment	(253,907)	(928,988)	(41,184)	–	–	(1,224,079)
Net book amount	178,759	3,054,437	593,616	–	–	3,826,812
Year ended 31 December 2021						
Opening net book amount	178,759	3,054,437	593,616	–	–	3,826,812
Additions	72,707	–	–	–	–	72,707
Additions from acquisition of subsidiaries	67,779	915,704	436,000	79,058	16,000	1,514,541
Disposals	(352)	–	–	–	–	(352)
Impairment loss recognised	–	(2,512,483)	(20,539)	–	–	(2,533,022)
Amortisation charge	(47,063)	–	(101,320)	(4,163)	(667)	(153,213)
Closing net book amount	271,830	1,457,658	907,757	74,895	15,333	2,727,473
As at 31 December 2021						
Cost	569,895	4,899,129	1,070,800	79,058	16,000	6,634,882
Accumulated amortisation and impairment	(298,065)	(3,441,471)	(163,043)	(4,163)	(667)	(3,907,409)
Net book amount	271,830	1,457,658	907,757	74,895	15,333	2,727,473

Amortisation charge of approximately RMB153,213,000 for the year ended 31 December 2021 (2020: RMB88,036,000) has been recorded in the cost of sales and administrative expenses in the consolidated statement of profit or loss and other comprehensive income (note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

10. Intangible assets (CONTINUED)**Goodwill comprise goodwill arising from acquisitions***Impairment tests for goodwill*

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

	At 31 December	
	2021 RMB'000	2020 RMB'000
Property development and investment		
– Shanghai Shimao (Note (i))	–	1,709,730
Shimao Services (Note (ii))	1,424,402	1,213,779
Hotel operation	33,256	130,928
	1,457,658	3,054,437

The recoverable amounts of CGUs are determined based on the higher of fair values (less cost to sale) and value-in-use calculation.

As at 31 December 2021 and 2020, the fair values of hotel operation are valued by independent professionally qualified valuers who held a recognised relevant professional qualification and have recent experience in the locations and segments of the property service and hotels valued.

Notes:

- (i) In view of volatility of the PRC stock market and that the market value of Shanghai Shimao was lower than its net book value as at 31 December 2021 and 2020, goodwill of CGU – property development and investment – Shanghai Shimao was tested for impairment using the higher of value-in-use by discounted cash flow projection and the fair value (equivalent to the market value) less costs to sell. The value-in-use calculation used pre-tax cash flow forecast based on approved budgets covering five years after the reporting period. Cash flows beyond the five-year period are extrapolated using the estimated long term growth rate of revenue. As a result, an impairment loss of approximately RMB1,709,730,000 (2020: RMBNil) was recognised for CGU – Shanghai Shimao during the year.
- (ii) Goodwill has been allocated to the CGUs of the subsidiaries of Shimao Services for impairment testing. Management performed an impairment assessment on the goodwill as at 31 December 2021 based on approved budgets covering a five-year period. The recoverable amounts of these subsidiaries are determined based on value-in-use calculation. Given the slowdown in overall economic growth and the performance growth in the relevant markets, which was slower than expected due to the volatility and downturn in the real estate industry, the approved budgets were prepared on a prudent basis. Based on the impairment assessment, an impairment loss of approximately RMB705,081,000 (2020: RMBNil) was recognised for CGU – Shimao Services during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

10. Intangible assets (CONTINUED)**Goodwill comprise goodwill arising from acquisitions (continued)***Impairment tests for goodwill (continued)*

For Shanghai Shimao and Shimao Services, the key assumptions used in the value-in-use calculation in 2021 and 2020 are as follows:

	Shanghai Shimao	Shimao Services
As at 31 December 2021		
Revenue growth rate during the forecast period	-70% – 12%	-4% – 56%
Gross profit margin during the forecast period (Note)	19% – 21%	7% – 28%
Pre-tax discount rate	17%	15% – 22%
As at 31 December 2020		
Revenue growth rate during the forecast period	4% – 10%	2% – 17%
Gross profit margin during the forecast period (Note)	27% – 35%	13% – 32%
Pre-tax discount rate	17%	15% – 22%

Notes:

For Shanghai Shimao, the calculation of gross profit margin excludes land appreciation tax.

These assumptions have been used for the analysis of Shanghai Shimao and Shimao Services CGU within the operating segment.

The discount rate used is pre-tax and reflects specific risks relating to the relevant operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

11. Financial instruments by category

	At 31 December	
	2021 RMB'000	2020 RMB'000
Financial assets		
Financial assets at amortised cost:		
– Trade and other receivables	17,756,928	15,073,660
– Amounts due from related parties	72,516,685	35,957,166
– Restricted cash	10,069,923	7,428,982
– Cash and cash equivalents	47,814,400	61,038,027
Financial assets at FVOCI	2,184,336	1,974,946
Financial assets at FVPL	–	168,016
Derivative financial instruments	11,412	2,337
Total	150,353,684	121,643,134

	At 31 December	
	2021 RMB'000	2020 RMB'000
Financial liabilities		
Other financial liabilities at amortised cost:		
– Borrowings	231,758,623	145,143,064
– Trade and other payables (excluding other taxes payable)	83,170,565	92,299,614
– Amounts due to related parties	30,336,173	44,371,171
Derivative financial instruments	57	33,114
Lease liabilities	96,341	76,947
Total	345,361,759	281,923,910

The Group's exposure to various risks, associated with the financial instruments is discussed in note 5 to the consolidated financial statements.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount each class of financial assets mentioned above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

12. Investments accounted for using the equity method

	At 31 December	
	2021 RMB'000	2020 RMB'000
Investments accounted for using the equity method comprise:		
Associated companies (Note (a))	5,966,439	4,428,791
Joint ventures (Note (b))	21,754,185	26,507,965
	27,720,624	30,936,756

Notes:

(a) Interests in associated companies

The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

	At 31 December	
	2021 RMB'000	2020 RMB'000
Carrying amounts of interests	5,966,439	4,428,791

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
(Loss)/profit for the year	(121,394)	87,153
Other comprehensive income	–	–
Total comprehensive (loss)/income	(121,394)	87,153

Details of the principal associated companies of the Group as at 31 December 2021 are set out in note 38 to the consolidated financial statements.

There was no individually material associated company of the Group as at 31 December 2021 and 2020.

The Group provided guarantees to associated companies for their borrowings from banks and other financial institutions amounting to RMB14,889,696,000 as at 31 December 2021 (2020: RMB8,894,577,000) (note 39(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

12. Investments accounted for using the equity method (CONTINUED)

Notes: (continued)

(b) Interests in joint ventures

The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial joint ventures that are accounted for using the equity method.

	At 31 December	
	2021 RMB'000	2020 RMB'000
Carrying amounts of interests	21,754,185	26,507,965
	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
(Loss)/profit for the year	(311,533)	72,167
Other comprehensive income	35,730	49,035
Total comprehensive (loss)/income	(275,803)	121,202

Details of the principal joint ventures of the Group as at 31 December 2021 are set out in note 38 to the consolidated financial statements.

There was no individually material joint ventures of the Group as at 31 December 2021 and 2020.

The Group provided guarantees to joint ventures for their borrowings from banks and other financial institutions amounting to RMB61,704,131,000 as at 31 December 2021 (2020: RMB57,839,185,000) (note 39(b)).

13. Amounts due from related parties

Advances to related parties included in non-current assets is to finance their acquisition of land use rights. The Group's intention is that the advances will only be recalled when the related companies have surplus cash.

	At 31 December	
	2021 RMB'000	2020 RMB'000
Included in non-current assets		
– Joint ventures	5,809,510	1,408,280
– Associated companies	749,044	600,628
Provision for impairment	6,558,554 (98,378)	2,008,908 (30,134)
	6,460,176	1,978,774

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

13. Amounts due from related parties (CONTINUED)

Advances to related parties included in current assets is the disbursement to finance their operating activities which will be repaid within one year.

	At 31 December	
	2021 RMB'000	2020 RMB'000
Included in current assets		
– Associated companies	6,335,760	6,768,438
– Joint ventures	50,865,400	26,124,892
– Non-controlling interest	12,540,858	1,140,244
	69,742,018	34,033,574
Provision for impairment	(3,685,509)	(55,182)
	66,056,509	33,978,392

These advances are interest free, unsecured and have no fixed repayment terms. The carrying amounts of amounts due from related companies approximate their fair values.

The loss allowance increased by approximately RMB3,698,571,000 to approximately RMB3,783,887,000 for amounts due from related parties during the current reporting period.

Information about the impairment of amounts due from related parties and the Group's exposure to credit risk and foreign exchange risk can be found in note 5 to the consolidated financial statements.

14. Financial assets at fair value through other comprehensive income

Equity investments at FVOCI comprise the following individual investments:

	At 31 December	
	2021 RMB'000	2020 RMB'000
Non-current assets		
– Listed securities	595,053	1,382,554
– Unlisted securities	588,313	592,392
– Structured products	1,000,970	–
	2,184,336	1,974,946

Notes:

- (i) Listed securities represented investment in listed equity securities in HK and USA which were stated at market value based on the quoted price.
- (ii) Unlisted securities and structured products represented investments measured at fair value of which the fair value are determined using valuation model for which not all inputs are observable and is within Level 3 of the fair value hierarchy (note 5).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

15. Financial assets at fair value through profit or loss

Equity investments at FVPL comprise the following individual investments:

	At 31 December	
	2021 RMB'000	2020 RMB'000
Non-current assets		
Investment in unlisted entity (Note)	–	168,016

Note:

Investment in unlisted entity represented an investment measured at fair value, of which the fair value is determined using valuation model for which not all inputs are observable and is within Level 3 of the fair value hierarchy.

16. Deferred income tax

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

	At 31 December	
	2021 RMB'000	2020 RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	2,552,949	2,063,349
– to be recovered within 12 months	799,494	1,167,716
	3,352,443	3,231,065
Deferred income tax liabilities		
– to be recovered after more than 12 months	7,231,858	7,838,762
– to be recovered within 12 months	1,472,426	681,632
	8,704,284	8,520,394
Net deferred income tax liabilities	5,351,841	5,289,329

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

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Opening balance at 1 January	5,289,329	4,477,928
Disposal of subsidiaries (note 41(b))	(822)	106,170
Acquisition of subsidiaries (note 41(a))	(789,320)	(27,627)
Charged to the consolidated income statement (note 34)	695,601	737,567
Charged/(credited) to OCI	157,053	(4,709)
Closing balance at 31 December	5,351,841	5,289,329

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

16. Deferred income tax (CONTINUED)

Movement in deferred income tax assets and liabilities for the year ended 31 December 2021 and 2020, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Provision for land appreciation tax deductible for future income tax clearance RMB'000	Unrealised profit on intra-group transaction RMB'000	Tax loss and temporary difference on recognition of expenses RMB'000	Total RMB'000
At 1 January 2020	1,431,838	260,821	1,362,469	3,055,128
(Charged)/credited to the consolidated income statement	(46,757)	4,259	57,508	15,010
Disposal of subsidiaries	(106,170)	–	–	(106,170)
Acquisition of subsidiaries	267,097	–	–	267,097
At 31 December 2020	1,546,008	265,080	1,419,977	3,231,065
(Charged)/credited to the consolidated income statement	(216,114)	8,862	(576,244)	(783,496)
Acquisition of subsidiaries	888,675	–	16,199	904,874
At 31 December 2021	2,218,569	273,942	859,932	3,352,443

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

16. Deferred income tax (CONTINUED)**Deferred income tax liabilities**

	Fair value changes on investment properties RMB'000	Fair value adjustments on assets and liabilities upon acquisition of subsidiaries RMB'000	Withholding tax on the retained earnings of certain subsidiaries RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020	5,203,109	1,037,985	1,251,306	40,656	7,533,056
Charged/(credited) to the consolidated income statement	99,385	(20,801)	673,993	–	752,577
Credited to OCI	–	–	–	(4,709)	(4,709)
Acquisition of/transfer to subsidiaries	–	239,470	–	–	239,470
At 31 December 2020	5,302,494	1,256,654	1,925,299	35,947	8,520,394
Charged/(credited) to the consolidated income statement	(150,403)	(342,113)	404,621	–	(87,895)
Reclassification	–	156,627	–	(156,627)	–
Charged to OCI	–	–	–	157,053	157,053
Disposal of subsidiaries	–	(822)	–	–	(822)
Acquisition of subsidiaries	–	115,554	–	–	115,554
At 31 December 2021	5,152,091	1,185,900	2,329,920	36,373	8,704,284

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

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB398,921,000 (2020: RMB42,750,000) in respect of accumulated losses amounting to RMB1,595,685,000 (2020: RMB171,000,000) that can be carried forward against future taxable income. All unrecognised tax losses will expire in the years ranging from 2022 to 2026. At the end of the reporting period, the Group has deductible temporary differences arising from various impairments of the Group's assets in aggregate of approximately RMB29,968,274,000. No deferred tax asset has been recognised in respect of such amount as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred income tax liabilities have not been recognised for the withholding tax and other taxes on the unremitted earnings of certain subsidiaries in the PRC. Such amounts will be reinvested according to the distribution and reinvestment plan of the Group.

17. Other non-current assets

Other non-current assets mainly represent artworks and prepayments of equity interests.

As at 31 December 2021, the Group has a portfolio of artworks of approximately RMB1,480,814,000 (2020: RMB1,154,018,000). The amounts represent the aggregate cost of artworks held by the Group. In the opinion of the Directors, the recoverable amounts of the art works is at least their carrying amounts at the end of both reporting periods.

As at 31 December 2021, the Group made prepayments of RMB931,243,000 (2020: RMB1,321,750,000) for the acquisition of certain equity interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

18. Inventories

	At 31 December	
	2021 RMB'000	2020 RMB'000
Inventories comprise:		
Properties under development (Note (a))	294,473,295	279,870,078
Completed properties held for sale (Note (b))	38,416,760	33,917,192
	332,890,055	313,787,270

Notes:

(a) Properties under development

	At 31 December	
	2021 RMB'000	2020 RMB'000
Properties under development comprise:		
Land use rights and leasehold land	187,612,063	165,782,462
Construction costs and capitalised expenditures	86,261,021	92,217,323
Interests capitalised	41,379,891	21,870,293
	315,252,975	279,870,078
Provision for impairment loss	(20,779,680)	–
	294,473,295	279,870,078

	At 31 December	
	2021 RMB'000	2020 RMB'000
Land use rights and leasehold land, held on leases of:		
Over 50 years	143,278,629	122,883,050
Between 10 and 50 years	44,333,434	42,899,412
	187,612,063	165,782,462

As at 31 December 2021, leasehold land of approximately RMB8,966,147,000 (2020: RMB8,358,828,000) was located in Hong Kong. The other properties under development are all located in the PRC. The relevant land use rights are on leases of 40 to 70 years.

