Mainland property companies' performance and market outlooks.

China Real Estate Industry

Contents

Foreword

This is our first time to publish a thought leadership piece based on the research carried out on property companies listed on the stock exchanges of Shanghai, Shenzhen and Hong Kong.

2011 was a year of austerity for the real estate industry in China. Property companies weathered the pressure to hit business goals while also adopting a number of measures in response to harsh market conditions over the course of the year. As such, the sector may have entered another round of further consolidation and upgrading, which might result in some short term pain. However, if this is the case, it will be a phase the industry needs to go through.

This report covers review of certain key financial ratios of property companies computed based on audited financial information for the financial periods ended in the years of 2010 and 2011. In our survey, the sample population of 168 companies was making more than 50 percent of their revenues or holding more than 50 percent of their assets, from property development and investment activities in the mainland China. We also looked into details behind these financial ratios, followed by the outlooks of the Chinese property market in 2013. Finally, we explore implications on the property companies by looking into areas like product refinement, proactive sales strategy and tools, market expansion and penetration, business diversification, management and internal control, and financing channel development.

The research data collection for this study was carried out by utilising audited financial information released by listed property companies, conducting in-depth interviews as well as desk-top research. Details of the methodology are described in the appendix. Except where otherwise indicated, this report reflects the information effective as of December 2012.

I would like to express my gratitude for those who contributed to the success of this new publication. Matthew Sze led the project from data collection and analysis to write up of the report. Great support was received from Tony Kwong, Walter Cheung, Andy Ho, Douglas Robinson, Kathleen Tse, Ashan Talayhan, Victor Leung and Jane Tam. Lydia Chen, Jill Qu and Vivienne Huang of the China Research and Insight Center (CRIC), a professional research team of Deloitte China, have provided tremendous support on industry research analyses and report writing. We are also pleased to have the cover image contributed by Ivan Jiang, the 1st prize winner of the photo contest of "I Am Real Estate Industry Campaign 2012".

In the study, we conducted in-depth interviews with the management of certain major market players, including China Resources Land and Fosun Real Estate. Our sincere thank is extended to them for sharing their valuable industry knowledge and insights.

We hope you find this report useful and illuminating, and look forward to receiving any feedback and comments from you.

Richard Ho
National Real Estate Industry Leader
April 2013

1. 2011 Financial performance analysis

Despite unfavourable market conditions, most of the sampled listed property companies generally achieved positive growth in capitalisation and sales over 2011. Over the course of the year, their average capitalisation and sales increased by 25.8 percent and 7.8 percent to HK$18.4 billion and HK$8.5 billion respectively (Table 1). However, five other financial ratios for Hong Kong-listed property companies all declined to some extent over 2011 compared to 2010.

Table 1: Average of sampled property companies by key financial ratios/values in 2010 and 2011

Values/ratios	2010	2011
Capitalisation (HK$ Billion)	14.60	18.36
Revenue (HK$ Billion)	7.84	8.45
Net profit margin (%)	20.69	20.90
Return on equity (%)	11.48	9.81
Current ratio	2.40	2.25
Quick ratio	1.09	0.97
Debt/Equity ratio	0.94	0.98

Source: Deloitte analysis

Furthermore, the sampled property companies listed on China's three stock markets have shown different financial performances being observed. The Shanghai-listed companies achieved better overall results than the other two markets. Most indicator ratios of companies listed in Shenzhen have shown bigger changes, while the companies listed in Hong Kong have seen significant growth in revenues, but a 20 percent decline in capitalisation reflects the worsening financial position and least positive market sentiment (Chart 1).

Chart 1: Yearly change of key financial ratios/values for sampled property companies by stock markets over 2010 to 2011

Source: Deloitte analysis

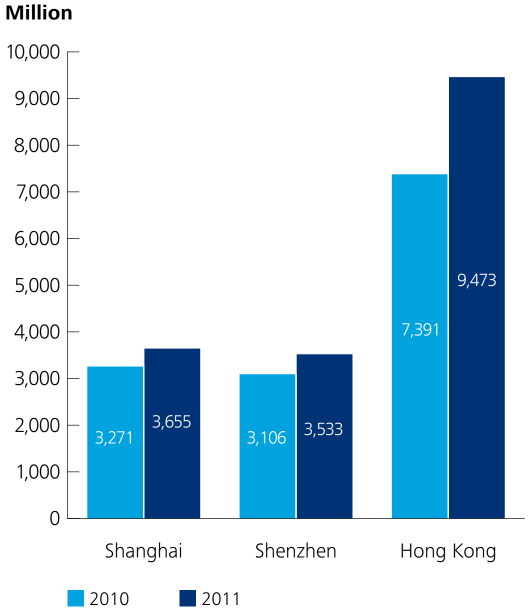
Note: For the capitalisation and revenue of Hong Kong companies, the monetary unit is in HK$.

The following is a detailed analysis of these seven financial ratios/values by grouping into three categories: scale, profitability, liquidity and debt repayment.

1.1 Scale

The property companies' revenues grew 12 percent, 14 percent and 28 percent respectively in Shanghai, Shenzhen and Hong Kong stock markets (Chart 2) in 2011, despite of the raft of stringent macro measures undertaken by the Chinese authorities over the course of the year. Still, 60 percent of the 168 sampled property companies in the survey managed to achieve an overall increase in revenue, and the proportion of those who witnessed such a rise is larger among those bigger firms. For example, all those companies earning RMB10 billion or more in revenues, enjoyed positive revenue growth over 2011. In addition, companies with nationwide operations or investments benefited from their geographical diversity in the face of policy restrictions on home purchases in 2011, with more than 75 percent of such companies increasing their revenues last year.

Chart 2: Average revenue earnings of sampled property companies by stock markets in 2010 and 2011



Source: Deloitte analysis

Note: RMB and HK$ are used as the currency unit for Mainland China and Hong Kong listed companies respectively.

Moreover, property companies listed in Shanghai and Shenzhen are small to medium sized, as about 85 percent of those companies earned less than RMB5 billion in revenues over 2010 and 2011. Meanwhile, 17 out of 21 largest companies earning revenues of more than RMB10 billion, are listed in Hong Kong (Table 2).

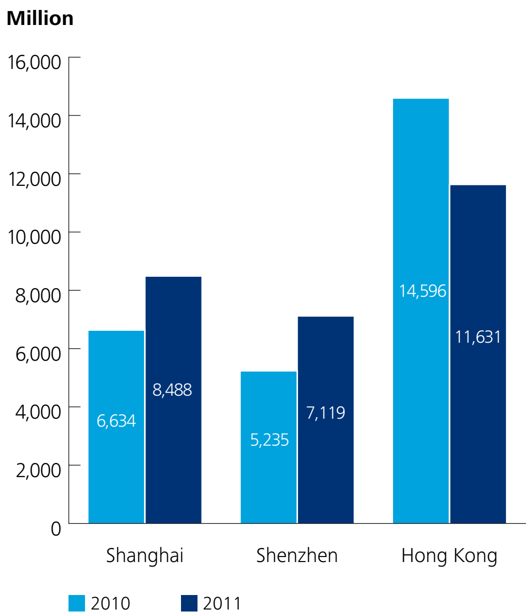
Table 2: The number of sampled property companies and percentage by revenue earnings in 2010 and 2011

Range	Shanghai				Shenzhen				Hong Kong			
	2010		2011		2010		2011		2010		2011	
Revenue earned (RMB/HK$)	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%
0-1 billion	18	33%	17	31%	21	42%	20	40%	20	31%	22	34%
1-5 billion	28	52%	29	54%	22	44%	24	48%	16	25%	12	19%
5-10 billion	6	11%	6	11%	5	10%	4	8%	16	25%	13	20%
10 billion above	2	4%	2	4%	2	4%	2	4%	12	19%	17	27%
Total	**54**	**100%**	**54**	**100%**	**50**	**100%**	**50**	**100%**	**64**	**100%**	**64**	**100%**

Source: Deloitte analysis

It is interesting to see that there have been differentiated capital market responses towards property companies in the mainland and Hong Kong (Chart 3). The average capitalisation of Hong Kong-listed companies declined by 20 percent in the period from March 2011 to March 2012, broadly in line with the trend of the Hang Seng Stock Index, as market capitalisation for 94 percent of all companies declined during the period. In contrast, the capitalisation of property companies listed on the Shanghai and Shenzhen stock exchanges grew by 28 percent and 36 percent respectively even though the Shanghai and Shenzhen Composite Indexes dropped 22.7 percent and 25 percent in that order over the period in question.

Chart 3: Average market capitalisation of sampled property by stock markets on 31 March in 2010 and 2011



Source: Deloitte analysis

Note: RMB and HK$ are used as the currency unit for Mainland China and Hong Kong listed companies respectively.

Although the percentage of companies with a market capitalisation of over RMB10 billion in Shanghai and Shenzhen have grown significantly in the past year, the majority of the companies in these two markets have market capitalisations of between RMB1 to 5 billion (Table 3).

Table 3: The number of sampled property companies and percentage by capitalisation in 2010 and 2011

Range	Shanghai				Shenzhen				Hong Kong			
	2010		2011		2010		2011		2010		2011	
Capitalisation (RMB/HK$)	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%
0-1 billion	3	6%	2	4%	9	18%	1	2%	12	19%	14	22%
1-5 billion	31	57%	30	56%	30	60%	32	64%	21	33%	22	34%
5-10 billion	14	26%	13	24%	7	14%	10	20%	6	9%	10	16%
10 billion above	6	11%	9	17%	4	8%	7	14%	25	39%	18	28%
Total*	**54**	**100%**	**54**	**101%**	**50**	**100%**	**50**	**100%**	**64**	**100%**	**64**	**100%**

Source: Deloitte analysis

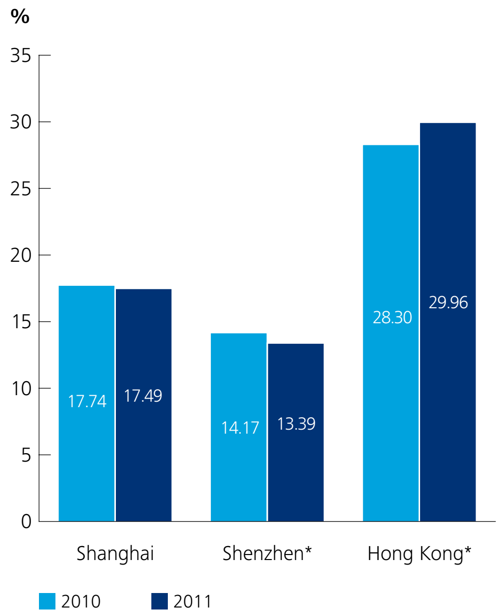
* Due to rounding, percentage may not add up to exactly 100%

There are a couple of reasons that could explain the contrasting market responses to the property companies listed on these three stock exchanges. First, the correlation between property sector and the overall stock exchange index varies according to the weight of capitalisation of property companies in different markets. The capitalisation of companies in real estate industry accounted for 11.98 percent of the total market capitalisation by the end of March 2012, according to HKEx Securities and Derivatives Markets 2012 Q1 Report. Meanwhile, property companies' capitalisation listed in the mainland only contributed 4.6 percent to the total capitalisation during the same period. In addition, the average Earnings per Share ("EPS") and Return on Equity ("ROE") of real estate industry were 17.4 percent and 24.3 percent higher than that of all industry average in the financial year of 2011, according to Wind Info Database. However, the Price-earning ("P/E") ratio for the industry was among the lowest which may have attracted investors' interest for the potentials.

