

Notes to the Condensed Consolidated Interim Financial Statements

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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 Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

To prepare for the listing of the Company's shares on the Main Board of the Stock Exchange, the Group has undertaken a group reorganisation (the "Reorganisation"). Pursuant to the Reorganisation, which was completed on 26 January 2006, the Company acquired the entire interests in Shimao Property Holdings (BVI) Limited ("SPHL(BVI)") by issuing shares to their common shareholder and became the holding company of the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 22 June 2006.

The Company's shares were listed on the Stock Exchange on 5 July 2006.

The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the condensed consolidated interim financial statements have been prepared as if the Company had been the holding company of the subsidiaries comprising the Group throughout the six months ended 30 June 2006, rather than from the date on which the Reorganisation was completed. The comparative figures as at 31 December 2005 and for the six months ended 30 June 2005 have been presented on the same basis.

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2006 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated interim financial statements should be read in conjunction with the accountants' report (the "Accountants' Report") set out in Appendix I to the prospectus of the Company dated 22 June 2006.

These condensed consolidated financial statements were approved by the Board on 31 August 2006.

2. ACCOUNTING POLICIES

The accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those used for and described in the Accountants' Report.

Certain new accounting and financial reporting standards, amendments to existing standards and interpretations have been published that are effective for the financial year ending 31 December 2006. Those that are relevant to the Group's operations are as follows:

- Amendments to HKAS 39 and Hong Kong Financial Reporting Standards ("HKFRS") 4, "Financial Guarantee Contracts". The Group regards its financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers and financial guarantee contracts provided to its related parties as insurance contracts, and the Group has made the assertion prior to the implementation of the amendments. Consequently the Group concluded that the amendments would not have any significant impact on the Group's operations.

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2. ACCOUNTING POLICIES (CONTINUED)

- Hong Kong (IFRIC) — Interpretations (“HK(IFRIC)-Int”) 4 “Determining whether an Arrangement contains a Lease”. The Group has reviewed its contracts. This interpretation does not have any impact on classification of the leases of the Group and on the expenses recognised in respect of them.

Other new accounting and financial reporting standards, amendments to existing standards and interpretations which have been published and effective for the financial year ending 31 December 2006 as set out below are currently not relevant to the Group’s operations:

- Amendment to HKAS 19, “Actuarial Gains and Losses, Group Plans and Disclosures”
- Amendment to HKAS 39, “The Fair Value Option”
- Amendment to HKAS 21, “Net Investment in a Foreign Operation”
- Amendment to HKAS 39, “Cash Flow Hedge Accounting of Forecast Intragroup Transactions”
- HKFRS 6 “Exploration for and Evaluation of Mineral Resources”
- HK(IFRIC)-Int 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”
- HK(IFRIC)-Int 6 “Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment”.

The Group has not early adopted any new accounting and financial reporting standards, amendments to existing standards and interpretations which have been issued but are not yet effective for the financial year ending 31 December 2006.

3. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the property development, property investment and hotel operation. The property and hotel projects undertaken by the Group are all located in the PRC. As less than 10% of the Group’s consolidated turnover and results are attributable to the market outside the PRC and less than 10% of the Group’s consolidated assets are located outside the PRC, no geographical segment information is presented.

(a) Turnover for the six months ended 30 June 2006 consists of the following:

	Six months ended 30 June	
	2006	2005
	RMB’000	RMB’000
Sale of properties	2,144,120	167,043
Hotel operating income	31,640	—
Rental income from an investment property	15,708	14,496
	2,191,468	181,539

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3. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information is as follows:

Primary reporting format — business segment

The segment results for the six months ended 30 June 2006 are as follows:

	Property development RMB'000	Hotel RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Segment turnover	2,144,120	31,640	15,708	—	2,191,468
Segment results	562,967	(16,768)	416,550	(39,079)	923,670
Finance costs	(3,788)	(243)	(4)	(4,237)	(8,272)
Share of results of					
— Associated companies	(3,260)	—	—	—	(3,260)
— Jointly controlled entity	—	—	—	(12)	(12)
Profit/(loss) before income tax	555,919	(17,011)	416,546	(43,328)	912,126
Income tax expense					(208,514)
Profit for the period					703,612
Other segment items are as follows:					
Capital and property development expenditure	2,025,086	358,045	47,734	1,790	2,432,655
Depreciation	3,770	14,189	167	675	18,801
Amortisation of land use rights as expenses	692	536	—	—	1,228
Fair value gains on an investment property	—	—	407,000	—	407,000
Impairment of goodwill	62,000	—	—	—	62,000