As at 31 December 2021, properties under development of approximately RMB107,051,429,000 (2020: RMB28,393,480,000) were pledged as collateral for the Group's borrowings (note 26).

For the year ended 31 December 2021, the Group recognised impairment losses of approximately RMB20,779,680,000 (2020: Nil) on properties under development (note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

18. Inventories (CONTINUED)

Notes: (continued)

(a) Properties under development (continued)

The capitalisation rate of borrowings was 5.4% for the year ended 31 December 2021 (2020: 4.70%).

	At 31 December	
	2021 RMB'000	2020 RMB'000
Properties under development:		
Expected to be completed and available for sale after more than 12 months	240,304,566	80,378,322
Expected to be completed and available for sale within 12 months	54,168,729	199,491,756
	294,473,295	279,870,078

(b) Completed properties held for sale

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

	At 31 December	
	2021 RMB'000	2020 RMB'000
Land use rights and leasehold land, held on leases of:		
Over 50 years	13,010,360	12,428,392
Between 10 and 50 years	1,735,984	3,277,064
	14,746,344	15,705,456

As at 31 December 2021, completed properties held for sale of RMB13,750,848,000 (2020: RMB6,285,457,000) were pledged as collateral for the Group's borrowings (note 26).

For the year ended 31 December 2021, the Group recognised impairment losses of approximately RMB2,785,050,000 (2020: RMB2,653,000) on completed properties held for sale (note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

19. Trade and other receivables and prepayments

	At 31 December	
	2021 RMB'000	2020 RMB'000
Trade receivables (Note (a))	9,267,337	6,649,065
Bidding deposits for land use rights (Note (b))	1,758,960	3,028,253
Prepayments for construction costs	4,832,637	4,849,498
Loan receivables (Note (c))	968,226	1,528,513
Prepaid tax and surcharges on pre-sale proceeds	1,138,363	1,464,396
Deposits paid	3,115,810	1,526,839
Payments on behalf of customers	928,852	380,998
Other receivables	3,146,057	2,726,682
	25,156,242	22,154,244
Provision for impairment	(1,428,314)	(766,690)
	23,727,928	21,387,554

Notes:

- (a) Trade receivables mainly arise from sales of properties. Consideration in respect of properties sold is paid in accordance with the terms of the related sales and purchase agreements. The ageing analysis of trade receivables at the respective year-ended dates is as follows:

	At 31 December	
	2021 RMB'000	2020 RMB'000
Within 180 days	7,141,473	5,902,275
Over 180 days and within 365 days	1,537,346	299,532
Over 365 days	588,518	447,258
	9,267,337	6,649,065

As at 31 December 2021, receivables arising from sales of properties were approximately RMB5,380,594,000 (2020: RMB4,849,999,000).

- (b) Bidding deposits for land use rights mainly represented deposits placed by the Group to various municipal governments for the participation in land auctions. These deposits will be deducted against the total land costs to be paid if the Group wins the bid at the auction. If the Group does not win the bid, the deposits will be fully refunded.
- (c) As at 31 December 2021, loan receivables of RMB968,226,000 (31 December 2020: RMB1,528,513,000) were secured by the pledge of certain properties, notes receivable or credit guaranty of borrowers, bearing interest rate at a range from 4.2% to 18.0% per annum and repayable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

19. Trade and other receivables and prepayments (CONTINUED)

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value. As at 31 December 2021, the fair value of trade receivables, bidding deposits for land use rights, loan receivables and other receivables of the Group approximate their carrying amounts, as the impact of discounting is not significant.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. As at 31 December 2021, a provision of approximately RMB245,568,000 (31 December 2020: RMB89,214,000) was made against the gross amount of trade receivables.

The Group makes periodic collective assessments as well as individual assessments on the recoverability of other receivables based on historical settlement records, past experience and available forward-looking information. As at 31 December 2021, a provision of approximately RMB1,182,746,000 (31 December 2020: RMB677,476,000) was made against the gross amount of other receivables.

Information about the impairment of trade and other receivables and the Group's exposure to credit risk and foreign exchange risk can be found in note 5 to the consolidated financial statements.

As at 31 December 2021 and 31 December 2020, trade and other receivables of the Group were mainly denominated in RMB.

20. Prepayment for acquisition of land use right

Prepayments for acquisition of land use rights are related to acquisition of land for property development purposes, the ownership certificates of which have not been obtained as at 31 December 2021.

21. Derivative financial instruments

The Group has the following derivative financial instruments:

	At 31 December	
	2021 RMB'000	2020 RMB'000
Current assets		
Foreign currency options	–	2,337
Interest rate swaps	11,412	–
	11,412	2,337
Current liabilities		
Interest rate swaps	–	33,114
Convertible bond – derivative component (note 26)	57	–
	57	33,114

Note:

These contracts do not qualify for hedge accounting and are classified as derivative financial instruments held for trading as current assets or current liabilities. Fair value gains of approximately RMB38,493,000 (2020: Fair value losses: approximately RMB68,152,000) have been recognised in "Other income/other gains-net" (Note 29).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

22. Cash and cash equivalents and restricted cash

	At 31 December	
	2021 RMB'000	2020 RMB'000
Bank balances and cash		
– denominated in RMB	54,731,243	62,682,244
– denominated in US dollar	80,285	493,171
– denominated in HK dollar	3,072,411	5,290,753
– denominated in other foreign currencies	384	841
Less: restricted cash	(10,069,923)	(7,428,982)
	47,814,400	61,038,027

As at 31 December 2021, the Group's restricted cash comprised approximately RMB2,913,858,000 (2020: RMB1,589,859,000) of guarantee deposits for the benefit of mortgage loan facilities granted by the banks to the purchasers of the Group's properties (note 39(a)) and approximately RMB7,156,065,000 (2020: RMB5,839,123,000) of deposits pledged as collateral for the Group's borrowings (note 26).

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

The effective interest rate on bank deposits as at 31 December 2021 was 0.34% (2020: 0.34%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

23. Share capital**(a) Details of share capital of the Company are as follows:**

	Par value	Number of shares	Nominal value of ordinary shares	
	HK\$	'000	HK\$'000	Equivalent to RMB'000
Authorised:				
At 31 December 2021 and 2020	0.1	5,000,000	500,000	
Issued and fully paid:				
At 1 January 2020		3,301,493	330,149	341,575
Placing and subscription of shares		236,204	23,620	21,275
At 31 December 2020 and 1 January 2021		3,537,697	353,769	362,850
Shares repurchased and cancelled (Note (i))		(5,000)	(500)	(415)
2021 interim dividend paid by issuance of scrip shares (Note (ii))		120,134	12,014	9,870
Placing and subscription of shares (Note (iii))		145,000	14,500	11,860
At 31 December 2021		3,797,831	379,783	384,165

Notes:

- (i) For the year ended 31 December 2021, the Company repurchased a total of 5,000,000 existing ordinary shares from the market, all the repurchased shares were cancelled as of 31 December 2021. The relevant shares were repurchased at a price ranging from HK\$9.68 per share to HK\$16.6 per share, with an average price of approximately HK\$15.11 per share. The total consideration paid for the repurchased shares amounted to approximately HK\$75,548,000 (equivalent to approximately RMB62,688,000).
- (ii) On 30 August 2021, the Company's board of directors (the "Board") has resolved to declare an interim dividend of HK70 cents per ordinary share for the six months ended 30 June 2021. The 2021 interim dividends will be either payable in cash or, in the form of new fully paid scrip shares of the Company in lieu of cash at the scrip option of the shareholders, or partly in cash and partly in the scrip shares. The Company settled the interim dividends by way of issuing a total of 120,134,424 shares at HK\$13.95 per share, a share premium of approximately RMB1,366,898,000 was recorded.
- (iii) On 14 December 2021, the Company issued a total of 145,000,000 shares at HK\$8.14 per share in accordance with the placing and subscription agreement dated 6 December 2021. The total consideration, net of the transaction costs, received from the placing and subscription amounted to approximately HK\$1,172,773,000 (equivalent to approximately RMB964,172,000).

The issued shares rank pari passu to the then existing shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

23. Share capital (CONTINUED)**(b) Share Award Scheme**

- (1) The Board approved and adopted the Share Award Scheme on 30 December 2011 (the "Share Scheme"). Unless terminated earlier by the Board, the Share Scheme is valid and effective for a term of 8 years commencing on 30 December 2011. The maximum number of shares to be awarded must not exceed 34,659,508 shares (i.e. 1% of issued shares of the Company as at 30 December 2011). On 13 April 2018, the Board approved the maximum number of shares to be awarded change to 69,319,016 shares (i.e. 2% of issued shares of the Company as at 30 December 2011). On 26 March 2019, the Board approved the Share Scheme to be valid and effective until 30 December 2027.

The Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the Board from time to time), select such employee(s) for participation in the Share Scheme and determine the number of awarded shares.

A Trust was constituted to manage the Share Scheme, and a wholly owned subsidiary of the Company incorporated in the British Virgin Islands was designated as a Trustee. Up to 31 December 2021, the Trust purchased a total of 47,006,000 ordinary shares from market, totaling HK\$756,630,000 (equivalent to RMB665,074,000). Up to 31 December 2021, a total of 48,751,338 shares were granted to eligible employees according to the Share Scheme, among the shares granted, 36,764,063 shares were vested, and 3,277,922 shares were lapsed.

The granted shares were subject to several vesting conditions, including the completion of specific period of service as stated in the letter of grant and non-market performance appraisal before vesting date. The shares granted are held by the Trust before being transferred to the employees when vesting conditions are fully met.

Movements in the number of unvested shares granted during the year are as follows:

	2021	2020
Unvested shares, beginning	7,639,311	8,949,186
Granted	5,394,354	4,341,514
Vested	(4,324,312)	(5,651,389)
Unvested shares, ending	8,709,353	7,639,311

The weighted average fair value of the unvested shares granted during the year ended 31 December 2021 is approximately HK\$200,875,000, equivalent to approximately RMB167,144,000 (2020: approximately HK\$186,691,000, equivalent to approximately RMB158,810,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

23. Share capital (CONTINUED)**(b) Share Award Scheme** (continued)

- (2) The Board approved and adopted another share award scheme on 3 May 2021 (the “Shimao Services Share Award Scheme”). Unless terminated earlier by the Board, the Shimao Services Share Award Scheme is valid and effective for a term of 10 years commencing on 3 May 2021. Under the Shimao Services Share Award Scheme, the maximum number of shares of Shimao Services that can be awarded by Shimao Services is 0.3% (i.e. 7,091,919 shares of Shimao Services) of the issued shares of Shimao Services as at the date of adoption.

The Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each employee determined by the Board from time to time), select such employee(s) for participation in the Shimao Services Share Award Scheme and determine the number of awarded shares.

During the year ended 31 December 2021, 6,865,821 shares of Shimao Services were granted to certain directors and selected employees of the Group under the Shimao Services Share Award Scheme. None of the awarded shares has been vested during the year ended 31 December 2021.

The granted shares were subject to several vesting conditions, including the completion of specific period of service as stated in the letter of grant and non-market performance appraisal before vesting date. The shares granted are held by Best Cosmos Limited (“Best Cosmos”), a wholly-owned subsidiary of the Company and the immediate holding company of Shimao Services, as Trustee of a Trust established for the Shimao Services Share Award Scheme before being transferred to the employees when vesting conditions are fully met.

Movements in the number of unvested shares granted during the year are as follows:

	2021
Unvested shares, beginning	–
Granted	6,865,821
Unvested shares, ending	6,865,821

The weighted average fair value of the unvested shares of Shimao Services granted during the year ended 31 December 2021 is HK\$109,773,000, equivalent to RMB91,340,000.

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

	2021 ‘000	2020 ‘000
Shares issued	3,797,831	3,537,697
Treasury shares for Share Scheme	(10,242)	(3,566)
Shares outstanding	3,787,589	3,534,131

(d) Material non-controlling interests

There is no individual material non-controlling interests of the Group as at 31 December 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

24. Reserves

	Merger reserve RMB'000	Share premium RMB'000	Other reserve RMB'000	Share-based compensation reserve RMB'000	Statutory reserve RMB'000	Capital redemption reserve RMB'000	Financial assets at FVOCI reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2021	(185,787)	5,710,158	8,545,196	676,123	3,693,347	4,949	(561,357)	69,756,581	87,639,210
Loss for the year	-	-	-	-	-	-	-	(27,092,790)	(27,092,790)
Fair value losses on financial assets at FVOCI, net of tax	-	-	-	-	-	-	(394,180)	-	(394,180)
Release upon disposal of financial assets at FVOCI	-	-	-	-	-	-	426,599	(426,599)	-
Share of other comprehensive income of joint ventures accounted for using the equity method	-	-	22,843	-	-	-	-	-	22,843
Exchange differences on translation of foreign operations	-	-	(80,841)	-	-	-	-	-	(80,841)
Changes in ownership interests in subsidiaries without change of control	-	(883,323)	-	-	-	-	-	-	(883,323)
Placing of shares of Shimao Services Holdings Limited	-	-	1,337,371	-	-	-	-	-	1,337,371
Equity-settled share-based payment	-	-	-	138,434	-	-	-	-	138,434
- Value of employee services	-	-	-	138,434	-	-	-	-	138,434
- Purchase of shares	-	(196,339)	-	-	-	-	-	-	(196,339)
- Dividend received	-	6,190	-	-	-	-	-	-	6,190
Shares repurchased and cancelled	-	(62,273)	-	-	-	-	-	-	(62,273)
Repurchase of shares of Shimao Services	-	(66,414)	-	-	-	-	-	-	(66,414)
Placing and subscription of shares	-	952,312	-	-	-	-	-	-	952,312
Issue of scrip shares	-	1,366,898	-	-	-	-	-	-	1,366,898
Profit appropriations	-	-	-	-	425,370	-	-	(425,370)	-
2020 final dividends recognised	-	-	-	-	-	-	-	(3,192,560)	(3,192,560)
2021 interim dividends recognised	-	(2,060,746)	-	-	-	-	-	-	(2,060,746)
Balance at 31 December 2021	(185,787)	4,766,463	9,824,569	814,557	4,118,717	4,949	(528,938)	38,619,262	57,433,792