1.2 Profitability

With regards to two of the sector's profitability indicator ratios, namely Net Profit Margin ("NPM") and Return on Equity ("ROE"), company performance in the three markets varies considerably. Both NPM and ROE ratios for Real Estate companies listed in Shanghai showed a minor decrease over the 2010-2011 periods, while Shenzhen-listed companies showed larger declines. The NPM of companies listed in Hong Kong increased by six percentage points to 29.96 percent, but ROE drops from 11.44 percent to 9.38 percent in 2011 (Chart 4 and Chart 5).

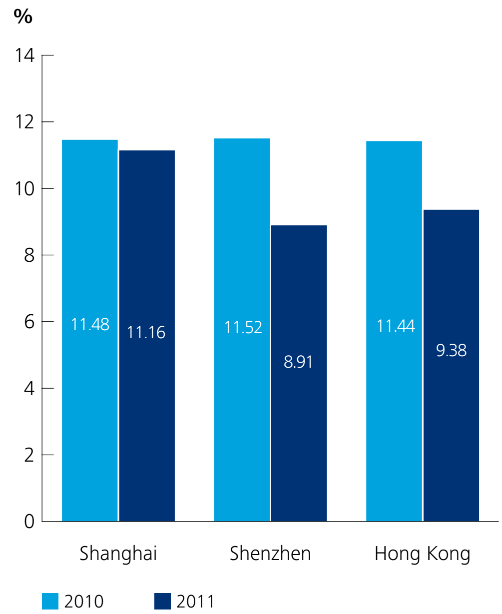
Chart 4: Average NPM of sampled property companies by stock markets in 2010 and 2011



Source: Deloitte analysis

Note: Shenzhen* - excluding one outliner for both 2010 and 2011, the average NPMs before adjustment were -59.69% and -29.56% in 2010 and 2011 respectively; Hong Kong* - excluding one and three outliners for 2010 and 2011, the average NPM before adjustment were 765.39% and 82.21% in 2010 and 2011 respectively.

Chart 5: Average ROE of sampled property companies by stock markets in 2010 and 2011



Source: Deloitte analysis

The average NPM of companies listed in Hong Kong is 71.3 percent and 123.7 percent higher than that of companies listed in Shanghai and Shenzhen respectively in the financial year of 2011. 72 percent and 64 percent of the companies in these two markets maintained their NPMs at well below 20 percent, while 55 percent of the companies in Hong Kong achieved NPMs of above 20 percent (Table 4). There are even 11 companies with NPMs of over 100 percent in Hong Kong; most of them have investment properties and commercial property operations as core business. However, their high NPMs are mainly due to large amounts of valuation gains on investment properties being recognised or derived by disposing subsidiaries, rather than from operating profits. The differences in the average ROEs of the sampled companies are minor in these three markets compared with their NPM figures. Similar to the NPM figures, more than 80 percent of the companies listed in mainland markets have ROE figures of below 20 percent, while the ROE figures for those companies listed in Hong Kong is much higher and fairly evenly matched (Table 5).

Table 4: The number of sampled property companies and percentage by NPM in 2010 and 2011

Range	Shanghai				Shenzhen				Hong Kong			
	2010		2011		2010		2011		2010		2011	
Net profit margins	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%
<-100%	0	0%	0	0%	1	2%	1	2%	5	8%	5	8%
-100%-0%	2	4%	1	2%	1	2%	3	6%	4	6%	2	3%
0%-20%	38	70%	39	72%	32	64%	33	66%	18	28%	22	34%
20%-50%	12	22%	11	20%	16	32%	13	26%	26	41%	20	31%
50%-100%	1	2%	2	4%	0	0%	0	0%	4	6%	4	6%
100%-1000%	1	2%	1	2%	0	0%	0	0%	5	8%	10	16%
>1000%	0	0%	0	0%	0	0%	0	0%	2	3%	1	2%
Total	**54**	**100%**	**54**	**100%**	**50**	**100%**	**50**	**100%**	**64**	**100%**	**64**	**100%**

Source: Deloitte analysis

Table 5: The number of sampled property companies and percentage by ROE in 2010 and 2011

Range	Shanghai				Shenzhen				Hong Kong			
	2010		2011		2010		2011		2010		2011	
Return-on-equity	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%
<0%	2	4%	1	2%	3	6%	4	8%	7	11%	6	9%
0%-10%	19	35%	29	54%	18	36%	23	46%	18	28%	22	34%
10%-20%	26	48%	19	35%	23	46%	18	36%	25	39%	19	30%
20%-50%	7	13%	4	7%	5	10%	5	10%	12	19%	17	27%
50%-100%	0	0%	1	2%	1	2%	0	0%	2	3%	0	0%
Total	**54**	**100%**	**54**	**100%**	**50**	**100%**	**50**	**100%**	**64**	**100%**	**64**	**100%**

Source: Deloitte analysis

Looking beyond these two ratios, it is interesting to note that average gross profit margins remained high for all real estate companies in 2011, varying from 37 percent to 42 percent across the different stock markets. The reason for this is that land costs usually take around three-year to fully impact margins (it is normally taking three years to undertake a complete property project development cycle).

The 2011 decline in net income was largely due to a significant increase in sales expenses, administration and finance costs over the course of the year. Property companies increased their advertising and promotional inputs, meaning that overall sales expenses were up 34.1 percent for all companies in the three markets in order to stimulate the sluggish sales. Meanwhile, financing expenses also rose by about 44 percent, a result of tightening monetary policy. At the same time, profitability is likely to fall further, as the high premiums paid for lands since 2009 will start to affect financial performance from 2012 onwards.

There is no strong correlation between the size of the company and the level of profitability. However, larger companies tend to maintain more stable profit margins due to their clear long-term strategies and mature operational models. Meanwhile, profitability levels for smaller companies are more variable as they are more vulnerable to changing market conditions and more likely to divert their resources and investments into other business areas that they think are more profitable.

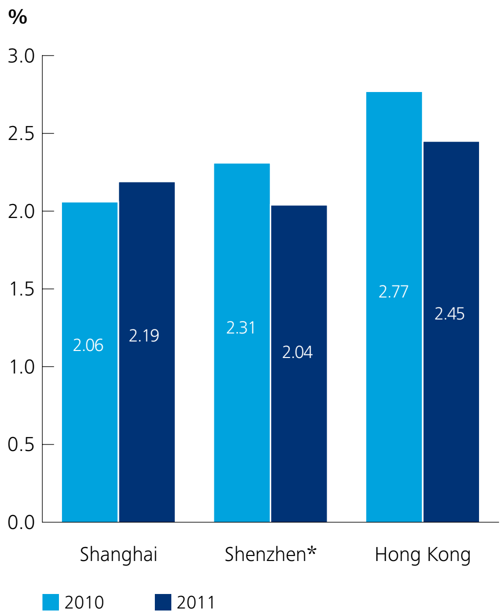
From a geographical perspective, nationwide property companies, in general, are more profitable as lower profits in some areas might be offset by higher profits in others. However, it is interesting to note that a few companies concentrated in certain areas have become very profitable due to their in-depth local knowledge and experience.

1.3 Liquidity and Debt Repayment

The ongoing tough regulatory policies were introduced by the central government in recent years in order to curb the overheated property market, which led to strong liquidity pressure on the real estate companies, while the latter have also been facing the challenges of a credit crunch resulting in significantly higher cost of funds.

Purely looking at the current ratios shown in Chart 6 and Table 6 below, liquidity levels seem perfectly fine for all companies as the average value is above two. However, the story changes when comparing with quick ratios listed in Chart 7 and Table 7, which describe the characteristics of the recent real estate market, namely high levels of inventory, long development cycles and low levels of short-term debt repayment capabilities.

Chart 6: Average current ratio of sampled property companies by stock markets in 2010 and 2011



Source: Deloitte analysis

Note: Shenzhen* - excluding one outliner with minimal current liability, the average current ratio before adjustments was 123.02 in 2010.

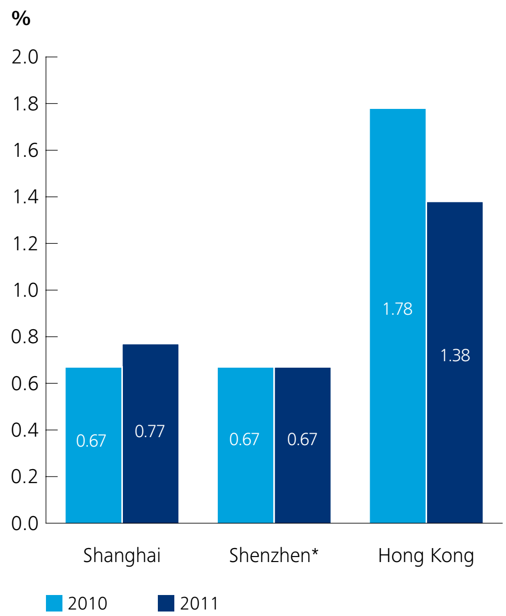
Table 6: The number of sampled property companies and percentage by current assets to current liabilities ratio in 2010 and 2011

Range	Shanghai				Shenzhen				Hong Kong			
	2010		2011		2010		2011		2010		2011	
Current assets/ current liabilities ratio	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%
<1	3	6%	2	4%	1	2%	2	4%	6	9%	5	8%
1-2	29	54%	35	65%	29	58%	30	60%	39	61%	39	61%
2-5	21	39%	14	26%	16	32%	16	32%	15	23%	18	28%
>5	1	2%	3	6%	4	8%	2	4%	4	6%	2	3%
Total*	**54**	**101%**	**54**	**101%**	**50**	**100%**	**50**	**100%**	**64**	**99%**	**64**	**100%**

Source: Deloitte analysis

* Due to rounding, percentage may not add up to exactly 100%

Chart 7: Average quick ratio of sampled property companies by stock markets in 2010 and 2011



Source: Deloitte analysis

Note: Shenzhen* - excluding one outliner with minimal current liability, the average quick ratio before adjustments was 17.05 in 2010.

Table 7: The number of sampled property companies and percentage by quick ratio in 2010 and 2011

Range	Shanghai				Shenzhen				Hong Kong			
	2010		2011		2010		2011		2010		2011	
Quick ratio	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%
<0.5	21	39%	30	56%	20	40%	29	58%	12	19%	28	44%
0.5-1	24	44%	16	30%	21	42%	12	24%	31	48%	22	34%
1-2	8	15%	5	9%	8	16%	7	14%	17	27%	7	11%
>2	1	2%	3	6%	1	2%	2	4%	4	6%	7	11%
Total*	**54**	**101%**	**54**	**101%**	**50**	**100%**	**50**	**100%**	**64**	**100%**	**64**	**100%**

Source: Deloitte analysis

* Due to rounding, percentage may not add up to exactly 100%

This undoubtedly calls for further examination of the operating capabilities of those property companies surveyed. According to Wind Info database, total inventories including properties under development of our sampled companies went up 40.4 percent, and the operating cycle increased to about 300 days in 2011. Moreover, inventory turnover, current assets turnover, and total assets turnover all fell to varying degrees over the 2010/2011 timeframe (Table 8). The average inventory turnover is much faster for Hong Kong-listed companies than their mainland-listed peers, which might well explain why their average quick ratio is about twice that of companies listed in the mainland. In addition, operating inefficiencies have not only lowered the overall liquidity level, they have also affected the overall profitability of the sector.

Table 8: Operating ratios of sampled property companies by stock markets in 2010 and 2011

Stock markets	Inventory turnover		Current asset turnover		Total asset turnover	
	2010	2011	2010	2011	2010	2011
Shanghai*	0.40	0.39	0.41	0.35	0.27	0.24
Shenzhen	0.41	0.36	0.32	0.31	0.32	0.26
Hong Kong*	0.66	0.66	0.35	0.30	0.20	0.17

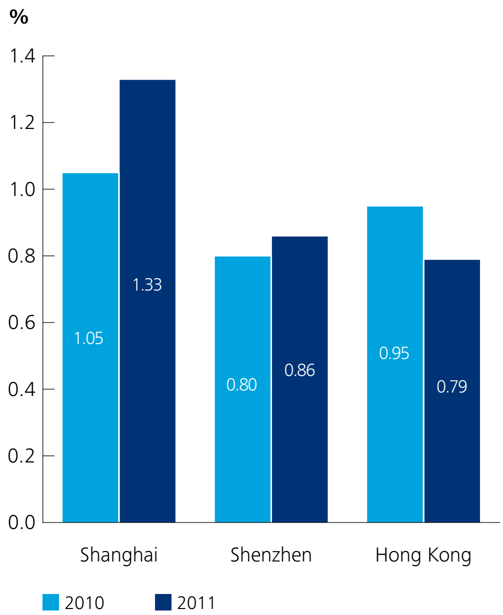
Source: Wind Info, Deloitte analysis.

Note: Shanghai* - excluding one outliner for both 2010 and 2011, the average Inventory Turnover before adjustment were 3.95 and 0.39 in 2010 and 2011 respectively; Hong Kong* - excluding one outliner for both 2010 and 2011, the average Inventory Turnover before adjustment were 1.27 and 0.67 in 2010 and 2011 respectively.

It shows that as companies' quick ratios go up, company sizes tend to fall while companies in the process of nationwide expansion have the lowest liquidity levels. In respect to their business lines, it is interesting to note that those companies that derive most of their revenues from hospitality services and operating commercial properties tend to have better liquidity positions. In addition, Shanghai-and Shenzhen-listed companies are relatively more competitive in developing residential properties with a fast asset turnover rate while companies listed in Hong Kong are more experienced in achieving a higher turnover from operating commercial properties.

In terms of debt-to-equity ("D/E") ratio, due to the generally high gearing level of the real estate industry, the guiding value of 0.5, in reference to all industries is not applicable in this study. In 2011, the D/E ratio movements in the three capital markets went in different directions. The gearing of companies listed in Shanghai and Shenzhen increased 26.7 percent and 7.5 percent respectively; while the figure for Hong Kong-listed companies decreased 16.8 percent to 0.79 (Chart 8).

Chart 8: Average D/E ratio of sampled property companies by stock markets in 2010 and 2011



Source: Deloitte analysis

Table 9: The number of sampled property companies and percentage by D/E ratio in 2010 and 2011

Range	Shanghai				Shenzhen				Hong Kong			
	2010		2011		2010		2011		2010		2011	
Debt-to-equity ratios	Count	%	Count	%	Count	%	Count	%	Count	%	Count	%
<0.5	11	20%	13	24%	16	32%	16	32%	19	30%	17	27%
0.5-1	17	31%	14	26%	13	26%	13	26%	26	41%	27	42%
1-2	22	41%	17	31%	20	40%	18	40%	15	23%	18	28%
>2	4	7%	10	19%	1	2%	3	2%	4	6%	2	3%
Total*	**54**	**99%**	**54**	**100%**	**50**	**100%**	**50**	**100%**	**64**	**100%**	**64**	**100%**

Source: Deloitte analysis

* Due to rounding, percentage may not add up to exactly 100%

Although bank loans as the main source of funding for real estate companies have been declining year-on-year, they are still playing an important role in gearing the operations of property companies. In previous years, companies enjoyed rapid growth of market demand and high profitability brought about by rapid economic growth and urbanisation, which somehow offset the concerns of such highly-geared operating models. However, declining profitability and operational inefficiencies discussed above may further deteriorate the debt repayment ability of property companies under current market conditions.

In such an environment, banks prefer lending funds to well-developed and sizeable property companies. Therefore, it is not surprising to find that less competitive property companies have relatively low gearing levels as they might have limited access to bank borrowing. However, if such companies have a certain amount of debt on their balance sheets, interest rates could be set as high as twenty percent or more. On the contrary, leading companies for whom it is relatively easier to obtain credit facilities, are cautious to keep down their D/E ratio by speeding up turnover and stimulating cash generation from operations.

Property companies listed in Hong Kong have competitive advantages in terms of financing capabilities over their mainland listed peers. The advantages are not merely a matter of the availability of more financing vehicles, i.e. REITs, but also their access to global funding sources. In the past couple of years, the international monetary market has been operating under a very low interest rate environment, due to the global economic recession. Consequently, companies with access to such funds are likely to enjoy the benefit of low financing costs.

In summary, the forward-looking financial performance of mainland property companies is still not optimistic, with most financial ratios/values trending downward by varying degrees, accompanied by a slowdown in growth, declining profitability, lower liquidity and surging gearing levels. However, it might be beneficial to the development of the sector in the long run if this leads to another round of consolidation.

2. Outlooks for the Chinese property market

The property sector in China is strongly influenced by developments within the regulatory regime and administrative measures. The regulatory environment might have started to relax since the central bank announced a 0.25 percent decrease in lending interest rates and more recently, also allowed banks to offer a discount of up to 30 percent on mortgage loans. However, we have also noticed that the nation's top leaders are still strongly articulating the macro measures over the market in many public occasions. In addition, property prices and sales have been on the recovery path since May 2012, but investment into the sector and the land market have remained inactive, although there have been a few headlines on land auction in recent months, and property companies are still cautious to start new constructions.

2.1 The Regulatory environment has loosened slightly

A number of measures were announced by the government in 2011 with a view to cool down the local property market, tackling both the demand and supply sides of the market. The government tried to curb demand by several means, including expanding the coverage of home purchase restrictions to 47 cities, raising interest rates and deposit reserve ratios three and six times respectively, increasing down payment and mortgage rates for investors who had already purchased their first property, piloting the implementation of a property tax in Shanghai and Chongqing and resuming the five-year requirement for business tax exemptions in property transactions. In addition, the government aimed to increase alternative housing supplies by accelerating the construction and supply of affordable housing, with the specific goal of building 3.6 million units and achieving 20 percent coverage by the end of the "12th Five-Year Plan" period.

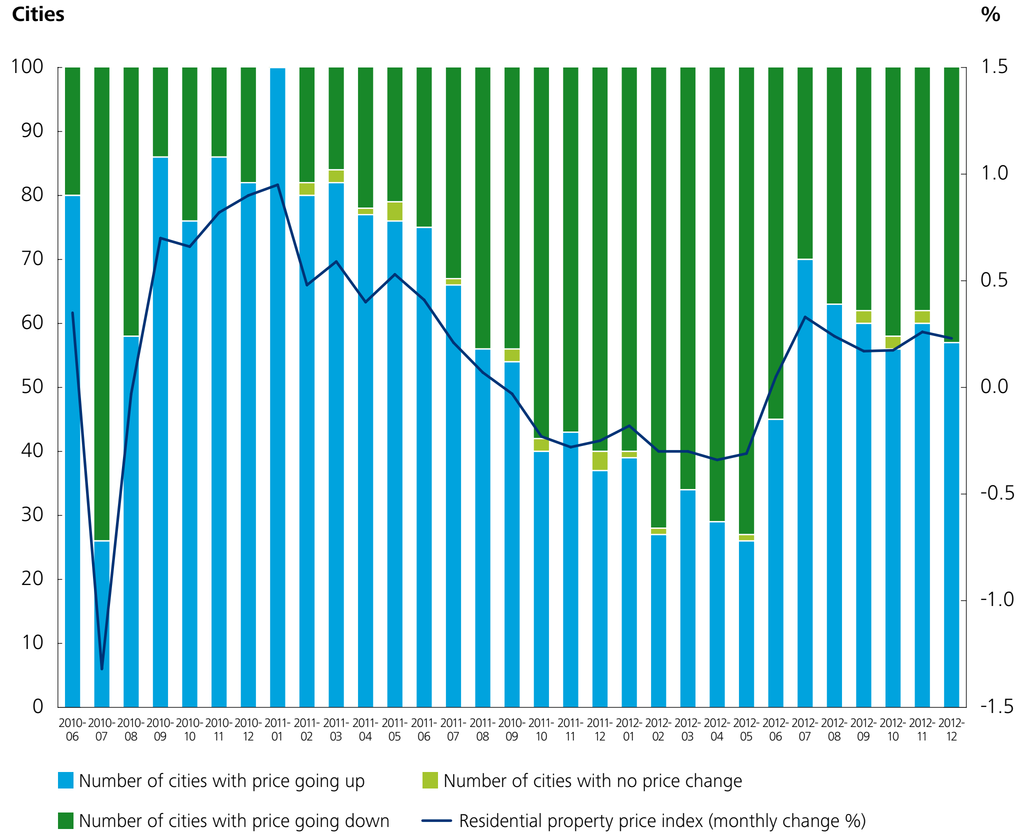
These measures have helped the continued correction of the property market since 2010. However, there has been a crack in the strict policy environment from the beginning of 2012, as the country still relies heavily on fixed asset investment as an engine for economic growth. As a result, both central and local governments have eased some policy restrictions on the property market. The Central Bank has lowered the reserve ratio requirement three times since the end of 2011, and announced a 0.25 percent decrease in lending interest rate and more recently also allowed banks to discount up to 30 percent for mortgage loans. Moreover, in February 2012, the authority together with the MOHURD (Ministry of Housing and Urban-Rural Development) encouraged the credit support to ordinary and small housing units to better satisfy the "reasonable demands". At an interim level for the government, the policy relaxation has been focusing on three areas: Credit limit increase for provident fund loans, upward adjustment of ordinary housing standards and guidance prices, and subsidies granted to purchase furnished dwellings.