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

24. Reserves (CONTINUED)

	Merger reserve RMB'000	Share premium RMB'000	Other reserve RMB'000	Share-based compensation reserve RMB'000	Statutory reserve RMB'000	Capital redemption reserve RMB'000	Financial assets at FVOCI reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2020	(185,787)	42,139	-	556,666	3,299,570	4,949	(285,189)	62,480,958	65,913,306
Profit for the year	-	-	-	-	-	-	-	12,627,679	12,627,679
Fair value losses on financial assets at FVOCI, net of tax	-	-	-	-	-	-	(276,168)	-	(276,168)
Share of other comprehensive income of joint ventures accounted for using the equity method	-	-	31,349	-	-	-	-	-	31,349
Exchange differences on translation of foreign operations	-	-	(166,508)	-	-	-	-	-	(166,508)
Transactions with CPS	-	-	1,670,871	-	-	-	-	-	1,670,871
Transactions with non-controlling interests of Shimao Services (Note)	-	-	7,009,484	-	-	-	-	-	7,009,484
Changes in ownership interests in subsidiaries without change of control	-	(575,364)	-	-	-	-	-	-	(575,364)
Placing and subscription of shares	-	6,238,448	-	-	-	-	-	-	6,238,448
Equity-settled share-based payment	-	-	-	-	-	-	-	-	-
- Value of employee services	-	-	-	119,457	-	-	-	-	119,457
- Dividends received	-	4,935	-	-	-	-	-	-	4,935
Profit appropriations	-	-	-	-	393,777	-	-	(393,777)	-
2019 final dividends recognised	-	-	-	-	-	-	-	(2,766,179)	(2,766,179)
2020 interim dividends recognised	-	-	-	-	-	-	-	(2,192,100)	(2,192,100)
Balance at 31 December 2020	(185,787)	5,710,158	8,545,196	676,123	3,693,347	4,949	(561,357)	69,756,581	87,639,210

Note:

In connection with the spin off and separate listing of Shimao Services on the Main Board of Hong Kong Stock Exchange on 30 October 2020 (including the issue of shares pursuant to the exercise of the over-allotment on 25 November 2020), the Group sold a total of 242,648,000 ordinary shares of Shimao Services and Shimao Services issued a total of 363,973,000 new ordinary shares at HKD16.60 each with HK\$0.01 per share and raised gross proceeds of approximately HK\$10,069,909,000 (equivalent to RMB8,725,078,000). The excess over the then value of diluted net asset of Shimao Services of RMB1,601,935,000 net of the transaction costs of approximately RMB113,659,000 was credited to capital reserve with an amount of RMB7,009,484,000.

25. Perpetual capital instruments

For the year ended 31 December 2021, the Group redeemed certain subordinated unlisted perpetual capital instruments amounted to RMB50,000,000.

For the year ended 31 December 2020, certain subsidiaries of the Group issued several subordinated unlisted perpetual capital instruments with the total aggregate net proceeds of RMB2,276,000,000 and in the same year, subordinated unlisted perpetual capital instruments totaling RMB1,800,000,000 were redeemed.

All perpetual capital instruments are unsecured and non-guaranteed. There is no maturity of the instruments and the payments of distribution can be deferred at the issuers' discretion, and there is no limit to the number of times of deferral of distribution. The perpetual capital instruments are redeemable. When the issuers elect to declare dividends to their shareholders, they shall make distribution to the holders of perpetual capital instruments at the distribution rate as defined in the subscription agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

26. Borrowings

	At 31 December	
	2021 RMB'000	2020 RMB'000
Borrowings included in non-current liabilities		
Long-term borrowings		
– secured by assets (Note (i))	51,604,972	22,536,184
– secured by assets and shares of subsidiaries (Note (i))	15,564,948	3,291,951
– secured by shares of subsidiaries (Note (i))	14,134,401	3,159,956
– secured by shares of subsidiary guarantors (Note (ii))	21,288,343	21,534,498
– unsecured	18,060,554	28,060,174
Senior notes – secured (Note (iii))	40,747,769	32,136,206
Medium-term notes – unsecured (Note (iv))	3,110,000	3,030,000
Long-term bonds (Note (v))	20,976,385	21,201,123
Domestic corporate bonds (Note (vi))	–	4,738,620
Private placement notes (Note (vii))	–	1,000,000
	185,487,372	140,688,712
Less: Portion of long-term borrowings due within one year	(42,022,624)	(18,351,076)
Portion of senior notes due within one year	(10,833,421)	(7,466,711)
Portion of medium-term notes due within one year	(1,000,000)	(1,530,000)
Portion of long-term bonds due within one year	(7,709,461)	–
Portion of domestic corporate bonds due within one year	–	(4,738,620)
Amounts due within one year	(61,565,506)	(32,086,407)
	123,921,866	108,602,305
Borrowings included in current liabilities		
Short-term borrowings		
– secured by assets (Note (i))	14,548,129	106,000
– secured by assets and shares of subsidiaries (Note (i))	5,697,647	179,000
– secured by shares of subsidiaries (Note (i))	4,645,232	1,007,500
– unsecured	15,607,053	3,161,852
Senior notes – secured (Note (iii))	2,384,161	–
Private placement notes (Note (vii))	1,000,000	–
Convertible bond (Note (viii))	2,389,029	–
Current portion of non-current borrowings	61,565,506	32,086,407
	107,836,757	36,540,759

Notes:

- (i) As at 31 December 2021, the Group's total secured bank borrowings and borrowings from other financial institutions of approximately RMB106,195,329,000 (2020: RMB30,280,591,000) were secured by its property and equipment, investment properties, land use rights, properties under development, completed properties held for sale and restricted cash, and/or secured by the pledge of the shares of certain subsidiaries of the Group, of which approximately RMB97,855,000 (2020: RMB113,980,000) were further guaranteed by Mr. Hui Wing Mau.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

26. Borrowings (CONTINUED)

Notes: (continued)

(i) (continued)

The pledged assets for the Group's borrowings are as follows:

	At 31 December	
	2021 RMB'000	2020 RMB'000
Properties under development (note 18(a))	107,051,429	28,393,480
Investment properties (note 9)	48,083,050	22,164,124
Restricted cash (note 22)	7,156,065	5,839,123
Completed properties held for sale (note 18(b))	13,750,848	6,285,457
Land use rights (note 8)	3,484,318	457,433
Property and equipment (note 7)	8,370,397	2,435,534
	187,896,107	65,575,151

(ii) On 30 October 2017, the Company entered into a multi-currency loan facility agreement with a syndicate of 12 banks. Pursuant to the agreement, the Company obtained 4-year syndicated loan facilities, including a US\$680,000,000 facility and a HK\$5,890,000,000 facility at a floating rate of interest, 5% out of the loan principal will mature in 2019, 25% will mature in 2020 and 70% will mature in 2021. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the shares of these subsidiary guarantors. As at 31 December 2020, US\$476,000,000 and HK\$4,123,000,000 of the principal remained outstanding. This multi-currency loan has been fully repaid in 2021.

On 14 September 2018, the Company entered into a multi-currency loan facility agreement with a syndicate of 8 banks. Pursuant to the agreement, the Company obtained 4-year syndicated loan facilities, including a US\$540,000,000 facility and a HK\$2,849,500,000 facility at a floating rate of interest, 5% out of the loan principal will mature in 2020, 25% will mature in 2021 and 70% will mature in 2022. The loan facilities were guaranteed by certain subsidiaries of the Group, and secured by pledge of the shares of these subsidiary guarantors. On 25 January 2019, the multi-currency loan facility agreement extended to a syndicate of 14 banks. Pursuant to the agreement, the 4-year syndicated loan facilities extended to a US\$570,000,000 facility and a HK\$3,551,500,000 facility at a floating rate of interest. As at 31 December 2020, US\$570,000,000 and HK\$3,551,500,000 have been drawn down. As at 31 December 2021, US\$399,000,000 and HK\$2,486,050,000 of the principal remained outstanding (31 December 2020: US\$541,500,000 and HK\$3,373,925,000).

On 9 August 2019, the Company entered into a multi-currency loan facility agreement with a syndicate of 13 banks. Pursuant to the agreement, the Company obtained 4-year syndicated loan facilities, including a US\$837,850,000 facility and a HK\$3,994,000,000 facility at a floating rate of interest, 5% out of the loan principal will mature in 2021, 35% will mature in 2022 and 60% will mature in 2023. As at 31 December 2021, US\$795,958,000 and HK\$3,794,300,000 of the principal remained outstanding (31 December 2020: US\$837,850,000 and HK\$3,994,000,000).

On 22 April 2021, the Company entered into a multi-currency loan facility agreement with a syndicate of 19 banks. Pursuant to the agreement, the Company obtained 4-year syndicated loan facilities, including a US\$657,500,000 facility and a HK\$5,128,500,000 facility at a floating rate of interest, 15% out of the loan principal will mature in 2023, 35% will mature in 2024 and 50% will mature in 2025. As at 31 December 2021, US\$657,500,000 and HK\$5,128,500,000 of the principal remained outstanding.

(iii) On 3 July 2017, the Company issued senior notes with total principal of US\$450,000,000 and US\$150,000,000 at a fixed interest rate of 4.75% due on 3 July 2022. On 11 December 2017, the Company issued senior notes with total principal of US\$400,000,000 at a fixed interest rate of 4.75% due on 3 July 2022.

On 30 January 2018, the Company issued senior notes with total principal of US\$500,000,000 at a fixed interest rate of 5.20% due on 30 January 2025.

On 15 March 2018, the Company issued senior notes with total principal of RMB950,000,000 at a fixed interest rate of 5.75% due on 15 March 2021. The Company redeemed the principal amount and the accrued interest of the senior notes in 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

26. Borrowings (CONTINUED)

Notes: (continued)

(iii) (continued)

On 3 July 2018, the Company issued senior notes with total principal of RMB1,200,000,000 at a fixed interest rate of 5.75% due on 15 March 2021. The Company redeemed the principal amount and the accrued interest of the senior notes in 2021.

On 15 October 2018, the Company issued senior notes with total principal of US\$250,000,000 at a fixed interest rate of 6.375% due on 15 October 2021. The Company redeemed the principal amount and the accrued interest of the senior notes in 2021.

On 17 December 2018, the Company issued senior notes with total principal of US\$570,000,000 at a fixed interest rate of 6.375% due on 15 October 2021. The Company redeemed the principal amount and the accrued interest of the senior notes in 2021.

On 21 February 2019, the Company issued senior notes with total principal of US\$1,000,000,000 at a fixed interest rate of 6.125% due on 21 February 2024.

On 15 July 2019, the Company issued senior notes with total principal of US\$1,000,000,000 at a fixed interest rate of 5.60% due on 15 July 2026.

On 13 July 2020, the Company issued senior notes with total principal of US\$300,000,000 at a fixed interest rate of 4.60% due on 13 July 2030.

On 11 January 2021, the Company issued senior notes with total principal of US\$872,000,000 at a fixed interest rate of 3.45% due on 11 January 2031.

On 30 April 2021, the Company issued senior notes with total principal of US\$700,000,000 at a fixed interest rate of 4.50% due on 28 April 2022.

On 25 June 2021, the Company issued senior notes with total principal of US\$400,000,000 at a fixed interest rate of 3.75% due on 25 June 2022.

On 16 September 2021, the Company issued senior notes with total principal of US\$300,000,000 at a fixed interest rate of 3.975% due on 16 September 2023.

On 16 September 2021, the Company issued senior notes with total principal of US\$748,000,000 at a fixed interest rate of 5.20% due on 16 January 2027.

The Company may at its option redeem these notes, in whole or in part, by certain dates based on the terms of these notes. The notes are senior obligations guaranteed by certain restricted offshore subsidiaries and secured by a pledge of the shares of these offshore restricted subsidiaries.

(iv) On 6 February 2018, Shanghai Shimao issued medium-term notes with total principal of RMB800,000,000 at a fixed interest rate of 6.43% due on 7 February 2021. Shanghai Shimao redeemed the whole amount of the medium-term notes during the year ended 31 December 2021.

On 6 March 2018, Shanghai Shimao issued medium-term notes with total principal of RMB700,000,000 at a fixed interest rate of 6.33% due on 8 March 2021. Shanghai Shimao redeemed the whole amount of the medium-term notes during the year ended 31 December 2021.

On 17 December 2018, Shanghai Shimao issued medium-term notes with total principal of RMB1,000,000,000 at a fixed interest rate of 5.00% due on 17 December 2020. Shanghai Shimao shall be entitled to adjust the interest rate at the end of second year whereas the investors shall be entitled to sell back in whole or in part of medium-term notes. On 17 December 2020, Shanghai Shimao redeemed medium-term notes with total principal of RMB970,000,000 at a fixed interest rate of 5.00%. The total redemption price paid was RMB1,020,000,000, including the principal amount of RMB970,000,000 plus accrued and unpaid interest of RMB50,000,000. The remaining medium-term notes with total principal of RMB30,000,000 will be due on 17 December 2021 at a fixed interest rate of 4.50%. Shanghai Shimao redeemed the whole amount of the remaining medium-term notes during the year ended 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

26. Borrowings (CONTINUED)

Notes: (continued)

(iv) (continued)

On 21 October 2019, Shanghai Shimao issued medium-term notes with total principal of RMB1,000,000,000 at a fixed interest rate of 4.24% due on 21 October 2022.

On 9 January 2020, Shanghai Shimao issued medium-term notes with total principal of RMB500,000,000 at a fixed interest rate of 4.12% due on 9 January 2023.

On 15 March 2021, Shanghai Shimao issued medium-term notes with total principal of RMB970,000,000 at a fixed interest rate of 5.15% due on 16 March 2023.

On 30 April 2021, Shanghai Shimao issued medium-term notes with total principal of RMB640,000,000 at a fixed interest rate of 5.5% due on 6 May 2023.

- (v) On 15 October 2015, Shanghai Shimao Jianshe Co., Ltd. ("Shimao Jianshe"), a subsidiary of the Group, issued long-term bonds with total principal of RMB1,400,000,000 at a fixed interest rate of 4.15% due on 15 October 2020. Shimao Jianshe shall be entitled to adjust the interest rate at the end of fifth year whereas the investors shall be entitled to sell back in whole or in part of long-term bonds. On 16 October 2020, Shimao Jianshe redeemed long-term bonds with total principal of RMB865,801,000 at a fixed interest rate of 4.15%. The total redemption price paid was RMB923,901,000, including the principal amount of RMB865,801,000 plus accrued and unpaid interest of RMB58,100,000. The remaining long-term bonds with total principal of RMB534,199,000 will be due on 16 October 2022 at a fixed interest rate of 4.15%.