The reasons behind relaxing the regulations are largely due to the strong correlation between Real Estate Industry and economic growth in China. The government is unlikely or unwilling to take the risk of a further slowing down in GDP growth, which may result in another round of investment hike to pull up the GDP figure in the coming year. However, the regulator will continue to keep a close watch on the industry due to its public welfare nature, which has been strongly emphasised by this country's leaders. Therefore, it is likely that the market will see a more relaxed overall regulatory environment in 2013, in terms of downward adjustment of interest rates and easing of bank credit policy. However, the home purchase restrictions will not be removed in order to curb investment surge.

2.2 Property sales and prices are starting to recover

A recent analysis of price fluctuations in residential property market, in a selected group of 100 cities (Chart 9) displays the impact of the policy relaxation taking effect. During 2012, the downward Property Price Index trend has come to a halt in May, and gone up by 0.26 in November. The number of cities with declining property prices increased significantly in 2011 and continued increasing in the early months of 2012, from zero to 73. From July to December 2012, Property prices have been steadily rising in more than 56 cities.

Chart 9: Changes in property price in a selected group of 100 cities from June 2010 to December 2012 (on a month-on-month basis)

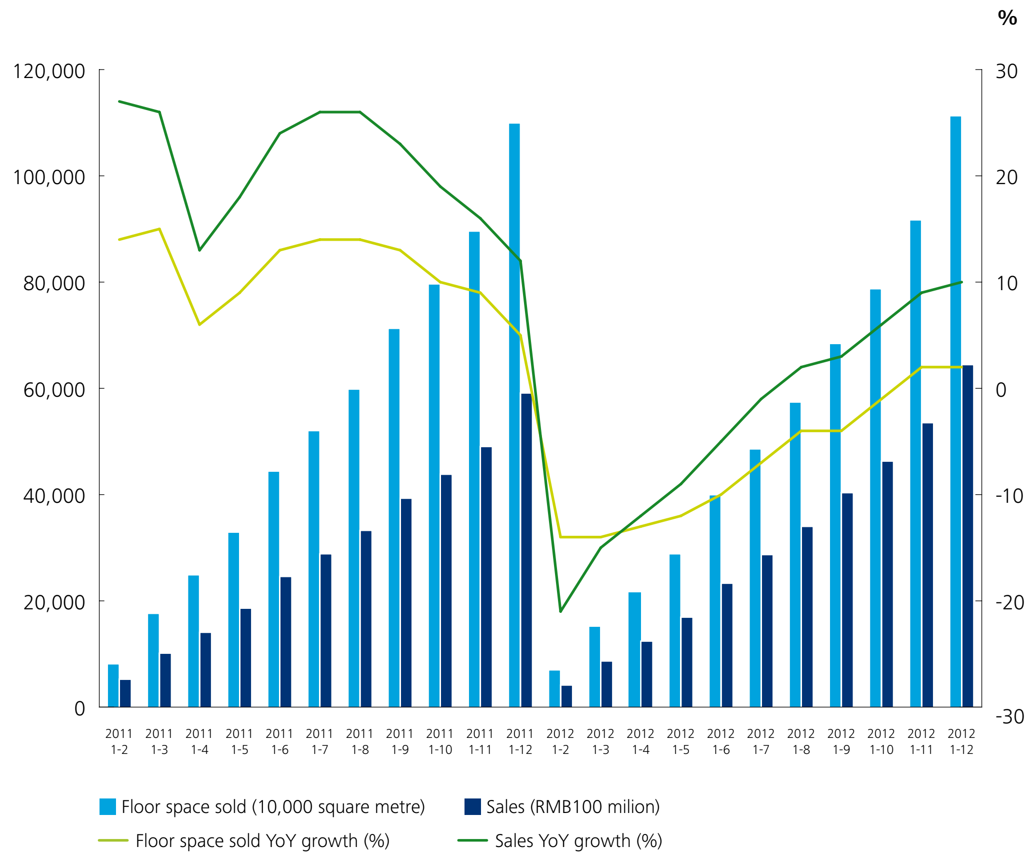


Source: National Statistics Bureau, Wind info

Note: A total of 105 cities were monitored from July 2010 to October 2010.

By the end of 2012, the total floor space and properties sold reached 1,113 million sq. metres and RMB6,445.6 billion respectively. The year-on-year ("YOY") growth rates for floor space sold and total sales have remained negative, but the gap has started to narrow down from March 2012 (Chart 10). Meanwhile, annual growth of sales became positive since August 2012, showing signs of the average price going up.

Chart 10: Total Floor Space Sold and Property Sales from 2011 to 2012



Source: National Statistics Bureau, Wind info

Looking into 2013, the overall property market is likely to be more active than 2012, but the rebound in property transaction volume and price would tend to be more rational, and if the prices tend to rise sharply, more restrictive macro measures will be put in place.

2.3 Property market investment and construction start-ups remain cautious

According to "The National Bureau of Statistics of China", at the end of 2012, the total completed investment in real estate development reached RMB7,180 billion, reflecting an increase of 16.2 percent compared to the same period in 2011. However, the monthly growth rate of investment going into the sector has been in negative territory between August 2011 and September 2012 (Chart 11). Property companies are still cautious in starting up new construction projects.1,624.1 million sq. metres of new properties, have been constructed by the end of November 2012 and representing a decrease of 7.2 percent on an annual basis (Chart 12).

Since the measures in 2011 mainly targeted the residential market, the office and commercial properties have outperformed the overall and residential markets. According to CBRE, the rental yields and selling prices for office buildings and retail properties kept growing throughout 2011 and to the first quarter of 2012. In particular, primary retail property market has remained buoyant as international fast fashion brands such as Zara, H&M and Uniqlo have been actively expanding their networks in first-tier and second-tier cities. However, the demand for office buildings has weakened as the economic environment deteriorated in recent several months.

Chart 11: Year-on-year growth of completed investment by property types from 2010 to 2012

Source: National Statistics Bureau, Wind info

Chart 12: Year-on-year growth of new construction by property types from 2010 to 2012

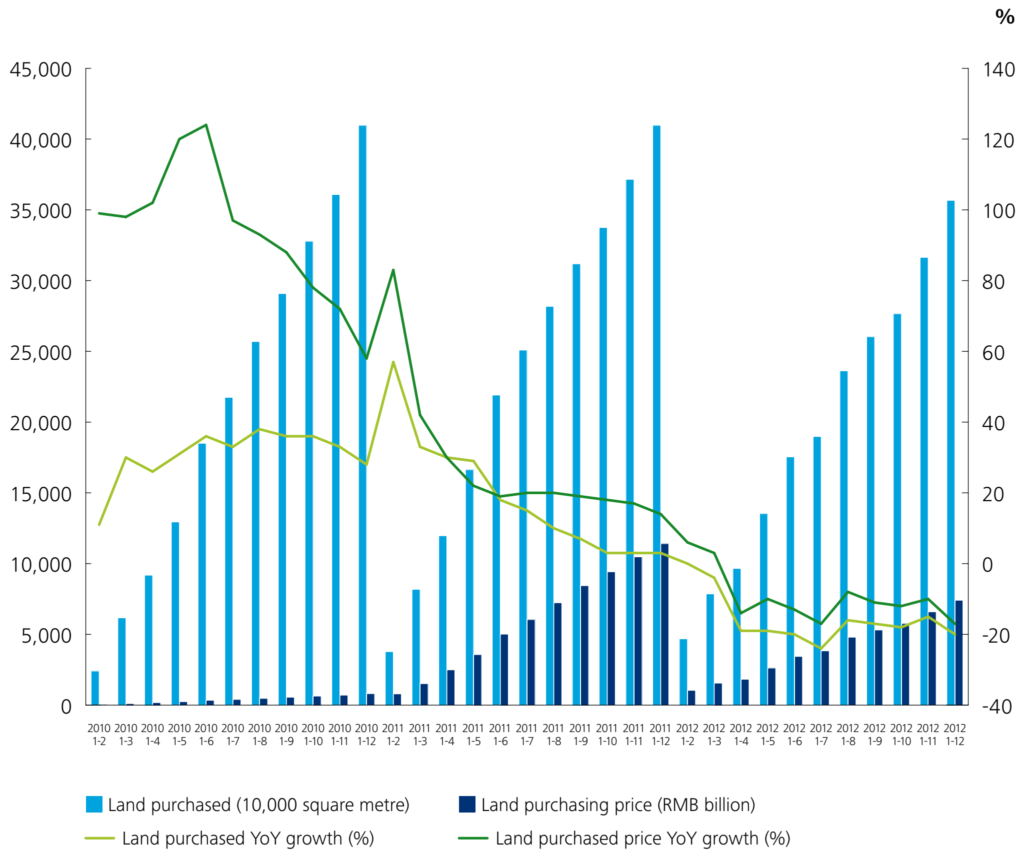
Source: National Statistics Bureau, Wind info

Looking into 2013, overall investment in the property market is likely to rebound gently along with possible regulatory relaxation and continued recovery in sales. The digested amount of property stock in the past few months will create space for the real estate companies to use more funds to invest on new constructions. We have also noticed that commercial properties have attracted greater interest from different sources, which may bring some concerns over this slightly overheated sector.

2.4 Land market remains inactive and premium rate becomes conservative

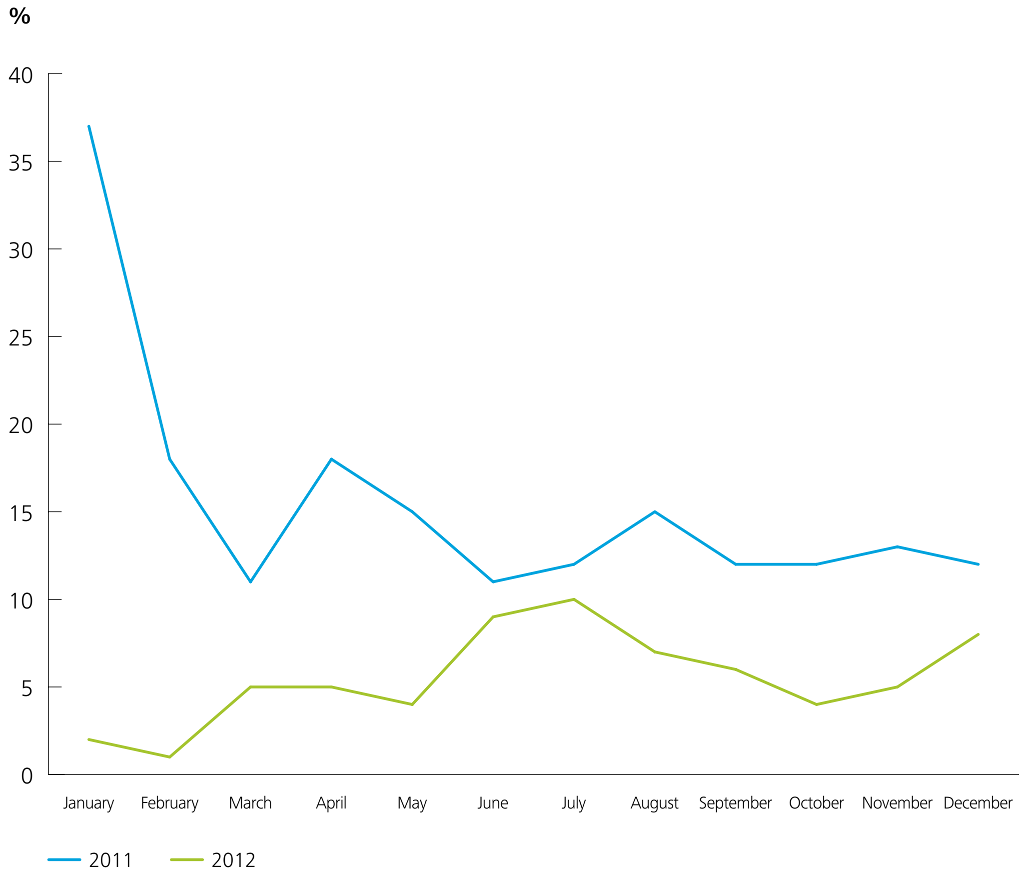
Throughout 2012, the year-on-year growth rate of the total acreage of land purchased has been continuously declining for 14 months (Chart 13), although some signs have indicated developers are beginning to intensify activity in land acquisition. This is largely due to the liquidity pressure faced by most property companies since 2011. The overall premium rate of 5.5 percent in 2012 has been much more conservative than 15.4 percent in 2011 (Chart 14). In the past three years the proportion of land acquired in third-tier and fourth-tier cities has increased from 52 percent to 57 percent, mainly reflecting the tendency to expand, to find other sources of income or to counterbalance the regulatory restrictions.

Chart 13: Land purchased and land purchasing prices from 2010 to 2012



Source: National Statistics Bureau, Wind info.

Chart 14: Premium rate of land purchased in 2011 and 2012



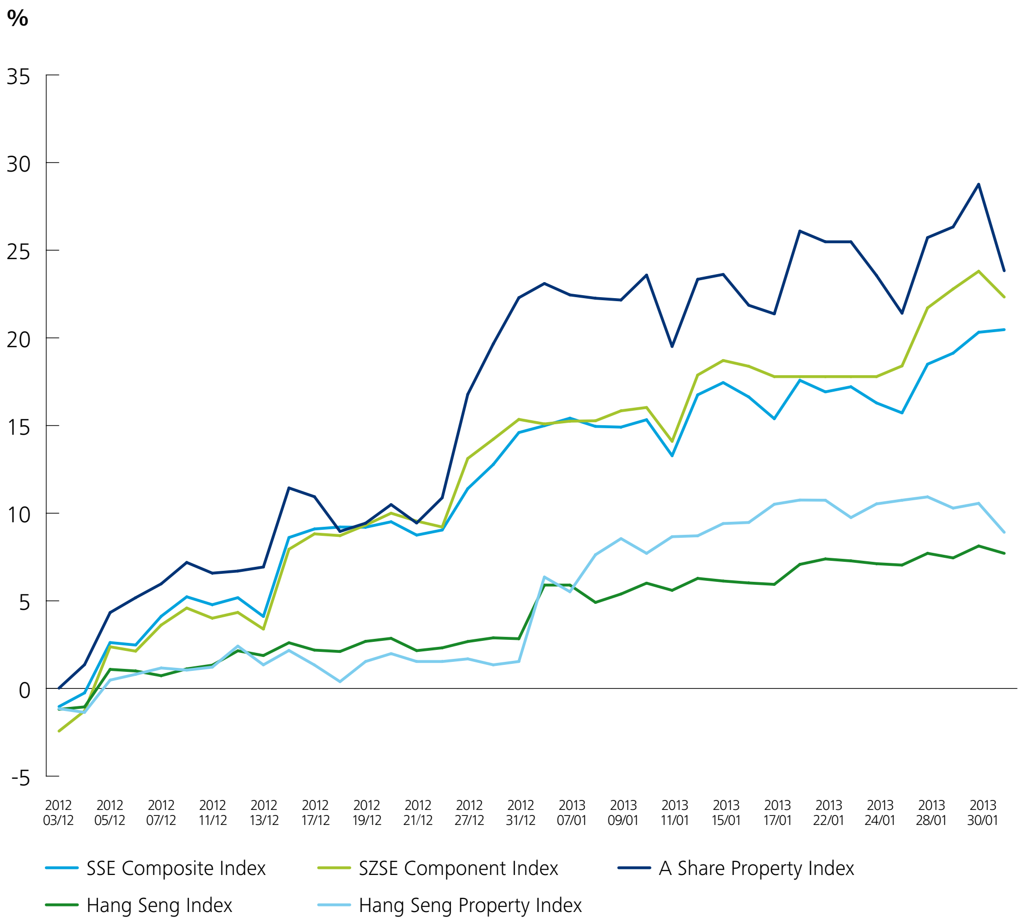
Source: CREIC

The overall land market performance, in 2013, will rely more on the liquidity levels of real estate companies, which have differentiated in the past two years. The recovering sales and possible relaxation measures of monetary and credit policies will improve the sector's cash position. On the other hand, most land acquisition deals are likely to be conducted by some leading companies accelerating the sector's consolidation in the coming next few years.

2.5 The capital markets are warming up

After a long hiatus, the Mainland stock exchanges have started a robust rally since December when Shanghai and Shenzhen A-share indices respectively rose by 20.1 percent and 22.3 percent as of 31 January 2013. In particular, the market sentiment towards property companies listed in Mainland and Hong Kong remained strong, enabling the property sectors in both territories to outperform their respective overall indices (Chart 15).

Chart 15: Market and sector indices from December 2012 to January 2013



Source: ISI Emerging Markets, Wind Info

In addition, IPO market also started to warm up after the successful listing of three property companies on the Hong Kong Stock Exchange since November 2012, raising a total of HK$45.31 billion, according to China Venture. Moreover, based on the statistics from Thomson Financial, the bond market also showed increasing support for funding property companies as 14 bonds were issued with a value circa US$4,900 million in just one month in January 2013.

Looking ahead, the overall capital market in China is likely to become more active than 2011 and 2012, as there are signs of recovery in the economy, more relaxed monetary policies and rising investors' confidence. As a result, Chinese property markets will likely continue to attract investor interests together with other factors discussed in early section.

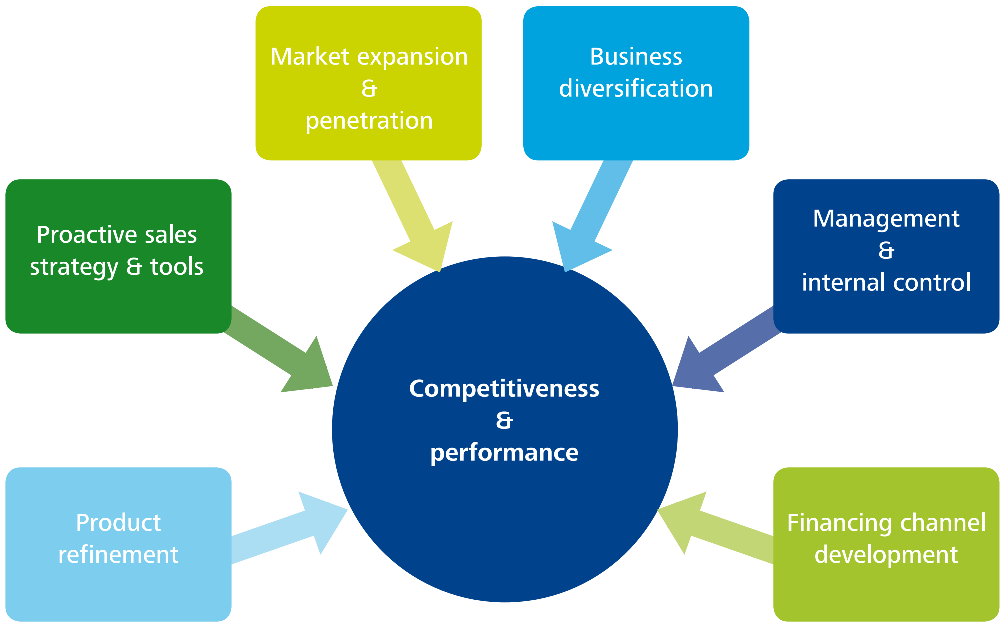
3. Implications to property companies

It seems that, the property market is on the way to recovery in terms of prices and sales with the relaxation of regulatory environment. However, the investment, new construction and land markets remain cautious and inactive; thus, the sustainability of the recovery is still questionable. Based on market data analysis, long term trends below, are likely to be seen:

- The profit margin of the property sector is likely to continue to decline in the future. The high cost of land acquisition will have considerable impact on gross profit margin. Furthermore, rising marketing, sales and administration expenses, and finance costs will have a further effect on net profit margin.
- The concentration of the sector is to be improved, and the accompanying M&A activities are likely to accelerate. Under the macro measures, the performances of property companies have differentiated. Despite declining liquidity levels, some large property companies have managed to achieve considerable growth in revenues, by accessing more and cheaper financing channels, while small companies have been struggling to survive.
- The property investment nature is likely to change its direction in the long term. Due to the limited investment channels, properties were one of the major investment options for wealthy Chinese nationals, resulting in high gains along with the hiking property prices in the past decade. But recent policies and measures have shown the rising demand of ordinary and affordable housing satisfying the "sheltering" needs of the majority of nationals.
- Commercial property market is likely to see significant growth in the future. The market data in Section 3 has shown that, commercial properties were subject to less impact from macro measures. Domestic consumption has been greatly promoted as to change the country's economic growth pattern during the "12th Five-Year Plan" period. Additionally, the on-going urbanisation has enabled retailers to expand nationwide.