On 15 January 2019, Shanghai Shimao issued the first phase of long-term bonds with aggregate principal amount of RMB2,000,000,000 at a fixed interest rate of 4.65% due on 15 January 2022. On 19 March 2019, Shanghai Shimao issued second phase of long-term bonds with aggregate principal amount of RMB1,000,000,000 at a fixed interest rate of 4.64% due on 19 March 2022. On 22 May 2019, Shanghai Shimao issued the third phase of long-term bonds with aggregate principal amount of RMB500,000,000 at a fixed interest rate of 4.15% due on 22 May 2022.

On 18 September 2019, Shimao Jianshe issued the first phase of long-term bonds with aggregate principal amount of RMB1,000,000,000 at a fixed interest rate of 4.30% due on 18 September 2022. On 11 November 2019, Shimao Jianshe issued the second phase of long-term bonds with aggregate principal amount of RMB1,000,000,000 at a fixed interest rate of 4.80% due on 11 November 2024. On 11 November 2019, Shimao Jianshe issued the third phase of long-term bonds with aggregate principal amount of RMB900,000,000 at a fixed interest rate of 4.30% due on 11 November 2022.

On 5 March 2020, Shanghai Shimao issued the first phase of long-term bonds with aggregate principal amount of RMB2,000,000,000 at a fixed interest rate of 3.60% due on 5 March 2023. On 8 July 2020, Shanghai Shimao issued the second phase of long-term bonds with aggregate principal amount of RMB1,000,000,000 at a fixed interest rate of 3.76% due on 8 July 2022. On 1 September 2020, Shanghai Shimao issued the third phase of long-term bonds with aggregate principal amount of RMB500,000,000 at a fixed interest rate of 3.99% due on 1 September 2022. On 24 September 2020, Shanghai Shimao issued the fourth phase of long-term bonds with aggregate principal amount of RMB500,000,000 at a fixed interest rate of 3.94% due on 24 September 2022.

On 25 March 2020, Shimao Jianshe issued the first phase of long-term bonds with aggregate principal amount of RMB1,700,000,000 at a fixed interest rate of 3.23% due on 24 March 2023 and RMB2,800,000,000 at a fixed interest rate of 3.90% due on 25 March 2025. On 11 May 2020, Shimao Jianshe issued the second phase of long-term bonds with aggregate principal amount of RMB3,100,000,000 at a fixed interest rate of 3.20% due on 11 May 2023. On 27 August 2020, Shimao Jianshe issued the third phase of long-term bonds with aggregate principal amount of RMB2,700,000,000 at a fixed interest rate of 3.90% due on 27 August 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

26. Borrowings (CONTINUED)

Notes: (continued)

- (vi) On 14 January 2016, 3 August 2016 and 22 September 2016, the Company issued domestic corporate bonds with total principal of RMB4,000,000,000, RMB540,000,000 and RMB1,200,000,000 at a fixed interest rate of 4.8%, 4.3% and 4.1% due on 14 January 2021, 3 August 2021 and 22 September 2021.

On 18 January 2019, the Company adjusted the interest rate of domestic corporate bonds with total principal of RMB4,000,000,000 from 4.8% to 6.9%. On 31 July 2019, the Company adjusted the interest rate of domestic corporate bonds with total principal of RMB540,000,000 from 4.3% to 4.6%. On 21 September 2019, the Company adjusted the interest rate of domestic corporate bonds with total principal of RMB1,200,000,000 from 4.1% to 4.9%.

On 31 July 2020, the Company early redeemed domestic corporate bonds with total principal of RMB100,000,000 at a fixed interest rate of 4.6%, which was originally due on 31 July 2021. The total redemption price paid was RMB104,600,000 including the principal amount of RMB100,000,000 plus accrued and unpaid interest of RMB4,600,000.

On 17 September 2020, the Company early redeemed domestic corporate bonds with total principal of RMB900,000,000 at a fixed interest rate of 4.9%, which was originally due 22 September 2021. The total redemption price paid was RMB944,100,000 including the principal amount of RMB900,000,000 plus accrued and unpaid interest of RMB44,100,000.

All domestic corporate bonds has been fully redeemed in 2021.

- (vii) On 17 January 2020, Shanghai Shimao issued the first phase of private placement notes with an aggregate principal amount of RMB500,000,000 at a fixed interest rate of 4.50% due on 19 January 2022. On 24 April 2020, Shanghai Shimao issued the second phase of private placement notes with an aggregate principal amount of RMB500,000,000 at a fixed interest rate of 3.70% due on 26 April 2022. As at 31 December 2021, the Group reclassified both private placement notes from non-current liabilities to current liabilities.
- (viii) On 2 November 2021, Shimao Services issued a 2.25% convertible bond due on 31 October 2022 in an aggregate principal amount of HK\$3,110,000,000 (equivalent to approximately RMB2,536,858,000). The convertible bond is listed on the Singapore Stock Exchange. The convertible bond will, at the option of the holders, be convertible (unless previously redeemed, converted or purchased and cancelled) on or after 13 December 2021 up to 10 trading days prior to the maturity date into fully paid ordinary shares of Shimao Services with a par value of HK\$0.01 each at a conversion price of HK\$18.22 per share with no fixed exchange rate, subject to adjustments.

Unless previously redeemed, converted or purchased and cancelled, Shimao Services will redeem each convertible bond at 100 percent of its outstanding principal amount on the maturity date of 31 October 2022. When (a) the shares of Shimao Services cease to be listed or admitted to trading, or are suspended for a period equal to or exceeding 30 consecutive trading days, on the Stock Exchange or (b) a change of control in Shimao Services occurs, the holder may, having given not later than 30 days following any such event, or if later, 30 days following the giving of notice by the Company of such events to require the Company to redeem all or some only of the convertible bond on the 14th day following the expiry of such 30-day period, at a redemption price equal to the principal amount (together with any interest accrued to but excluding the date fixed for redemption but unpaid).

The convertible bond contains two components, the debt component and the derivative component. Since the redemption amount, the principal payable on the maturity date are denominated and settled in HK\$ which is not the same as the Group's functional currency which is RMB, the conversion option will not result in an exchange of a fixed amount of cash for a fixed number of shares and hence the conversion option does not meet the definition of an equity instrument in accordance with the applicable accounting standards. The derivative component is measured at fair value with changes in fair value recognised in profit or loss. The derivative component was measured at fair value with reference to valuation carried out by a firm of independent professional valuers. The effective interest rate of the debt component on initial recognition and the subsequent recognition of interest expense on the convertible bonds were calculated using effective interest rate of 8.32% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

26. Borrowings (CONTINUED)

Notes: (continued)

(viii) (continued)

The movement of the debt and derivative components of the convertible bonds for the year ended 31 December 2021 is set out as below:

	Debt component RMB'000	Derivative component (note 21) RMB'000
Issuance on 2 November 2021	2,392,055	144,803
Transaction cost on issuance	(19,136)	–
Effective interest expenses	31,340	–
Interest payable	(9,219)	–
Fair value change	–	(144,746)
Foreign exchange adjustment	(6,011)	–
At 31 December 2021	2,389,029	57

The convertible bonds were guaranteed by Shimao Services. No conversion or redemption of the convertible bond has occurred up to 31 December 2021.

The shares of Shimao Services were suspended in trading in the Stock Exchange on 3 May 2022 and were subsequently resumed on 23 June 2022. The convertible bondholders, pursuant to the terms and conditions of the convertible bonds, have the rights to give notice to Shimao Services to redeem all or some of the convertible bonds they hold at a redemption price equal to the principal amount together with the interest accrued up to the date fixed for redemption but unpaid when the shares of Shimao Services are suspended for a period equal to or exceeding 30 consecutive trading days on the Stock Exchange.

Extraordinary resolution of Shimao Services was passed at the meeting held on 1 August 2022 to approve and implement the waiver of the redemption obligation triggered under the convertible bonds and the amendments of the Shimao Services's redemption option, whereby Shimao Services has made payment as consent fee to bond holders for approximately HK\$7,625,000 on 4 August 2022 and redeemed HK\$1,399,500,000, or 45% of the aggregate outstanding principal amount of the outstanding convertible bonds on a pro rata basis at their principal amount together with the interest accrued but unpaid up to but excluding the redemption date (i.e. 18 August 2022) and the redeemed convertible bonds have been cancelled.

Shimao Services redeemed the remaining outstanding principal amount together with accrued and unpaid interest thereon on the maturity date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

26. Borrowings (CONTINUED)

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

	6 months or less RMB'000	6-12 months RMB'000	1-5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Borrowings included in non-current liabilities:					
At 31 December 2021	2,800,755	9,743,284	70,618,617	40,759,210	123,921,866
At 31 December 2020	9,474,618	11,039,310	38,337,402	49,750,975	108,602,305
Borrowings included in current liabilities:					
At 31 December 2021	48,074,942	59,761,815	–	–	107,836,757
At 31 December 2020	16,731,508	19,809,251	–	–	36,540,759

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

	At 31 December	
	2021 RMB'000	2020 RMB'000
Bank and other borrowings:		
Between 1 and 2 years	40,187,601	36,417,676
Between 2 and 5 years	33,564,372	19,187,331
Over 5 years	4,878,621	4,626,680
Senior notes:		
Between 1 and 2 years	1,891,950	6,502,314
Between 2 and 5 years	15,869,934	9,737,257
Over 5 years	12,152,464	8,429,924
Medium-term notes:		
Between 1 and 2 years	2,110,000	1,000,000
Between 2 and 5 years	–	500,000
Long-term bonds:		
Between 1 and 2 years	9,500,000	7,934,199
Between 2 and 5 years	3,766,924	13,266,924
Private placement notes:		
Between 1 and 2 years	–	1,000,000
	123,921,866	108,602,305

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

26. Borrowings (CONTINUED)

The weighted average effective interest rates at the year-ended date were as follows:

	At 31 December	
	2021	2020
Bank and other borrowings	5.7%	5.0%
Senior notes	4.9%	5.6%
Short-term bonds	N/A	3.7%
Medium-term notes	4.8%	5.2%
Convertible bond	8.3%	N/A

The carrying amounts and fair value of non-current borrowings are as follows:

	Carrying amounts RMB'000	Fair values RMB'000
Fixed rate portion – senior notes	29,914,348	17,316,459
Fixed rate portion – others	60,232,780	60,242,492
Floating rate portion	33,774,738	33,609,575
At 31 December 2021	123,921,866	111,168,526
Fixed rate portion – senior notes	24,669,494	26,203,753
Fixed rate portion – others	45,880,033	45,858,729
Floating rate portion	38,052,778	38,010,105
At 31 December 2020	108,602,305	110,072,587

The fair values of current borrowings approximated their carrying amount, as the impact of discounting is not significant.

The fair values of senior notes recorded in non-current liabilities as at 31 December 2021 amounting to RMB17,316,459,000 (2020: RMB26,203,753,000) were calculated using the market price of the traded senior notes on the year-ended date. The fair values of senior notes are within Level 1 of the fair value hierarchy.

The fair values of other non-current borrowings are based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial institutions with substantially the same terms and characteristics at the respective year-ended dates. The fair values of other non-current borrowings are within Level 3 of the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

27. Trade and other payables

	At 31 December	
	2021 RMB'000	2020 RMB'000
Trade payables (Note (a))	73,492,869	82,025,056
Other payables (Note (b))	7,018,775	7,458,732
Other taxes payable	7,992,594	10,206,828
Accrued expenses	2,658,921	2,815,826
	91,163,159	102,506,442

Notes:

(a) As at 31 December 2021, the aging analysis of the trade payables based on invoice date is as follows:

	At 31 December	
	2021 RMB'000	2020 RMB'000
Within 90 days	72,405,175	81,639,538
Over 90 days and within 1 year	1,087,694	385,518
	73,492,869	82,025,056

(b) Other payables comprise:

	At 31 December	
	2021 RMB'000	2020 RMB'000
Deposits received from customers	2,448,375	3,364,400
Deposits from constructors	655,402	890,346
Rental deposits from tenants and hotel customers	1,030,977	1,167,148
Payables for equity interest	763,850	776,329
Fees collected from customers on behalf of government agencies	455,386	335,830
Others	1,664,785	924,679
	7,018,775	7,458,732

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

28. Amounts due to related parties

	At 31 December	
	2021 RMB'000	2020 RMB'000
– Associated companies	9,361,710	6,645,195
– Joint ventures	12,584,992	22,496,606
– Non-controlling interests	3,757,709	15,229,370
– entities controlled by the controlling shareholder	4,631,762	–
	30,336,173	44,371,171

Amounts due to associated companies and joint ventures mainly represent advanced proceeds received for purchasing construction materials and other operating and financing activities. Amounts due to non-controlling interests mainly represent funds injected by the non-controlling shareholders for the development of properties. Amounts due to entities controlled by the controlling shareholder mainly represent funds injected by the entities which are beneficially owned by Mr. Hui Wing Mau for the general working capital of the Group.