At the micro level, property companies will need to take actions in response to these market dynamics. The chart below demonstrates actions and initiatives which might be undertaken by property companies in order to enhance their competitiveness and performance in the future.

Chart 16: Key actions and initiatives that may be taken by property companies



Source: Deloitte analysis

3.1 Product Refinement

As discussed in an earlier section, property companies are facing the dual pressures from declining profit margin and a slowdown in inventory digestion. We noticed a majority of property companies have refined their products to better serve the market demand, to promote high efficiency and achieve reasonable profit margin.

As a result, many property companies have adjusted their product mix in 2011 - by increasing the development plans of ordinary and smaller size apartments. For instance, over 90 percent of the housing units offered by a leading developer were less than 144 square metres; and a growing number of developers who used to focus on high-end residential developments, have also joined the league of supplying more of such products nationwide. We believe such initiative is likely to continue in the future to achieve quick turnover, as well as, serving the mainstream market in China more efficiently.

However, as demand on property market in China has reached to a new level, it is a necessary for leading property companies to consider enriching their product lines for different targeted clients. Such diversified product portfolio might be able to ease the conflict between profit and efficiency, but this highly dependent on good market research and knowledge, fine product design and introduction, as well as innovative and effective marketing.

Other functions, such as, education and healthcare facilities, retail shops, interior design and decoration have become more and more important to assist property sales. In fact, these value added products and services, as part of their development strategy, will also help to enhance their competitiveness in the long run.

3.2 Proactive Sales Strategy and Tools

Proactive sales strategy becomes much more important to build market eminence and close deals. Besides providing discount offers to accelerate sales, there are other innovative approaches adopted by leading property companies recently:

- **Dynamic market demands tracking:** understanding the demand in the current property market is undoubtedly important and how to obtain insider information is a big question. The recent approaches adopted by a leading developer might be good reference - it set up cooperation with a specialist research agent, participating in the questionnaire survey conducted in the field and jointly maintaining a market demand database which is updated weekly. Such initiative enables the company to response quickly against changes in market, and generates the most updated sales strategy.
- **Support from real estate agents:** in 2011, property companies have been increasingly acquiring the help of real estate agents to boost their property sales. Some property companies have signed contracts with large agent chains to promote sales, and others have publicly hired full-time or part-time agents and promised commissions of many times the going market rate. It is arguable whether this is an effective method or not, based on the capability of the hired team and financial feasibility.
- **Serving VIP club:** due to property ownership in China is generally regarded as an investment, some property companies entered into agreements and collaboration with the wealth management divisions of financial institutions to jointly serve the VIP clients' investment demands in properties.
- **Online transaction platform:** in the context of rising cost and unsatisfactory results from traditional marketing channels, online transaction platforms have emerged as a new marketing channel for property companies. In 2011, the first online business platform - eju.com, was launched in 2011, and it has already attracted a number of big names in the sector to marketing their properties on it.

Looking ahead, it is suggested that property companies should continue to formulate their sales strategy based on in-depth analysis of market data and competitors, and develop new marketing channels via collaboration and new technology.

3.3 Market Expansion and Penetration

In order to sustain a reasonable business growth, an increasing number of property companies have gradually built up a national presence. According to the statistics provided by CREIC, the average number of cities with property sales of over RMB10 billion was more than 25 in 2011, and more than 80 percent of newly acquired land, was in the third-tier and fourth-tier cities. This strategy has clearly helped them to achieve reasonable growth under unfavourable market conditions.

Several outbound deals have highlighted the possible acceleration of such strategic move by leading property companies. From 2008 to December 2012, 26 outbound M&A deals, with a total value of more than US$3.69 billion were made by Chinese property companies, according to Thomson Financial Database. The top destinations included the US, Hong Kong, Singapore, Australia. On the top of, few property companies sat up joint ventures in several Southeast Asian countries to develop business there.

In contrast, some companies have been more cautious and preferred to penetrate further into the existing market. Typically having operated in their prime location for a long period, they have strong relationship with local authorities and have achieved a certain scale and clear competitive advantage against outsiders.

Whether to develop a new market or penetrate the existing market is really dependent on the property company's own strategy, competitive advantages and resources. The main reasons behind expansion into third-tier and fourth-tier cities, lie on low cost of land acquisition and prospective market potentials. However, the market conditions might vary significantly from one to another, at the same time forcing companies to be more cautious and fully prepared before their entry. Outbound expansion brings even greater uncertainty; property companies need to deal with possible risks in politics, economy, market, currency, culture, regulation and operation in the destination countries.

3.4 Business Diversification

Nowadays, residential property development and related income and profit contributions remain as the main sources of revenues for most property companies. Increasing number of companies have started to include the development of commercial, industrial and hospitality properties, as well as, logistic parks on their medium to long term strategic investment plans. Ownership and management of such properties can provide stable rental income, and help to develop new funding channels. But this business transformation needs to be based on, the evaluation of the company's core competence and resources, as it requires a higher level of all-round capabilities.

Some companies have preferred to expand their business along the value chain. Considering the cost and quality control, resource optimisation and complementing their existing business activities has resulted in some property companies to set up their own construction materials and furniture factories, and interior design and decoration companies.

Alternatively, a number of listed property companies, have stepped into other businesses in order to pursue other sources of profit, such as, mining, biotechnology, livestock and poultry cultivation, education, media and entertainment.

It is likely that, the boundary of the core and supplementary businesses will be blurred in future. Property companies need to be aware of risks related to diversification and how it can affect their operation efficiency, if they do not have strong management or maintain poor market position.

3.5 Management and Internal Control

The slow inventory turnover has resulted in the decline of operation efficiency for property companies. Related expenses and costs have been increasing significantly alongside the extended development cycle in 2011. Therefore, ways of tackling low efficiency and cost control become the most challenging issues.

Property companies are advised to implement a centralised system of procurement and financial management to reduce administrative and financial costs and maintain a reasonable level of cash and debt. They also need to monitor closely operation and financial risks by improving or upgrading their budgeting, control and evaluation systems, or even make adjustment to whole organisational structure to cope with the changing business environment.

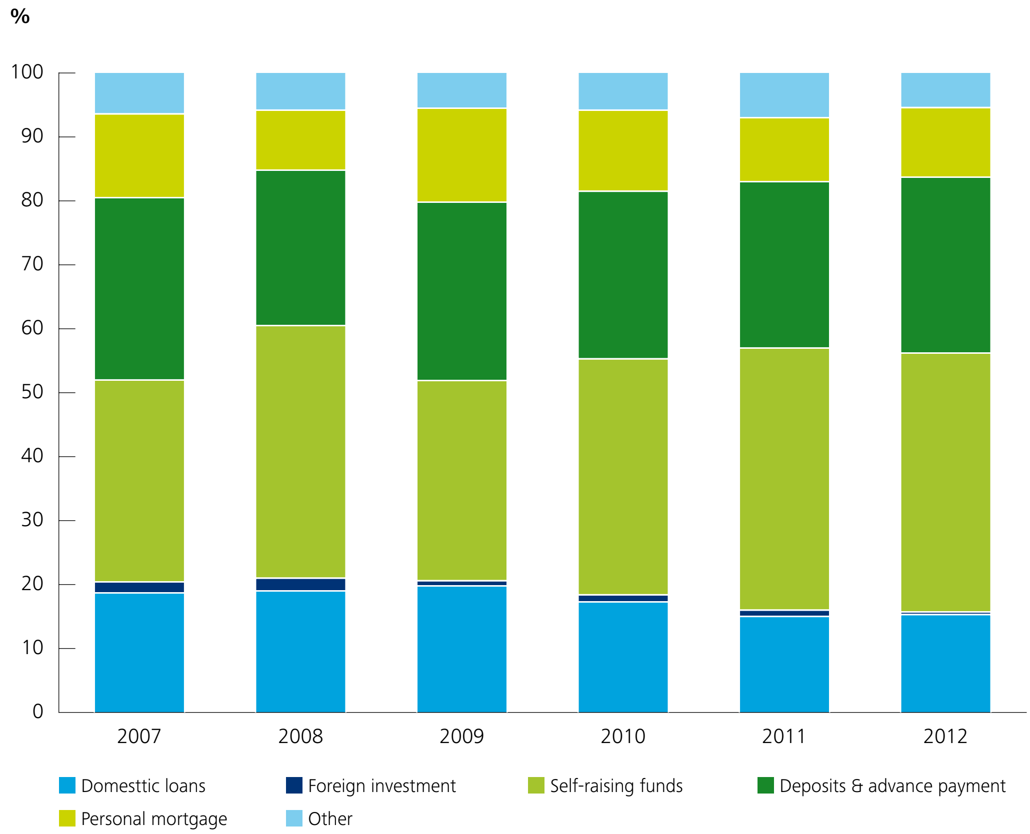
Yet, the management system cannot be rigid in terms of local market business development, especially for those operating nationwide. The ones granting more decision making autonomy to front-line subsidiaries, tend to be more responsive to local markets, have better performance and stronger competitiveness.

3.6 Financing Channel Development

In 2011, property companies in the Chinese Mainland faced the reduced availability of onshore bank borrowings following the implementation of government measures. The proportion of domestic loans and personal mortgage from financial institutions has dropped from 32 percent in 2007 to 26 percent in 2012. In 2012, 41 percent of total funds has been raised by property companies (Chart 17). Besides the RMB3,908.3 billion of self-raised funds, only 45.7 percent were actually owned by property companies, of which 2,123.1 billion was from different sources.

Currently, the majority of property companies in China, still heavily rely on bank loans to finance their business operation. Consequently, it is very important to develop good relationship with banks, in order to increase credit limits, obtaining whole package of credit support during operating cycle, lowering interest rates, shortening approval process, and allowing the off-site use of credit facilities among subsidiaries, etc. While private lending might be the only option for small developers when they have difficulties to obtain bank loans, it is strongly recommended against because interest cost is exceptionally high, and loan matures in very short time period.

Chart 17: The different sources of funds for real estate development from 2007 to 2012



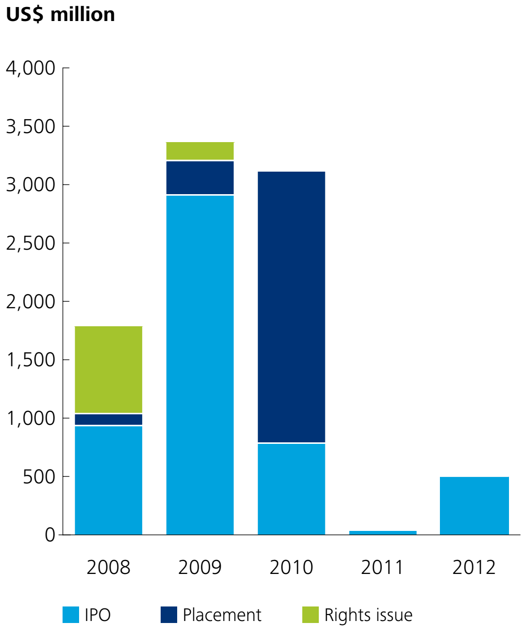
Source: National Statistics Bureau, Wind info

Almost every property company is facing different degrees of funding constraints in China, and the liquidity has got worse in 2011 due to the overall tightening monetary policy and market sentiments. Hence, it is necessary to develop diversified financing channels to improve liquidity level and lower financing costs. There are two general funding channels: debt and equity financing. In the following sections, we will discuss some key channels including share offerings, private equity fund, property trusts, corporate bond, shell company acquisition and conversion of B shares to H shares, that property companies can use as a funding resource.

3.6.1 Share offerings

Share offering is defined as "Share issues in public or in private placements", which includes Initial Public Offering (IPO) and "placement and rights issue". In 2009, share offerings in China has reached its highest level in the past five years, with a total of US$3,362 million in thirty offerings. The market sentiments for share offerings hit its lowest point in 2011, mainly because China Securities Regulatory Commission (CSRC) not granting any approval for offerings by real estate companies in Mainland China Stock Exchange (Chart 18). Since November 2012, IPO market started to warm up that there were three property companies successfully listed on the Hong Kong Stock Exchange, with a total amount of HK$45.31 billion raised.

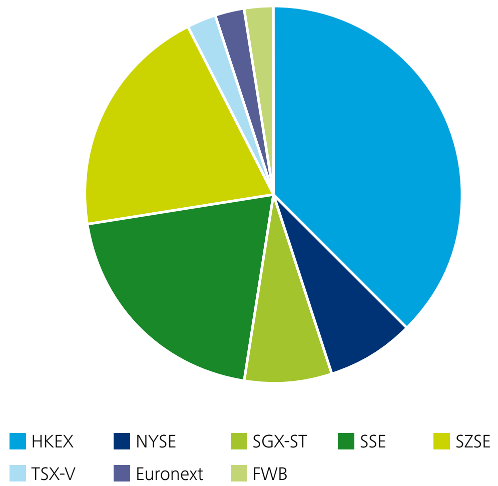
Chart 18: Share offerings proceeds of property companies from 2008 to 2012



Source: China Venture

As Hong Kong being the primary overseas location for Chinese real estate companies' share offering activities (Chart 19), all the share offerings during 2011 and 2012 have been conducted in Hong Kong. As discussed earlier, companies listed in Hong Kong have possibility to access more funding channels, such as "REIT" which has been proposed for a long time in China Mainland, but not yet introduced, and other global resources of funds which have become relatively cheap, due to global economic recession.

Chart 19: The number of share offerings by stock exchange from 2008 to 2012



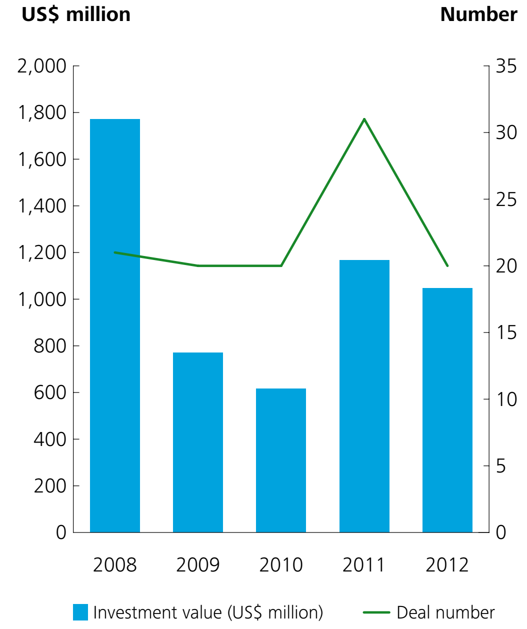
Source: China Venture

It is estimated that more Chinese property companies will opt to get listed in overseas in the next few years, to access more mature and open capital markets to finance their businesses. However, the P/E ratio of these markets is generally lower than Mainland China and if the restrictions are eased on the share offerings; property companies are likely to return to domestic markets to raise funds.

3.6.2 Private equity fund

Private equity fund is a substitute to public share offerings in China, which is well illustrated on the comparison of Chart 18 and Chart 20. According to statistics provided by China Venture, in the past two years, private equity and venture capital funds have made 51 investments in Chinese property companies with a total of US$2,214 million, when only a few companies had access to finance on the open capital markets. And investors tend to be more localised instead of international, as more and more local RMB private funds are set up in recent years.

Chart 20: Private equity and venture capital fund investment from 2008 to 2012



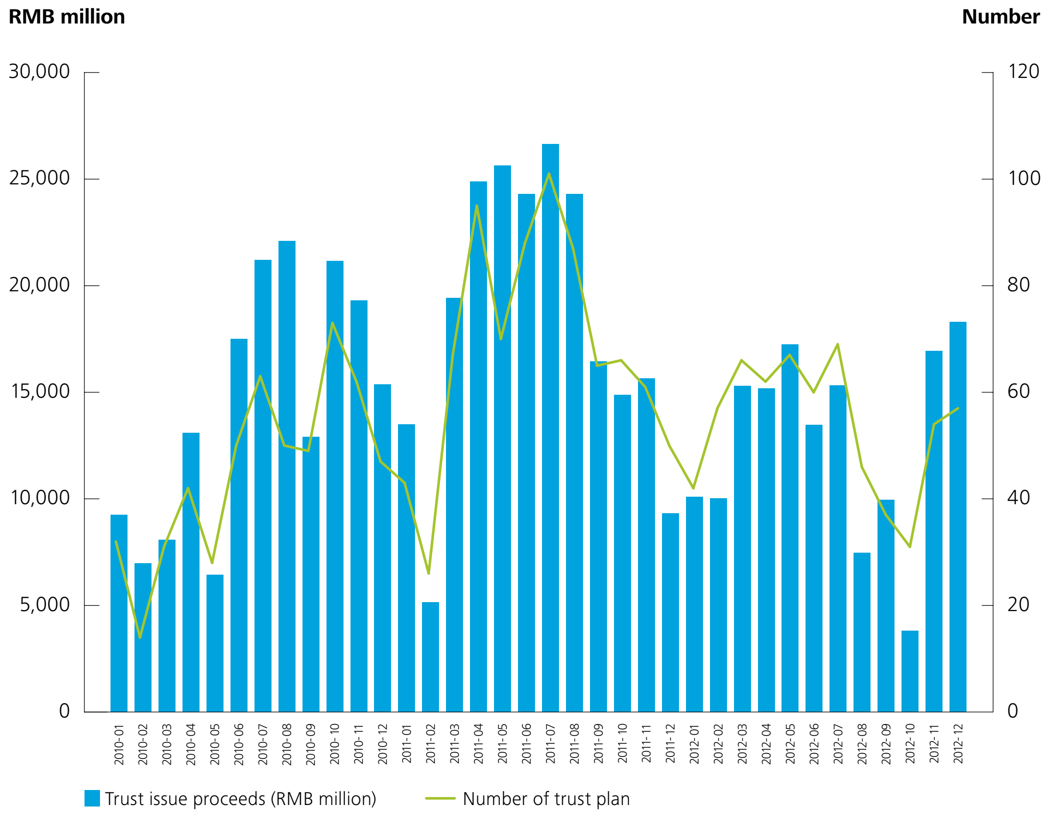
Source: China Venture

In addition, there were more than 10 large developers who have set up their own real estate funds to develop their own projects, or to invest in external profitable projects. However, questions have been raised about the independence and transparency of the fund operations, and the business model is still being refined to reach maturity. Nonetheless, real estate funds are likely to see significant growth in the future, but this requires the property companies to enhance their capabilities of developing and operating quality commercial and other non-residential properties.

3.6.3 Property trusts

According to the statistics released by Use Trust Studio, 1,003 real estate investment trusts were established in 2011, with a total value of RMB286.4 billion, representing a 44.7 percent increase from 2010, and the average yield was 10.02 percent, a 12.3 percent increase from 2010 (see Chart 21). The average cost of the trusts established in 2012 was about 10 percent per annum, considerably higher than the base rate bank loan, but certainly lower than private lending rates which can be as high as 20 percent to 30 percent per annum.