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

29. Other income/other gains or losses – net

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Other income		
Government grants received	303,137	218,629
Other gains/(losses) – net		
Net (losses)/gains on disposal of subsidiaries with loss of control (note 41(b))	(23,733)	33,302
Gains/(losses) on derivative financial instruments (note 21)	38,493	(68,152)
Net gains on deemed disposal of joint ventures (note 41(a))	62,488	400,302
Net losses on disposal of joint ventures	(600,304)	(20,712)
Net gains on disposal of associate companies	3,924	–
Net gains arising from negative goodwill	–	205,264
Penalty income (Note)	78,983	84,362
Losses on financial assets at FVPL	–	(11,621)
Net gain on disposal of financial assets at FVPL	134,828	–
Others	134,544	187,961
	(170,777)	810,706
	132,360	1,029,335

Note:

Penalty income represents penalty received from property buyers who do not execute sales and purchase agreements on property sales or from tenants who early terminate tenancy agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

30. Expenses by nature

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Cost of properties sold and others	78,975,322	93,738,359
Including: interests capitalised	5,337,361	6,297,797
land and construction cost	68,656,041	84,793,854
Taxes and surcharges on sales of properties	672,879	705,606
Staff costs – including directors' emoluments (note 32)	5,309,861	3,862,629
Advertising, promotion and commission costs	4,022,037	3,154,303
Direct expenses arising from hotel operation	894,217	923,886
Corporate and office expenses	1,324,024	1,454,224
Consulting fee	634,055	774,942
Depreciation and amortisation (note 7) (note 10)	854,853	753,067
Amortisation of right-of-use assets (note 8)	172,964	231,605
Charitable donations	68,837	134,759
Auditor's remuneration		
– Audit services	23,000	13,000
– Non-audit services	4,780	10,990
Provision for impairment losses on financial assets	4,360,195	482,918
Provision for impairment losses on properties under development and completed properties held for sale (note 18)	23,564,730	2,653
Impairment loss on investment properties under construction measured at cost (note 9)	836,456	–
Impairment losses on property and equipment (note 7)	1,186,354	–
Impairment loss on intangible assets (note 10)	2,533,022	–
Other expenses	406,288	344,021
Total	125,843,874	106,586,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

31. Finance costs/(income) – net

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Finance income		
– interest income on short-term bank deposits	(889,247)	(1,229,203)
– net foreign exchange gain (Note)	(2,281,458)	(4,399,999)
Finance income	(3,170,705)	(5,629,202)
Interest on bank and other borrowings		
– wholly repayable within five years	12,036,893	7,200,786
– not wholly repayable within five years	240,237	226,598
Interest on senior notes		
– wholly repayable within five years	1,901,070	1,494,727
– not wholly repayable within five years	357,291	437,841
Interest on convertible bonds		
– wholly repayable within five years	31,340	–
Interest charges paid/payable for lease liabilities (note 8)		
– wholly repayable within five years	9,195	11,763
	14,576,026	9,371,715
Less: interest and foreign exchange losses capitalised	(8,636,984)	(7,057,972)
Finance costs	5,939,042	2,313,743
Net finance costs/(income)	2,768,337	(3,315,459)

Note:

Net foreign exchange gain mainly represents gain on translation of foreign currency borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

32. Employee benefit expense**(a) Staff costs (including directors' emoluments) comprise:**

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Wages and salaries	4,291,875	3,186,902
Pension costs – statutory pension (Note (b))	502,591	196,710
Other allowances and benefits	515,395	479,017
	5,309,861	3,862,629

(b) Pensions-defined contribution plans

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

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2020: four) directors whose emoluments are reflected in the analysis shown in note 33 to the consolidated financial statements. For the year ended 31 December 2020, the emoluments payable to the remaining one individual are as follows:

	2020 RMB'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	102
Contribution to pension scheme	21
Bonuses	4,184
	4,307

The emoluments fell within the following bands:

	2020
Emolument bands (in RMB)	
RMB4,000,001 – RMB4,500,000	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

33. Benefits and interests of directors**(a) Directors' emoluments**

The remuneration of each of the Directors for the year ended 31 December 2021 is set out as follows:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:

Name of directors	Fees RMB'000	Salary RMB'000	Bonuses RMB'000	Housing allowance RMB'000	Employer's contribution to a retirement benefit scheme	Employee share award schemes	Total RMB'000
					RMB'000	RMB'000	
Executive directors							
Mr. Hui Wing Mau	-	4,906	-	-	-	-	4,906
Mr. Hui Sai Tan, Jason	-	6,704	-	-	15	1,983	8,702
Ms. Tang Fei	-	3,226	-	-	139	2,092	5,457
Mr. Lu Yi	-	2,607	718	120	139	1,516	5,100
Mr. Xie Kun (Note i)	-	2,379	1,256	120	139	3,712	7,606
Non-executive director							
Mr. Ye Mingjie (Note ii)	-	-	-	-	-	-	-
Independent non-executive directors							
Ms. Kan Lai Kuen, Alice	294	-	-	-	-	-	294
Mr. Lyu Hong Bing	294	-	-	-	-	-	294
Mr. Lam Ching Kam	294	-	-	-	-	-	294
	882	19,822	1,974	240	432	9,303	32,653

Notes:

(i) Mr. Xie Kun was appointed as an executive director with effect from 13 December 2021.

(ii) Mr. Ye Mingjie was appointed as a non-executive director with effect from 1 January 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

33. Benefits and interests of directors (CONTINUED)**(a) Directors' emoluments (continued)**

The remuneration of each of the Directors for the year ended 31 December 2020 is set out as follows:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking:

Name of directors	Fees RMB'000	Salary RMB'000	Bonuses RMB'000	Housing allowance RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Employee share award schemes RMB'000	Total RMB'000
Executive directors							
Mr. Hui Wing Mau	-	5,470	912	-	-	-	6,382
Mr. Hui Sai Tan, Jason	-	7,022	-	-	16	6,213	13,251
Ms. Tang Fei	-	3,226	269	60	68	4,730	8,353
Mr. Lu Yi	-	2,607	561	120	68	2,890	6,246
Independent non-executive directors							
Ms. Kan Lai Kuen, Alice	328	-	-	-	-	-	328
Mr. Lyu Hong Bing	328	-	-	-	-	-	328
Mr. Lam Ching Kam	328	-	-	-	-	-	328
	984	18,325	1,742	180	152	13,833	35,216

(b) Directors' retirement benefits

None of the Directors received or will receive any retirement benefits during the year.

(c) Directors' termination benefits

None of the Directors received or will receive any termination benefits during the year.

(d) Consideration provided to third parties for making available Directors' services

The Group did not pay consideration to any third parties for making available Directors' services during the year.

(e) Information about loans, quasi-loans and other dealings in favor of Directors, controlled bodies corporate by and connected entities with such Directors

No loans, quasi-loans and other dealings were made available in favor of Directors, bodies corporate controlled by and entities connected with Directors subsisted at the end of the year or at any time during the year.

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

34. Income tax expense

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Current income tax		
– PRC enterprise and withholding income tax	2,475,220	6,760,624
– PRC land appreciation tax	3,633,680	6,630,929
	6,108,900	13,391,553
Deferred income tax		
– PRC enterprise and withholding income tax (note 16)	695,601	737,567
	6,804,501	14,129,120

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

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
(Loss)/profit before income tax	(21,572,377)	33,591,586
Add/(less): Share of results of associated companies and joint ventures	432,927	(159,320)
Less: Land appreciation tax	(3,633,680)	(6,630,929)
	(24,773,130)	26,801,337
Calculated at PRC enterprise income tax rate of 25% (2020: 25%)	(6,193,283)	6,700,334
Tax effects of:		
– Different tax rates in other countries or regions	(361,304)	(515,908)
– Expenses and losses not deductible for income tax purposes	791,643	456,719
– Income not taxable for tax purpose	(463,827)	(903,945)
– Tax losses and temporary differences not recognised	8,992,971	111,128
– PRC withholding income tax and others	404,621	1,649,863
PRC enterprise and withholding income tax charge	3,170,821	7,498,191
PRC land appreciation tax charge	3,633,680	6,630,929
	6,804,501	14,129,120

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

34. Income tax expense (CONTINUED)**Hong Kong profits tax**

No Hong Kong profits tax has been provided for as the Group has no assessable profit in Hong Kong for the year ended 31 December 2021 (2020: nil).

PRC enterprise income tax

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

PRC land appreciation tax

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

PRC withholding income tax

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

Gain on disposal of an investment in the PRC by overseas holding companies and intra-group charges to the PRC subsidiaries by overseas subsidiaries may also be subject to withholding tax of 10%.

35. Earnings per share

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

	Year ended 31 December	
	2021	2020
(Loss)/profit attributable to the equity holders of the Company (RMB'000)	(27,092,790)	12,627,679
Weighted average number of ordinary shares in issue (thousands)	3,552,342	3,492,773
Basic (losses)/earnings per share (RMB cents)	(762.7)	361.5

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the shares granted under the Share Scheme assuming they were exercised. No diluted loss per share for the year ended 31 December 2021 is presented as the effect caused by the shares granted under the Share Scheme and the conversion of the subsidiary's outstanding convertible bonds are anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

35. Earnings per share (CONTINUED)

For the year ended 31 December 2020, the conversion of the convertible redeemable shares of subsidiary would result in an anti-dilutive effect on the diluted earnings per share.

	2020
Profit attributable to the equity holders of the Company (RMB'000)	12,627,679
Weighted average number of ordinary shares in issue (thousands)	3,492,773
Adjustment for shares granted under Share Scheme (thousands)	4,075
Weighted average number of ordinary shares for diluted earnings per share (thousands)	3,496,848
Diluted earnings per share (RMB cents)	361.1

36. Dividends

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Interim dividends of HK\$70 cents (2020: HK\$70 cents) per ordinary share (Note (a))		
– paid in cash	664,775	2,192,099
– paid by issuing of scrip shares	1,395,971	–
Proposed final dividends of HK\$Nil (2020: HK\$110 cents per ordinary share (Note (b)))	–	3,192,560
	2,060,746	5,384,659

Notes:

- (a) An interim dividend in respect of the six months ended 30 June 2021 of HK70 cents per ordinary share, amounting to HK\$2,473,588,000 (equivalent to approximately RMB2,060,746,000) was declared by the Company in August 2021. The 2021 interim dividends will be either paid in cash or, in the form of new fully paid scrip shares of the Company in lieu of cash at the scrip option of the shareholders, or partly in cash and partly in the scrip shares. The number of ordinary shares settled and issued as scrip dividends was 120,134,424 and the total amount of dividend paid as scrip dividends was approximately HK\$1,675,635,000 (equivalent to approximately RMB1,395,971,000) while cash dividend amounted to HK\$797,953,000 (equivalent to approximately RMB664,775,000).
- (b) A final dividend in respect of the year ended 31 December 2020 of HK90 cents per ordinary share and a special dividend of HK20 cents per ordinary share, amounting to HK\$3,891,467,000 (equivalent to approximately RMB3,192,560,000) was declared by the Company in March 2021. A part of the final dividend of approximately RMB2,404,743,000 relating to the year ended 31 December 2020 was paid in July 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

37. Notes to the consolidated statement of cash flows**(a) Net cash generated from operations:**

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
(Loss)/profit before income tax	(21,572,377)	33,591,586
Adjustments for:		
Interest income	(889,247)	(1,229,203)
Interest expense	5,939,042	2,313,743
Provision of impairment losses on financial assets	4,360,195	482,918
Provision for impairment losses on properties under development and completed properties held for sale	23,564,730	2,653
Provision for impairment loss on investment properties under construction measured at cost	836,456	–
Provision for impairment losses on property and equipment	1,186,354	–
Impairment losses on intangible assets	2,533,022	–
Depreciation and amortisation	854,853	753,067
Share of results of associated companies and joint ventures accounted for using the equity method	432,927	(159,320)
Net losses/(gains) on disposal of subsidiaries with loss of control	23,733	(33,302)
Net gains on deemed disposal of joint ventures	(62,488)	(400,302)
Net gains arising from negative goodwill	–	(205,264)
Losses from disposal of shares of joint ventures	600,304	20,712
Losses from closure of joint ventures	–	455
(Gains)/losses from disposal of associated companies	(3,924)	38
Amortisation of right-of-use assets	172,964	231,605
Fair value (gains)/losses on derivative financial instruments	(38,493)	68,152
Fair value losses on financial assets at FVPL	–	11,621
Net gain on disposal of financial assets at FVPL	(134,828)	–
Fair value losses/(gains) on investment properties	601,614	(397,539)
Fair value changes of convertible bonds	(144,746)	–
Fair value changes of on convertible redeemable preferred shares	–	75,860
Value of employee services arising from equity-settled share based payment scheme	138,434	119,457
Net exchange gains	(2,281,458)	(4,399,999)
	16,117,067	30,846,938
Changes in working capital:		
Properties under development, completed properties held for sale and prepayment for acquisition of land use rights	18,566,034	(21,770,264)
Other non-current assets	(413,731)	(1,016,487)
Restricted cash	(1,323,999)	(514,964)
Trade and other receivables and prepayments	(343,578)	1,925,480
Trade and other payables	(19,201,960)	9,052,369
Contract liabilities	2,421,798	3,141,282
Amounts due to related companies	(2,460,543)	1,342,623
Net cash generated from operations	13,361,088	23,006,977

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

37. Notes to the consolidated statement of cash flows (CONTINUED)**(b) Reconciliation of liabilities arising from financing activities**

	Liabilities from financing activities				
	Amounts due to related parties RMB'000	Borrowings due within 1 year RMB'000	Borrowings due after 1 year RMB'000	Lease liability RMB'000	Total RMB'000
At 1 January 2020	41,502,443	36,781,947	89,773,388	232,948	168,290,726
Financing cash flows	1,526,105	(36,791,303)	44,378,586	(187,283)	8,926,105
Foreign exchange adjustments	–	(1,511,353)	(3,665,813)	–	(5,177,166)
Reclassification	–	32,086,407	(32,086,407)	–	–
Working capital changes from operations	1,342,623	–	–	–	1,342,623
Other non-cash movements	–	5,975,061	10,202,551	31,282	16,208,894
At 31 December 2020	44,371,171	36,540,759	108,602,305	76,947	189,591,182
Financing cash flows	(15,744,839)	(7,184,187)	67,989,966	(66,566)	44,994,374
Foreign exchange adjustments	–	(283,612)	(1,630,645)	–	(1,914,257)
Reclassification	–	61,565,506	(61,565,506)	–	–
Working capital changes from operations	(2,460,543)	–	–	–	(2,460,543)
Other non-cash movements	4,170,384	17,198,291	10,525,746	85,960	31,980,381
At 31 December 2021	30,336,173	107,836,757	123,921,866	96,341	262,191,137

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

38. Principal subsidiaries, associated companies and joint ventures

Particulars of the principal subsidiaries, associated companies and joint ventures of the Group as at 31 December 2021 are as follows:

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2021	Principal activities
Principal subsidiaries – established and operation conducted in the PRC					
上海世茂股份有限公司 (Shanghai Shimao Co., Ltd.)	1 July 1992	Foreign investment enterprise	Registered capital RMB3,751,168,261	63.92%	Property development
上海世茂國際廣場有限責任公司 (Shanghai Shimao International Plaza Co., Ltd.)	15 September 1994	Foreign investment enterprise	Registered capital RMB1,600,000,000	100.00%	Shopping mall and hotel
上海世茂房地產有限公司 (Shanghai Shimao Real Estate Co., Ltd.)	15 March 2000	Foreign investment enterprise	Registered capital US\$75,000,000	100.00%	Property development
西藏世茂企業發展有限公司 (Xizang Shimao Enterprises Development Co., Ltd.)	22 June 2000	Domestic enterprise	Registered capital RMB101,723,586	50.85%	Investment holding
上海世茂建設有限公司 (Shanghai Shimao Jianshe Co., Ltd.)	16 March 2001	Foreign investment enterprise	Registered capital RMB3,140,000,000	100.00%	Investment holding
上海地產濱虹開發建設有限公司 (Shanghai Shimao North Bund Development and Construction Co., Ltd.)	17 May 2002	Foreign investment enterprise	Registered capital HK\$650,000,000	100.00%	Hotel
上海世茂莊園置業有限公司 (Shanghai Shimao Manor Real Estate Co., Ltd.)	19 June 2002	Foreign investment enterprise	Registered capital US\$18,400,000	100.00%	Property development and hotel
福建世茂投資發展有限公司 (Fujian Shimao Investment and Development Co., Ltd.)	17 November 2003	Foreign investment enterprise	Registered capital RMB200,000,000	81.96%	Property development
昆山世茂房地產開發有限公司 (Kunshan Shimao Real Estate Development Co., Ltd.)	24 December 2003	Domestic enterprise	Registered capital RMB547,668,147	63.92%	Property development
南京世茂房地產開發有限公司 (Nanjing Shimao Real Estate Development Co., Ltd.)	23 July 2004	Foreign investment enterprise	Registered capital RMB328,000,000	81.96%	Property development
武漢世茂錦繡長江房地產開發有限公司 (Wuhan Shimao Splendid River Real Estate Development Co., Ltd.)	6 June 2005	Foreign investment enterprise	Registered capital US\$114,269,000	100.00%	Property development
上海世茂新體驗置業有限公司 (Shanghai Shimao Wonderland Property Co., Ltd.)	6 March 2006	Domestic enterprise	Registered capital RMB391,092,834	63.92%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

38. Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2021	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
大連世茂龍河發展有限公司 (Dalian Shimao Dragon River Development Co., Ltd.)	9 June 2006	Foreign investment enterprise	Registered capital US\$109,600,000	100.00%	Property development
煙台世茂置業有限公司 (Yantai Shimao Property Co., Ltd.)	6 September 2006	Foreign investment enterprise	Registered capital US\$48,500,000	100.00%	Property development
常州世茂房地產有限公司 (Changzhou Shimao Real Estate Co., Ltd.)	27 November 2006	Foreign investment enterprise	Registered capital US\$323,730,000	100.00%	Property development
瀋陽世茂新發展置業有限公司 (Shenyang Shimao New Development Property Co., Ltd.)	5 December 2006	Foreign investment enterprise	Registered capital US\$108,900,000	100.00%	Property development
上海世源建材貿易有限公司 (Shanghai Shine Construction Materials Trading Co., Ltd.)	22 January 2007	Foreign investment enterprise	Registered capital HK\$5,782,000,000	100.00%	Trading of construction
蘇州世茂置業有限公司 (Suzhou Shimao Property Co., Ltd.)	26 January 2007	Foreign investment enterprise	Registered capital US\$178,000,000	100.00%	Property development
常州世茂新城房地產開發有限公司 (Changzhou Shimao New City Real Estate Development Co., Ltd.)	12 February 2007	Domestic enterprise	Registered capital RMB269,300,000	63.92%	Property development
徐州世茂新城房地產開發有限公司 (Xuzhou Shimao New City Real Estate Development Co., Ltd.)	14 February 2007	Foreign investment enterprise	Registered capital US\$75,980,000	100.00%	Property development
徐州世茂置業有限公司 (Xuzhou Shimao Property Co., Ltd.)	14 February 2007	Foreign investment enterprise	Registered capital RMB491,412,640	63.92%	Property development
蘇州世茂投資發展有限公司 (Suzhou Shimao Investment & Development Co., Ltd.)	2 March 2007	Domestic enterprise	Registered capital RMB526,795,630	63.92%	Property development
上海茗沃建築裝潢有限公司 (Shanghai Mingwo Building Decoration Co., Ltd.)	6 March 2007	Foreign investment enterprise	Registered capital RMB10,000,000	100.00%	Trading of construction
紹興世茂投資發展有限公司 (Shaoxing Shimao Investment Development Co., Ltd.)	13 July 2007	Domestic enterprise	Registered capital RMB483,457,740	63.92%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

38. Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2021	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
重慶浚亮房地產開發有限公司 (Chongqing Junliang Real Estate Development Co., Ltd.)	25 July 2007	Foreign investment enterprise	Registered capital US\$200,000,000	100.00%	Property development
上海世盈投資管理有限公司 (Shanghai Shiyong Investment Management Co., Ltd.)	21 August 2007	Domestic enterprise	Registered capital RMB200,000,000	100.00%	Investment holding
常熟世茂新發展置業有限公司 (Changshu Shimao New Development Property Co., Ltd.)	24 August 2007	Domestic enterprise	Registered capital RMB692,174,000	63.92%	Property development
牡丹江世茂置業有限公司 (Mudanjiang Shimao Property Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US\$16,000,000	95.00%	Property development
牡丹江世茂新城房地產開發有限公司 (Mudanjiang Shimao New City Real Estate Development Co., Ltd.)	4 September 2007	Foreign investment enterprise	Registered capital US\$29,980,000	100.00%	Property development
昆山世茂新發展置業有限公司 (Kunshan Shimao New Development Property Co., Ltd.)	12 September 2007	Foreign investment enterprise	Registered capital US\$49,980,000	100.00%	Property development
上海世茂投資管理有限公司 (Shanghai Shimao Investment Management Co., Ltd.)	11 May 2009	Domestic enterprise	Registered capital RMB50,000,000	100.00%	Investment holding
大連世茂嘉年華置業有限公司 (Dalian Shimao Carnival Property Co., Ltd.)	4 September 2009	Foreign investment enterprise	Registered capital US\$100,000,000	100.00%	Property development
成都世茂置業有限公司 (Chengdu Shimao Property Co., Ltd.)	13 October 2009	Domestic enterprise	Registered capital RMB299,021,884	100.00%	Property development
天津世茂新里程置業有限公司 (Tianjin Shimao New Miles Property Co., Ltd.)	5 November 2009	Domestic enterprise	Registered capital RMB1,470,000,000	100.00%	Property development
武漢世茂嘉年華置業有限公司 (Wuhan Shimao Carnival Property Co., Ltd.)	14 December 2009	Domestic enterprise	Registered capital RMB200,000,000	81.60%	Property development
青島世茂新城房地產開發有限公司 (Qingdao Shimao New City Real Estate Development Co., Ltd.)	29 April 2010	Foreign investment enterprise	Registered capital US\$492,999,800	100.00%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

38. Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2021	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
寧波世茂新紀元置業有限公司 (Ningbo Shimao New Era Property Co., Ltd.)	27 May 2010	Domestic enterprise	Registered capital RMB50,000,000	100.00%	Property development
長沙世茂投資有限公司 (Changsha Shimao Investment Co., Ltd.)	25 February 2011	Domestic enterprise	Registered capital RMB1,000,000,000	63.92%	Property development
文昌世茂置業有限公司 (Wenchang Shimao Property Co., Ltd.)	19 April 2011	Domestic enterprise	Registered capital RMB550,000,000	100.00%	Property development
南京海峽城開發建設有限公司 (Nanjing Straits City Development Construction Co., Ltd.)	26 April 2011	Domestic enterprise	Registered capital US\$692,000,000	100.00%	Property development
青島世茂投資發展有限公司 (Qingdao Shimao Investment & Development Co., Ltd.)	27 May 2011	Domestic enterprise	Registered capital RMB450,000,000	63.92%	Property development
平潭海峽如意城開發建設有限公司 (Pingtan Straits Ruyi City Development Construction Co., Ltd.)	31 May 2011	Domestic enterprise	Registered capital RMB615,630,000	100.00%	Property development
武漢世茂新城房地產開發有限公司 (Wuhan Shimao New City Real Estate Development Co., Ltd.)	23 March 2010	Domestic enterprise	Registered capital RMB526,000,000	100.00%	Property development
南通沿海世茂房地產開發有限公司 (Nantong Yanhai Shimao Real Estate Development Co., Ltd.)	9 May 2013	Domestic enterprise	Registered capital RMB100,000,000	51.00%	Property development
杭州世融匯盈置業有限公司 (Hangzhou Shirong Huiying Property Co., Ltd.)	29 May 2013	Foreign investment enterprise	Registered capital US\$150,000,000	51.00%	Property development
寧波世茂新騰飛置業有限公司 (Ningbo Shimao Xintengfei Property Co., Ltd.)	9 June 2013	Domestic enterprise	Registered capital RMB1,238,500,000	63.92%	Property development
常熟世茂新紀元置業有限公司 (Changshu Shimao New Era Property Co., Ltd.)	11 September 2013	Domestic enterprise	Registered capital RMB850,000,000	63.92%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

38. Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2021	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
杭州世茂嘉年華置業有限公司 (Hangzhou Shimao Carnival Property Co., Ltd.)	16 October 2013	Domestic enterprise	Registered capital RMB2,000,000,000	100.00%	Property development
大連世茂新領域置業有限公司 (Dalian Shimao New Domain Property Co., Ltd.)	29 October 2013	Foreign investment enterprise	Registered capital US\$136,000,000	100.00%	Property development
大連世茂新體驗置業有限公司 (Dalian Shimao New Experience Property Co., Ltd.)	29 October 2013	Foreign investment enterprise	Registered capital US\$120,000,000	100.00%	Property development
濟南世茂天城置業有限公司 (Jinan Shimao Tiancheng Property Co., Ltd.)	7 January 2014	Domestic enterprise	Registered capital RMB2,911,110,000	63.92%	Property development
上海容承企業管理有限公司 (Shanghai Rongcheng Enterprises Management Co., Ltd.)	21 January 2014	Domestic enterprise	Registered capital RMB2,000,000,000	100.00%	Investment holding
南寧世茂新紀元房地產開發有限公司 (Nanning Shimao New Era Real Estate Development Co., Ltd.)	2 July 2014	Domestic enterprise	Registered capital RMB120,000,000	100.00%	Property development
南京世招葦晟置業有限公司 (Nanjing Shizhao Quansheng Property Co., Ltd.)	27 January 2015	Domestic enterprise	Registered capital RMB250,000,000	51.00%	Property development
杭州融大齊雲置業有限公司 (Hangzhou Rongda Qiyun Property Co., Ltd.)	8 September 2016	Domestic enterprise	Registered capital RMB100,000,000	51.00%	Property development
泉州世茂融信新世紀房地產有限責任公司 (Quanzhou Shimao Rongxin New Century Real Estate Co., Ltd.)	10 October 2016	Domestic enterprise	Registered capital RMB50,000,000	63.92%	Property development
泉州世茂融信新領航房地產有限責任公司 (Quanzhou Shimao Rongxin New Pioneer Real Estate Co., Ltd.)	10 October 2016	Domestic enterprise	Registered capital RMB50,000,000	63.92%	Property development
上海益碧房地產開發有限公司 (Shanghai Yibi Real Estate Development Co., Ltd.)	19 January 2017	Domestic enterprise	Registered capital RMB10,000,000	51.00%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

38. Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2021	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
山東領邦華皓置業有限公司 (Shandong Lingbang Huahao Property Co., Ltd.)	15 August 2017	Domestic enterprise	Registered capital RMB450,000,000	63.92%	Property development
福州世茂世盈置業有限公司 (Fuzhou Shimao Shiyong Property Co., Ltd.)	22 September 2017	Domestic enterprise	Registered capital RMB100,000,000	65.00%	Property development
寧波世茂新領航置業有限公司 (Ningbo Shimao New Pioneer Property Co., Ltd.)	25 November 2016	Domestic enterprise	Registered capital RMB800,000,000	51.00%	Property development
濟南世茂新陽置業有限公司 (Jinan Shimao Xinyang Property Co., Ltd.)	23 March 2018	Domestic enterprise	Registered capital RMB50,000,000	70.00%	Property development
平陽世盈房地產開發有限公司 (Pingyang Shiyong Real Estate Development Co., Ltd.)	4 June 2018	Domestic enterprise	Registered capital RMB410,000,000	51.00%	Property development
青島世茂世悅置業有限公司 (Qingdao Shimao Shiyue Property Co., Ltd.)	7 August 2018	Domestic enterprise	Registered capital RMB200,000,000	100.00%	Property development
湖北長建茂房地產開發有限公司 (Hubei Changjianmao Real Estate Development Co., Ltd.)	27 August 2018	Domestic enterprise	Registered capital RMB50,000,000	41.62%	Property development
湖北長荊上河置業有限公司 (Hubei Changjing Shanghe Property Co., Ltd.)	12 April 2013	Domestic enterprise	Registered capital RMB50,000,000	60.00%	Property development
合肥世茂欣源茂房地產開發有限公司 (Hefei Shimao Xinyuan Real Estate Development Co., Ltd.)	10 May 2019	Domestic enterprise	Registered capital RMB10,000,000	100.00%	Property development
肇慶四會悅盈房地產開發經營有限公司 (Zhaqing Sihui Yueying Real Estate Development Co., Ltd.)	15 April 2019	Domestic enterprise	Registered capital RMB5,000,000	100.00%	Property development
茂名世茂悅盈房地產開發有限公司 (Maoming Shimao Yueying Real Estate Development Co., Ltd.)	10 April 2019	Domestic enterprise	Registered capital RMB100,000,000	100.00%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

38. Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2021	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
天台茂龍房地產開發有限公司 (Tiantai Maolong Real Estate Development Co., Ltd)	23 July 2019	Domestic enterprise	Registered capital RMB1,286,408,163	51.00%	Property development
濰博盛元房地產諮詢有限公司 (Zibo Shengyuan Real Estate Development Co., Ltd)	13 August 2019	Domestic enterprise	Registered capital RMB2,000,000	81.60%	Investment holding
天水世唐房地產開發有限公司 (Tianshui Shitang Real Estate Development Co., Ltd.)	5 December 2019	Domestic enterprise	Registered capital RMB1,083,000,000	51.00%	Property development
荊州長盈置業有限公司 (Jingzhou Changying Property Co., Ltd)	6 December 2019	Domestic enterprise	Registered capital RMB10,000,000	51.00%	Property development
福州世茂鹿馳置業有限公司 (Fuzhou Shimao Luchi Property Co., Ltd)	28 November 2019	Domestic enterprise	Registered capital RMB210,000,000	100.00%	Property development
淮北世茂房地產開發有限公司 (Huaibei Shimao Real Estate Development Co., Ltd)	27 December 2019	Domestic enterprise	Registered capital RMB607,500,000	60.00%	Property development
南平光耀世隆房地產開發有限公司 (Nanping Guangyao Shilong Real Estate Development Co., Ltd)	20 January 2020	Domestic enterprise	Registered capital RMB50,000,000	60.00%	Property development
麗水世茂新紀元置業有限公司 (Lishui Shimao New Era Property Co., Ltd)	17 February 2020	Domestic enterprise	Registered capital RMB10,000,000	100.00%	Property development
海安市百俊房地產開發有限公司 (Haian Baijun Real Estate Development Co., Ltd)	27 February 2020	Domestic enterprise	Registered capital RMB747,225,550	51.00%	Property development
溫州世茂新騰飛房地產開發有限公司 (Wenzhou Shimao Xintengfei Real Estate Development Co., Ltd)	9 March 2020	Domestic enterprise	Registered capital RMB20,000,000	100.00%	Property development
合肥梁佑置業有限公司 (Hefei Liangyou Property Co., Ltd)	25 March 2020	Domestic enterprise	Registered capital RMB335,288,328	51.00%	Property development
佛山市粵茂房地產開發有限公司 (Foshan Yuemao Real Estate Development Co., Ltd.)	7 April 2020	Domestic enterprise	Registered capital RMB14,925,374	67.00%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

38. Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2021	Principal activities
Principal subsidiaries – established and operation conducted in the PRC (continued)					
霞浦世茂金禾置業有限公司 (Xiapu Shimao Jinhe Property Co., Ltd)	7 April 2020	Domestic enterprise	Registered capital RMB416,500,000	51.00%	Property development
九江世茂華晟置業有限公司 (Jiujiang Shimao Huasheng Property Co., Ltd)	13 April 2020	Domestic enterprise	Registered capital RMB406,841,940	51.00%	Property development
肇慶世茂悅桂房地產開發有限公司 (Zhaoqing Shimao Yuegui Real Estate Development Co., Ltd)	21 April 2020	Domestic enterprise	Registered capital RMB50,000,000	100.00%	Property development
三亞翔睿置業有限責任公司 (Sanya Xiangrui Property Co., Ltd)	21 May 2020	Domestic enterprise	Registered capital RMB1,200,000,000	63.92%	Property development
阜陽世茂房地產開發有限公司 (Fuyang Shimao Real Estate Development Co., Ltd.)	2 June 2020	Domestic enterprise	Registered capital RMB395,750,000	100.00%	Property development
南昌金駿房地產開發有限公司 (Nanchang Jinjun Real Estate Development Co., Ltd.)	16 June 2020	Domestic enterprise	Registered capital RMB185,460,000	51.00%	Property development
茂名世茂悅升房地產開發有限公司 (Maoming Shimao Yueheng Real Estate Development Co., Ltd)	3 July 2020	Domestic enterprise	Registered capital RMB20,000,000	81.60%	Property development
瀋陽世茂新里程房地產開發有限公司 (Shenyang Shimao New Miles Real Estate Development Co., Ltd)	7 July 2020	Domestic enterprise	Registered capital RMB10,000,000	100.00%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

38. Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2021	Principal activities
Principal subsidiaries – incorporated and operation conducted in the British Virgin Islands					
Vicking International Ltd.	19 January 1994	Limited liability company	50,000 ordinary shares of US\$50,000	100.00%	Investment holding
Everactive Properties Limited	2 May 2001	Limited liability company	1 ordinary share of US\$1	100.00%	Investment holding
Mega Universe Limited	10 July 2001	Limited liability company	1 ordinary share of US\$1	100.00%	Investment holding
Year Grant Investments Limited	3 September 2001	Limited liability company	1 ordinary share of US\$1	100.00%	Investment holding
Precisely Choice Investments Limited	18 October 2001	Limited liability company	1 ordinary share of US\$1	100.00%	Investment holding
Double Achieve Assets Limited	31 January 2002	Limited liability company	1 ordinary share of US\$1	100.00%	Investment holding
Best Empire Investments Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100.00%	Investment holding
Peak Castle Assets Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100.00%	Investment holding
Prime Master Holdings Limited	2 July 2002	Limited liability company	1 ordinary share of US\$1	100.00%	Investment holding
Shimao Property Holdings (BVI) Limited	23 August 2002	Limited liability company	1 ordinary share of US\$1	100.00%	Investment holding
East Lighter Group Limited	12 May 2006	Limited liability company	1 ordinary share of US\$1	100.00%	Investment holding
Ease Reach Group Limited	13 December 2006	Limited liability company	1 ordinary share of US\$1	100.00%	Investment holding
Peak Gain International Limited	13 December 2006	Limited liability company	1 ordinary share of US\$1	100.00%	Investment holding
Win Real Group Limited	29 May 2007	Limited liability company	1 ordinary share of US\$1	100.00%	Investment holding
Straits Construction Investment (Holdings) Limited	17 November 2009	Limited liability company	45,000 ordinary shares of US\$450,000,000	100.00%	Investment holding
Up Chance Holdings Limited	1 December 2016	Limited liability company	1 ordinary share of US\$1	100.00%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

38. Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2021	Principal activities
Principal subsidiaries – incorporated and operation conducted in Hong Kong					
Shimao Investment Holdings Limited	3 February 1994	Limited liability company	395 million ordinary shares of HK\$395 million	100.00%	Investment holding
Topwise Limited	29 March 2005	Limited liability company	1 ordinary share of HK\$1	100.00%	Management services
Clear Rise Investments Limited	8 May 2007	Limited liability company	1 ordinary share of HK\$1	100.00%	Investment holding
Grandday International Limited	11 May 2007	Limited liability company	1 ordinary share of HK\$1	100.00%	Investment holding
Rise Max International Limited	16 May 2007	Limited liability company	1 ordinary share of HK\$1	100.00%	Investment holding
Global Square Investments Limited	29 October 2007	Limited liability company	1 ordinary share of HK\$1	100.00%	Investment holding
Lion Kingdom Investments Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100.00%	Investment holding
Power One Holdings Limited	27 November 2007	Limited liability company	1 ordinary share of HK\$1	100.00%	Investment holding
Brand Rise Limited	5 March 2013	Limited liability company	1 ordinary share of HK\$1	100.00%	Hotel
Adventure Success Limited	25 November 2014	Limited liability company	1 ordinary share of HK\$1	100.00%	Property development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

38. Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2021	Principal activities
Associated companies – established and operation conducted in the PRC					
成都市恒裕房地產開發有限公司 (Chengdu Hengyu Real Estate Development Co., Ltd.)	7 May 2010	Domestic enterprise	Registered capital RMB130,000,000	33.33%	Property development
北京創譽房地產開發有限公司 (Beijing Chuangyu Real Estate Development Co., Ltd.)	2 April 2013	Domestic enterprise	Registered capital RMB20,000,000	50.00%	Property development
南京明茂置業有限公司 (Nanjing Mingmao Property Co., Ltd.)	5 February 2015	Domestic enterprise	Registered capital RMB820,000,000	49.00%	Property development
杭州龍尚房地產開發有限公司 (Hangzhou Longshang Real Estate Development Co., Ltd.)	8 August 2016	Domestic enterprise	Registered capital RMB10,000,000	25.00%	Property development
蘇州孚元置業有限公司 (Suzhou Fuyuan Property Co., Ltd.)	12 July 2017	Domestic enterprise	Registered capital RMB2,875,000,000	33.00%	Property development
宣城世茂卓盈房地產開發有限公司 (Xuancheng Shimao Zhuoying Real Estate Development Co., Ltd.)	20 August 2019	Domestic enterprise	Registered capital RMB20,000,000	49.00%	Property development
南寧金盛泓房地產開發有限公司 (Nanning Jinshenghong Real Estate Development Co., Ltd.)	10 April 2019	Domestic enterprise	Registered capital RMB205,000,000	40.00%	Property development
巢湖市世巽置業有限公司 (Chaohu Shixun Property Co., Ltd.)	24 July 2019	Domestic enterprise	Registered capital RMB20,000,000	40.00%	Property development
福州融寧置業有限公司 (Fuzhou Rongning Property Co., Ltd.)	30 April 2020	Domestic enterprise	Registered capital RMB900,000,000	33.00%	Property development
北京合力運興置業有限公司 (Beijing Heli Yunxing Property Co., Ltd.)	28 May 2020	Domestic enterprise	Registered capital RMB2,100,000,000	49.00%	Property development
南昌茂悅湖置業有限公司 (Nanchang Maoyue Lake Property Co., Ltd.)	22 June 2020	Domestic enterprise	Registered capital RMB511,105,200	33.00%	Property development
Associated companies – established and operation conducted in the British Virgin Islands					
Eagle Rights Limited	31 March 2010	Limited liability company	45,000,000 shares with no par value	33.33%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

38. Principal subsidiaries, associated companies and joint ventures (CONTINUED)

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2021	Principal activities
Joint ventures – established and operation conducted in the PRC					
濟南碧世榮光房地產開發有限公司 (Jinan Bishi Rongguang Real Estate Development Co., Ltd.)	19 June 2017	Domestic enterprise	Registered capital RMB10,000,000	33.00%	Property development
佛山市新紀元置業有限公司 (Foshan New Era Property Co., Ltd.)	27 June 2017	Domestic enterprise	Registered capital RMB10,000,000	50.00%	Property development
福州世茂瑞盈置業有限公司 (Fuzhou Shimao Ruiying Property Co., Ltd)	4 January 2018	Domestic enterprise	Registered capital RMB10,000,000	20.00%	Property development
南平世茂新紀元置業有限公司 (Nanping Shimao New Era Property Co., Ltd.)	15 May 2018	Domestic enterprise	Registered capital RMB100,000,000	42.00%	Property development
滄臺(廈門)置業有限公司 (Cangluan (Xiamen) Property Co., Ltd)	29 June 2018	Domestic enterprise	Registered capital RMB1,455,000,000	25.00%	Property development
舟山世茂房地產開發有限公司 (Zhoushan Shimao Real Estate Development Co., Ltd.)	18 June 2019	Domestic enterprise	Registered capital RMB20,000,000	50.00%	Property development
肇慶四會豐盈房地產開發有限公司 (Zhaqing Sihui Fengying Real Estate Development Co., Ltd)	5 June 2019	Domestic enterprise	Registered capital RMB10,000,000	50.00%	Property development
莆田聯茂置業有限公司 (Putian Lianmao Real Estate Development Co., Ltd)	17 June 2019	Domestic enterprise	Registered capital RMB200,000,000	49.00%	Property development
滎陽市雅恒置業有限公司 (Xingyang Yaheng Property Co., Ltd)	25 June 2019	Domestic enterprise	Registered capital RMB30,303,030	33.00%	Property development
武漢光谷芯動力地產開發有限公司 (Wuhan Optical Core Power Real Estate Development Co., Ltd)	14 April 2020	Domestic enterprise	Registered capital RMB50,000,000	30.00%	Property development
Joint ventures – established and operation conducted in Hong Kong					
Fast Right Investments Limited	7 May 2007	Limited liability company	2 ordinary shares of HK\$2	50.00%	Investment holding
Kingtron Enterprises Limited	14 June 2007	Limited liability company	2 ordinary shares of HK\$2	50.00%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

39. Contingencies and financial guarantee contract**(a) The Group had the following contingent liabilities:**

	At 31 December	
	2021 RMB'000	2020 RMB'000
Guarantees in respect of mortgage facilities for certain purchasers	29,373,762	24,376,406

Note:

The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to retain the legal title and take over possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the Group obtained the "property title certificate" for the mortgagees, or when the Group obtained the "master property title certificate" upon completion of construction. As in the case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty, no provision has been made in the consolidated financial statements for the guarantees.

- (b)** At 31 December 2021, the Group provided financial guarantees for certain joint ventures and associated companies in respect of their bank and other borrowings in the amount of approximately RMB76,593,827,000 (2020: approximately RMB66,733,762,000) with maturity between 2021 to 2026. These guarantees are not expected to result in a significant outflow of the Group's resources and no financial liability is recognised in this connection as the estimated fair value on financial guarantee contract loss is insignificant.

(c) Contingencies for litigation

Up to the date of approval of the consolidated financial statements, the Group was in the progress of various legal litigations related to its consolidated borrowing or financial guarantees and other matters. The Directors have assessed the impact of the above litigation matters on the consolidated financial statements for the year ended 31 December 2021. As the Group was actively negotiating with relevant creditors and seeking various ways to resolve these litigations. The Directors consider that such litigations, individually or jointly, will not have significant adverse effects on the operating performance, cash flow and financial condition of the Group at the current stage.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

40. Commitments**Commitments for capital and property development expenditure**

	At 31 December	
	2021 RMB'000	2020 RMB'000
Contracted but not provided for		
– Property and equipment	581,629	1,573,524
– Land use rights (including those related to associated companies and joint ventures)	6,581,476	10,545,643
– Properties being developed by the Group for sale	33,740,776	46,323,531
	40,903,881	58,442,698

41. Significant acquisition or disposal of subsidiaries and transactions with NCI

During the year ended 31 December 2021, the Group has the following significant acquisition or disposal of subsidiaries and transactions with NCI.

(a) Acquisition of subsidiaries

For the year ended 31 December 2021, the Group acquired additional equity interests in several joint ventures of the Group, at an aggregate consideration of approximately RMB3,231,947,000. After the acquisitions, the Group gained control over these companies pursuant to the revised articles of association. The carrying amount of the investments in joint ventures was approximately RMB4,077,048,000 before the acquisitions. The purchases resulted in a total net cash outflow of approximately RMB922,725,000.

For the year ended 31 December 2021, the Group acquired the equity interests in several companies in the PRC, at a total consideration of approximately RMB2,171,991,000. The Group gained control over these companies pursuant to the acquisition agreements and amended articles of association. The purchase resulted in a total net cash outflow of approximately RMB1,450,250,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

41. Significant acquisition or disposal of subsidiaries and transactions with NCI*(CONTINUED)***(a) Acquisition of subsidiaries (continued)**

The following table summarises the consideration paid, the fair value of assets acquired, liabilities assumed and the non-controlling interests at the acquisition date.