Chart 21: Real estate trusts issued from 2010 to 2012



Source: Use Trust Studio

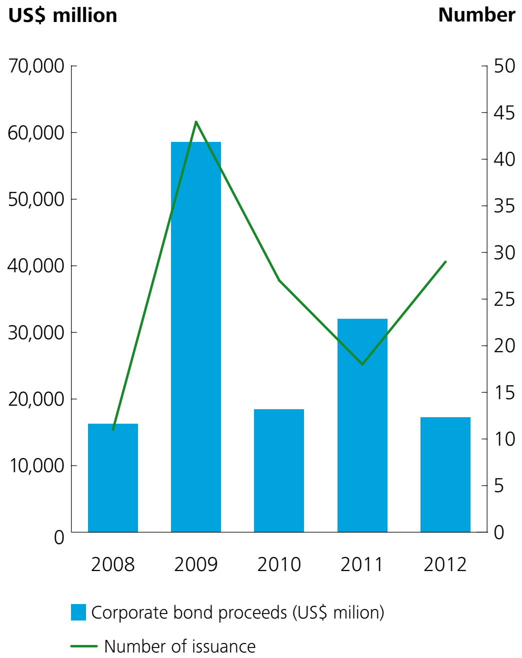
Therefore, many property companies have utilised this channel to raise funds. However, the large volume trusts established has also attracted the attention of the regulator, who has been cautious about the related risks. Since the regulators implemented measures on investment trust issues in the middle half of 2011, the scale and number of investment trusts have started to drop. There are still worries regarding the repayment of the trust plans due in 2013, a circa of RMB300 billion according to the statistics from The Trust Association. As a consequence, the regulatory regime is likely to keep firm grasp on the establishment of new trusts in the coming year.

In addition, trusts normally tend to be short termed, from one to two years. Thus, property companies want to have more stable and longer-term fund support, it is suggested to adopt other financing channels instead.

3.6.4 Corporate bond

Corporate bonds are another financing channel often utilised by companies to raise funds for its directness and transferability. According to statistics from Thomson Financial, 47 bonds were issued by Chinese real estate companies from 2011 to 2012, with US$49.275 billion having been raised (Chart 22). Into 2013, the bond market also showed increasing support to property companies' funding that 14 bonds were issued with a value circa US$4,900 million in the single month of January, already 28 percent of the total proceeds in 2012. The yield varied from 6 percent to 14 percent per annum, with consideration to the asset quality, profitability, operation, sustainability and credit record, etc. The maturity of the corporate bonds varied, ranging from several months up to 10 years.

Chart 22: Corporate bonds issuance from 2008 to 2012



Source: Thomson Financial

As the country's financial reforms progress further, the bond market is expected to undergo significant developments in the coming years. Therefore, real estate companies may consider using corporate bonds as a key financing method in the future. However, it is important to keep in mind that capital market sentiments would have immediate impacts on the possibility of successful bond issue and the cost that companies need to bear. As the credit rating by the leading rating companies is seen as the authoritative benchmark for the issuance of bonds as well as the coupon rate, real estate companies need to continuously develop all-round competitiveness.

3.6.5 Shell company acquisition

As discussed above, capital market sentiments have stayed low over the past three years, especially regarding the real estate industry. As a result, several leading companies opted to purchase shell companies listed in Hong Kong in 2012 (see Table 10). Although the asset quality and profitability of shell companies in the transaction varied significantly from one to another, those buyers all hoped to utilise the shell companies to refinance their business and/or to enter overseas markets.

Table 10: Most recent shell company acquisition deals

Date	Target company	Ultimate buyer	% of share in acquisitions	Deal value (HK$ million)
2012-04	Tonic Industries Holdings	China Merchant Property Development Co.	70.08	199
2012-05	Winsor Properties	China Vanke Co.	73.91	1,079
2012-08	Parkview Co.	COFCO Property	73.50	362
2012-09	Frasers Properties	Gemdale	56.50	1,654
2012-10	Kwang Sung Electronics	Chongqing Forbase Industrial Investment	53.75	161
2012-12	Chi Cheung Investment	China Lerthai Commercial Real Estate	61.96	561

Source: Company's public announcements

It is a normal practice to inject assets into the shell company following the acquisition, and then refund the new company via the issuance of shares, bonds, notes, etc. And it normally takes more than two years to complete asset restructuring to maximise the impacts of "Reverse Acquisition" provisions in Hong Kong. As also discussed before, Hong Kong is well placed with access to international funding sources and investors and as an international financial centre, these acquisition activities have the potential to increase the number of shell company acquisitions by mainland real estate companies.

3.6.6 Conversion of B shares to H shares

The success conversion of CIMC's B shares to H shares in December 2012 has lifted the expectations that more companies will follow its steps in the coming years. There are 13 property companies having B shares - eight are listed on Shanghai Stock Exchange and traded in US dollar, and another five are listed on Shenzhen Stock Exchange and traded in Hong Kong dollar.

The share conversion will be treated as a new listing applicant that must have a trading record of not less than three financial years and meeting one of the following three financial criteria (Table 11). According to a recent analysis by National Public Offering Group (POG) of Deloitte, 40 companies that have issued B shares are qualified for the conversion including six property companies. In addition, companies need to have a relatively concentrated shareholding structure because any proposal for converting B share into H share must be approved by all holders of A share and a 2/3 majority of holders of B share. B shares listed on Shenzhen Stock Exchange may enjoy advantages over those listed on Shanghai Stock Exchange as they are already traded in Hong Kong dollar and the relevant trading system is already in place.

Table 11: Basic requirements for listing equity securities on the Hong Kong Stock Exchange's main board

	1. Profit Test	2. Market Capitalisation/ Revenue Test	3. Market Capitalisation/ Revenue/Cash flow Test
Profit attributable to shareholders	At least HK$50 million in last 3 financial years (with profits of at least HK$20 million recorded in the most recent year, and aggregate profits of at least HK$30 million recorded in the 2 years before that)	-	-
Market capitalisation	At least HK$200 million at the time of listing	At least HK$4 billion at the time of listing	At least HK$2 billion at the time of listing
Revenue	-	At least HK$500 million for the most recent audited financial year	At least HK$500 million for the most recent audited financial year
Cash flow	-	-	Net cash flow from operating activities of at least HK$100 million in total for the three preceding financial years

Source: HKEx

The Hong Kong government is likely to support and promote B share to H share conversion for quality companies in the future, which is also in line with policy stance to strength financial cooperation between Mainland China and Hong Kong. Moreover, financial institutions, investment banks in particular, will have motivation to facilitate such conversion and the associated transactions.

In regards to the incentives, B share companies may utilise the conversion to diversify their shareholding structure and to open up overseas financing channels. Furthermore, for those A+B dual listing companies, if their B shares have been traded at deep discounts compared to their A shares, they may be more willing to undertake the conversion for possible upside valuation potentials.

4. Summary

The property market in the Chinese Mainland was facing a much tougher 2011 due to the strict regulatory environment and tightening credit measures in China. The overall story is to burst real estate bubbles in China, and there were a number of signs indicating that such a correction was underway with several-months consecutively decline in investment growth rate, and stagnate property sales and land market. Into 2012, the regulatory environment has started to see slight relaxation in the areas of monetary policy, "reasonable demands", provident fund loan, purchasing subsidies, and etc. Consequently, it seems that the property market is on the track towards recovery in terms of price and sales. However, the investment, new construction and land market remains cautious and inactive, which make it too early to be over optimistic about the markets in the coming year.

Meanwhile, the sector's profitability will experience further decline after taking into consideration high costs of land, sales and distribution, and finance. Sector consolidation is expected due to the varying performances among large and small property companies. Under this circumstance, property companies are suggested to build clear market positioning and develop a product portfolio to satisfy changing market demands, form proactive sales strategies, implement efficient management systems and actively improve financing capabilities, in order to survive and outperform.

Appendix: Research methodology

We sampled 168 property companies listed in Hong Kong, Shanghai and Shenzhen for our research. The collection of research data for this study was carried out by making use of the primary financial data, conducting in-depth interviews and desk-top research.

Sampling

Sample companies for 2011 must:

1. be currently list on the three stock markets below:

- Hong Kong Stock Exchange
- Shanghai Stock Exchange
- Shenzhen Stock Exchange

and;

2. have 50% or more revenues earned by property development and investment properties

or;

3. own 50% or more of assets in properties held by or used for the development or investment purposes

and;

4. have real estate business mainly focused in mainland China

A total of 168 companies met the conditions stated above.

Stock exchange	Number of companies
Hong Kong	64
Shanghai	54
Shenzhen	50

Data collection

Financial data for the sampled companies was collected from the latest audited annual report downloaded from the Hong Kong, Shanghai and Shenzhen Stock Exchanges' websites during the period from 19 April 2012 to 22 May 2012. Most companies have their 2011 financial year end on 31 December 2011, except for a number of Hong Kong listed companies (see below table for details).

Financial year end date	Number of companies
31 December 2011	Hong Kong: 58 Shanghai: 54 Shenzhen: 50
30 June 2011	Hong Kong: 1
31 March 2011	Hong Kong: 7

Property market data collected in this report are from the National Statistics Bureau and other public information.

Financial ratios

We calculated seven key financial ratios / values for the analysis in the report, which include:

1. Net profit margin
2. Current ratio
3. Quick ratio
4. Return on equity ratio
5. Debt-to-equity ratio
6. Revenue
7. Capitalisation

The definitions of these financial ratios / values are explained in the below table:

Financial ratios/ values	Definition/Explanation
Net profit margin	Formula: $\frac{\text{Net profit (loss)}}{\text{Revenue}} \times 100\%$
Current ratio	Formula: $\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio	Formula: $\frac{\text{Current assets} - \text{Properties under construction} - \text{Properties held for sale} - \text{Properties held for development} - \text{Other inventories}}{\text{Current liabilities}}$
Return on equity ratio	Formula: $\frac{\text{Net profit (loss)}}{\text{Equity}}$
Debt-to-equity ratio	Formula: $\frac{\text{Debt}}{\text{Equity}}$ Debt refers any form of interest-bearing liabilities including bank loans, bonds, notes, etc.
Revenue	Data source: Revenues stated in the consolidated income statements FX Rate: RMB : HK$ = 1:1.23
Capitalisation	Data source: **Hong Kong listed companies** Total capitalisation on 31 March 2012 obtained from Emerging Market Intelligence Services (EMIS) **Shanghai and Shenzhen listed companies** The closing share price on 31 March 2012 (obtained from Google) multiplied by the registered number of shares on the same day

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In Hong Kong, we audit approximately 30 percent of the property developers and construction companies listed on the Main Board of The Stock Exchange of Hong Kong Limited, and three out of nine property companies included in the Hang Seng Index. We acted as the reporting accountants for the first REIT of properties located in Hong Kong, which was successfully listed in Hong Kong and Singapore. We also acted as the reporting accountants and tax advisors for the first RMB REIT listed in Hong Kong. We assisted the first Chinese property online information service provider to list on the US NASDAQ.

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