	Joint ventures transferred to subsidiaries RMB'000	Acquisition of subsidiaries RMB'000	Total RMB'000
Total purchase consideration			
Cash consideration paid	1,214,290	1,530,054	2,744,344
Consideration prepaid in the prior period	140,422	249,258	389,680
Consideration payables	–	392,679	392,679
Settled by other receivables	1,877,235	–	1,877,235
	3,231,947	2,171,991	5,403,938
Carrying amount of investments in joint ventures held before acquisitions	4,077,048	–	4,077,048
	7,308,995	2,171,991	9,480,986
Total recognised amounts of identifiable assets acquired and liabilities assumed:			
Cash and cash equivalents	291,565	79,804	371,369
Financial assets at fair value through other comprehensive income	1,350,970	–	1,350,970
Inventories	44,807,179	5,663,293	50,470,472
Trade and other receivables and prepayments	2,735,647	1,868,420	4,604,067
Amounts due from related parties	1,177,721	4,889	1,182,610
Amounts due from the Group	937,739	532,384	1,470,123
Prepaid income taxes	122,993	36,952	159,945
Property and equipment	34,229	262,276	296,505
Right-of-use assets	–	21,521	21,521
Investment properties	487,900	–	487,900
Intangible assets other than goodwill	67,595	531,242	598,837
Interests in joint ventures and associated companies	1,322,241	–	1,322,241
Other non-current assets	93,108	39,348	132,456
Deferred income tax assets	842,284	62,590	904,874
Borrowings	(20,807,335)	(1,054,112)	(21,861,447)
Contract liabilities	(13,154,526)	(2,546,611)	(15,701,137)
Amounts due to related parties	(4,330,372)	(662,968)	(4,993,340)
Deferred income tax liabilities	–	(115,554)	(115,554)
Trade and other payables	(6,342,760)	(2,340,602)	(8,683,362)
Total identifiable net assets	9,636,178	2,382,872	12,019,050
Non-controlling interests	(2,264,695)	(1,126,585)	(3,391,280)
Goodwill	–	915,704	915,704
Gains on deemed disposal of joint ventures (note 29)	(62,488)	–	(62,488)
	7,308,995	2,171,991	9,480,986
Outflow of cash to acquire business, net of cash acquired:			
Cash consideration paid	(1,214,290)	(1,530,054)	(2,744,344)
Cash and cash equivalents in the entities acquired	291,565	79,804	371,369
Net cash outflow from acquisition	(922,725)	(1,450,250)	(2,372,975)

If the business combinations had occurred on 1 January 2021, the Group's consolidated revenue and net loss for the year ended 31 December 2021 would have been increased by approximately RMB846,891,000 and decreased by approximately RMB41,423,000, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

41. Significant acquisition or disposal of subsidiaries and transactions with NCI*(CONTINUED)***(b) Disposal of subsidiaries with loss of control**

For the year ended 31 December 2021, the Group lost control of certain subsidiaries. The disposal resulted in a total net cash inflow of approximately RMB514,336,000 and net losses of approximately RMB23,733,000.

Net assets disposed and reconciliation of disposal losses and cash inflow on disposal are as follow:

	RMB'000
Cash and cash equivalents	23,235
Inventories	893,524
Property and equipment	38,906
Right-of-use assets	1,385
Amounts due from the Group	672,888
Amounts due from related parties	479,054
Trade and other receivables and prepayments	68,412
Prepaid income taxes	5,874
Trade and other payables	(1,013,377)
Contract liabilities	(125,433)
Amounts due to related parties	(25,721)
Income tax payable	(15,836)
Deferred income tax liabilities	(822)
Total identifiable net assets	1,002,089
Non-controlling interests	(440,785)
Net assets attributable to the equity holders of the Company	561,304
Total consideration	537,571
Net assets disposed	(561,304)
Disposal losses (note 29)	(23,733)
Total consideration	537,571
Less: cash and cash equivalents in the entities disposed	(23,235)
Net cash inflow due to disposal	514,336

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

41. Significant acquisition or disposal of subsidiaries and transactions with NCI*(CONTINUED)***(c) Transaction with non-controlling interests****(i) Capital contribution from non-controlling interests**

For the year ended 31 December 2021, non-controlling interests made several capital injections into the Group with a total amount of RMB2,495,459,000, which was equal to the carrying amount of non-controlling interests acquired on the date of acquisition.

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

Sets forth below summarised the effect of changes in the ownership interest of the Group on the equity attributable to the equity holders of the Company during the year:

	The date of acquisitions RMB'000
Carrying amount of non-controlling interests acquired	10,769,517
Consideration prepaid to non-controlling interests in the prior period	(117,491)
Consideration paid to non-controlling interests in the current period	(11,535,349)
Decrease in equity due to the excess of considerations paid	(883,323)

Notes:

For the year ended 31 December 2021, the Group acquired additional interests in the subsidiaries for a total consideration of approximately RMB11,652,840,000. The Group recognised a decrease in non-controlling interests of approximately RMB10,769,517,000 and a decrease in the equity attributable to the equity holders of the Company of approximately RMB883,323,000.

- (d)** On 19 October 2021, Shimao Services entered into a placing agreement with the Company, Best Cosmos and a placing agent, pursuant to which the placing agent shall place 115,000,000 existing shares of Shimao Services owned by Best Cosmos to the independent placees at a placing price of HK\$15.18 per share (the "Shimao Services Placing"). The net proceeds (net of the transaction costs) of the Shimao Services Placing amounted to approximately HK\$1,735,000,000 (equivalent to approximately RMB1,427,718,000). Subsequently, upon the completion of the Shimao Services Placing, 115,000,000 new shares shall be issued by Shimao Services at a subscription price of HK\$15.18 per share under its general mandate and shall be subscribed by Best Cosmos (the "Shimao Services Subscription"). At 2 November 2021, the Shimao Services Placing and the Shimao Services Subscription has been completed.

During the year ended 31 December 2021, Shimao Services repurchased 10,800,000 of its own shares, totalling approximately HK\$72,303,000 (equivalent to approximately RMB66,414,000), from the market which were subsequently cancelled on 10 March 2022 ("Shimao Services Shares Repurchase").

Upon the completion of the Shimao Services Placing, the Shimao Services Subscription and the Shimao Services Shares Repurchase, the equity interest of Shimao Services held by the Group has decreased by approximately 2.78% to approximately 63.10%. The Group recognised an increase in non-controlling interests of approximately RMB90,347,000 and an increase in the equity attributable to the equity holders of the Company of approximately RMB1,337,371,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

42. Related party transactions

The Group is controlled by Gemfair Investments Limited (Incorporated in the British Virgin Islands), which owns 53.87% of the Company's shares. The ultimate controlling party of the Group is Mr. Hui Wing Mau.

- (a) Other than those disclosed elsewhere in the consolidated financial statements, the Group entered into the following major related party transactions.

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Brand management fee income	642,755	443,369
Construction material sold to related companies	331,992	205,468
	974,747	648,837

- (b) Key management compensation

	Year ended 31 December	
	2021 RMB'000	2020 RMB'000
Emoluments		
– Salaries and other short-term employee benefits	22,036	20,247
– Employee share award schemes	9,303	13,833
– Retirement scheme contributions	432	152
	31,771	34,232

43. Events after the reporting period

- (a) On 21 January 2022, the Group entered into a disposal agreement with an independent third party under which the Group agreed to sell the entire equity interest of a wholly-owned subsidiary of the Group to the independent third party for an aggregate consideration of RMB1,060 million. The transaction was completed in January 2022.
- (b) On 24 January 2022, the Group entered into a disposal agreement with an independent third party under which the Group agreed to sell 26.67% equity interest of a joint venture of the Group to the independent third party for an aggregate consideration of approximately RMB1,844.5 million (subject to adjustment). The transaction was completed in January 2022.
- (c) On 28 January 2022, the Group entered into a disposal agreement with an independent third party under which the Group agreed to sell the entire equity interest of a wholly owned subsidiary of the Group to the independent third party for an aggregate consideration of RMB4,500 million. The transaction was completed in February 2022.
- (d) On 31 August 2022, the Group entered into an equity and debt transfer agreement with an independent third party under which the Group agreed to (i) sell the entire equity interests of two non-wholly owned subsidiaries of the Group and the entire equity interests of two associate entities; (ii) assign the rights to the debts; and (iii) set off the outstanding current accounts owned by the Group to these entities for an aggregate net consideration of approximately RMB3,316 million. The transaction was completed in September 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

43. Events after the reporting period (CONTINUED)

- (e) On 12 October 2022, the Group entered into an agreement with an independent third party under which the Group agreed to sell the entire equity interest of a non-wholly owned subsidiary of the Group to the independent third party for an aggregate consideration of RMB1,750 million. The transaction was completed in October 2022.
- (f) In March 2023, Shanghai Shimao, a subsidiary of the Group, finished the extension of its domestic long-term bonds with a total outstanding amount of RMB4.55 billion. As a result, the maturity date of last batch of these long-term bonds was extended to year 2026.
- (g) In June 2023, Shimao Jianshe, a subsidiary of the Group, and its lenders had agreed on the extension of its domestic long-term bonds with a total outstanding amount of RMB14.35 billion. As a result, the maturity date of last batch of these long-term bonds was extended to year 2028.
- (h) Subsequent to the year ended 31 December 2021, the Company has been actively pushing forward the proposed restructuring of the offshore indebtedness of the Group (the "Proposed Restructuring") and continues to maintain constructive dialogues with various groups of creditors, including but not limited to, an ad hoc group of holders of the US\$ denominated senior notes issued by the Company (the "AHG") and the Co-ordination Committee comprising various offshore banks which in aggregate hold meaningful portion of the Group's offshore indebtedness (the "CoCom") and their respective advisors with a view to stabilize the situation of the Company, ease the current liquidity issue and seek to implement a restructuring plan that strives to treat its creditors fairly and protect the interests of its stakeholders.

The Company has circulated draft restructuring proposals to the advisors of the AHG and CoCom. The parties have been working diligently in narrowing differences on various economic terms currently contemplated under the restructuring proposals. The Company is also working to finalise a non-legally binding letter of support with certain members of the CoCom and its advisors to express their general support to progress and implement the Proposed Restructuring which shall form a good basis for further negotiation of the detailed restructuring terms.

Separately, as part of an effort to preserve the value of Sheraton Hong Kong Tung Chung Hotel and Four Points by Sheraton Hong Kong Tung Chung (collectively, the "Tung Chung Hotels"), a definitive agreement has been reached between the Group and the lenders to restructure the existing project loan facilities of the Tung Chung Hotels in June 2023. The Tung Chung Hotels may form part of asset package(s) as supplemental credit enhancement for the Proposed Restructuring as appropriate.

- (i) With reference to key findings of the independent investigation report in the Company's announcement dated 23 June 2023, a third-party trust company (the "Trust"), through its controlled entity, contributed a paid-in capital of RMB4.9 billion for a 30% equity interest of a subsidiary of the Group (the "Subsidiary") under certain financing arrangement in prior years. Subsequent to the year ended 31 December 2021, the Group and the Trust reached a consensus and renegotiated a temporary repayment plan to treat the entire arrangement as a fixed-term debt.

Upon the consensus reached by the Group and the Trust in March 2022, the Group accounted for it as a deemed acquisition of 30% equity interest in the Subsidiary for a deemed consideration of RMB4.9 billion and classified the amount as borrowings in the consolidated financial statements.

44. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Company's board of directors on 28 July 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

45. Statement of financial position and reserve movement of the company**Statement of financial position of the Company**

	At 31 December	
	2021 RMB'000	2020 RMB'000
ASSETS		
Non-current assets		
Interests in subsidiaries	47,580,819	41,993,056
Current assets		
Other receivables	24,967	4,802
Derivate financial instruments	11,412	2,337
Dividends receivable from subsidiaries	43,789,834	40,022,967
Cash and cash equivalents	128,946	521,833
	43,955,159	40,551,939
Total assets	91,535,978	82,544,995
EQUITY		
Equity attributable to the equity holders of the Company		
Share capital	384,165	362,850
Reserves		
– Proposed final dividend	–	3,259,104
– Others	17,857,198	15,624,118
Total equity	18,241,363	19,246,072
LIABILITIES		
Non-current liabilities		
Borrowings	44,832,271	41,215,591
Current liabilities		
Borrowings	26,219,597	21,191,238
Other payables and accrued expenses	1,111,233	825,020
Amounts due to subsidiaries	33,960	33,960
Amounts due to controlling entities	309,737	–
Dividend payable	787,817	–
Derivative financial instruments	–	33,114
	28,462,344	22,083,332
Total liabilities	73,294,615	63,298,923
Total equity and liabilities	91,535,978	82,544,995
Net current assets	15,492,815	18,468,607
Total assets less current liabilities	63,073,634	60,461,663

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2021

45. Statement of financial position and reserve movement of the company (CONTINUED)**Reserve movement of the Company**

	Share premium RMB'000 (Note (i))	Share-based compensation reserve RMB'000 (Note (ii))	Capital redemption reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2020	523,553	529,397	4,949	7,824,345	8,882,244
Profit for the year	–	–	–	8,596,417	8,596,417
Placing and subscription of shares	6,238,448	–	–	–	6,238,448
Equity-settled share-based payment					
– Value of employee services	–	119,457	–	–	119,457
– Dividends received	4,935	–	–	–	4,935
2019 final dividend recognised	–	–	–	(2,766,179)	(2,766,179)
2020 interim dividend recognised	–	–	–	(2,192,100)	(2,192,100)
Balance at 31 December 2020	6,766,936	648,854	4,949	11,462,483	18,883,222
Balance 1 January 2021	6,766,936	648,854	4,949	11,462,483	18,883,222
Profit for the year	–	–	–	2,055,967	2,055,967
Shares repurchased and cancelled	(62,273)	–	–	–	(62,273)
Placing and subscription of shares	952,312	–	–	–	952,312
Issue of scrip shares	1,366,898	–	–	–	1,366,898
Equity-settled share-based payment					
– Value of employee services	–	104,527	–	–	104,527
– Purchase of shares	(196,339)	–	–	–	(196,339)
– Dividend received	6,190	–	–	–	6,190
2020 final dividend recognised	–	–	–	(3,192,560)	(3,192,560)
2021 interim dividend recognised	(2,060,746)	–	–	–	(2,060,746)
Balance at 31 December 2021	6,772,978	753,381	4,949	10,325,890	17,857,198

Notes:

- (i) Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company.
- (ii) Share-based compensation reserve represents the value of employee services in respect of share options granted under the share option schemes and shares granted under the Share Award Scheme (note 23(b)).



SHIMAO GROUP HOLDINGS LIMITED
世茂集團控股有限公司