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3. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information is as follows: (continued)

Primary reporting format — business segment (continued)

The segment results for the six months ended 30 June 2005 are as follows:

	Property development RMB'000	Hotel RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Segment turnover	167,043	—	14,496	—	181,539
Segment results	4,472	(8,122)	501,921	(38,817)	459,454
Finance costs	(1,206)	(10)	—	(6,487)	(7,703)
Share of results of — Associated companies	19,269	—	—	—	19,269
Profit/(loss) before income tax	22,535	(8,132)	501,921	(45,304)	471,020
Income tax expense					(159,711)
Profit for the period					311,309
Other segment items are as follows:					
Capital and property development expenditure	778,896	428,022	48,355	1,195	1,256,468
Depreciation	2,633	163	140	328	3,264
Amortisation of land use rights as expenses	79	—	—	—	79
Fair value gains on an investment property	—	—	464,139	—	464,139
Bad debt recovered	—	—	25,000	—	25,000

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3. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information is as follows: (continued)

Primary reporting format — business segment (continued)

The segment assets and liabilities as at 30 June 2006 are as follows:

	Property development RMB'000	Hotel RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	9,399,705	4,798,624	3,063,340	296,575	17,558,244
Associated companies	146,960	—	—	—	146,960
Jointly controlled entity	—	—	—	488	488
	9,546,665	4,798,624	3,063,340	297,063	17,705,692
Deferred income tax assets					154,952
					17,860,644
Segment liabilities	9,051,122	1,473,716	285,497	194,600	11,004,935
Deferred income tax liabilities					1,095,309
					12,100,244

The segment assets and liabilities as at 31 December 2005 are as follows:

	Property development RMB'000	Hotel RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	8,552,881	4,160,709	2,438,283	185,906	15,337,779
Associated companies	150,220	—	—	—	150,220
Jointly controlled entity	—	—	—	500	500
	8,703,101	4,160,709	2,438,283	186,406	15,488,499
Deferred income tax assets					76,484
					15,564,983
Segment liabilities	9,351,518	1,253,744	34,246	1,447,275	12,086,783
Deferred income tax liabilities					967,982
					13,054,765

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3. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

(b) Segment information is as follows: (continued)

Primary reporting format — business segment (continued)

Unallocated costs mainly represent corporate expenses.

Segment assets consist primarily of property, plant and equipment, investment properties, land use rights, properties under development, receivables and cash balances. They also include goodwill recognised arising from acquisition of subsidiaries or minority interests relating to respective segments. They exclude deferred income tax assets.

Segment liabilities comprise operating liabilities. They exclude corporate borrowings and deferred income tax liabilities.

4. CAPITAL EXPENDITURE

	Property, plant and equipment	Land use rights	Investment property	Intangible assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Opening net book amount as at 1 January 2006	3,254,452	3,996,532	1,883,000	607,291	9,741,275
Additions	688,885	538,889	—	—	1,227,774
Land use right amortisation capitalised to property, plant and equipment	18,517	(18,517)	—	—	—
Land use right amortisation capitalised to property under development	—	(20,313)	—	—	(20,313)
Transfer to cost of sales	—	(340,504)	—	—	(340,504)
Fair value gains	—	—	407,000	—	407,000
Impairment	—	—	—	(62,000)	(62,000)
Depreciation/amortisation charged to the income statement (<i>Note 18</i>)	(18,801)	(1,228)	—	—	(20,029)
Closing net book amount as at 30 June 2006	3,943,053	4,154,859	2,290,000	545,291	10,933,203
Representing:					
Non-current		1,452,482			
Current		2,702,377			
		4,154,859			

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4. CAPITAL EXPENDITURE (CONTINUED)

	Property, plant and equipment RMB'000	Land use rights RMB'000	Investment property RMB'000	Intangible assets RMB'000	Total RMB'000
Opening net book amount as at 1 January 2005	2,007,526	4,216,413	969,861	181,743	7,375,543
Additions	463,485	77,474	—	—	540,959
Land use right amortisation capitalised to property, plant and equipment	17,391	(17,391)	—	—	—
Land use right amortisation capitalised to property under development	—	(18,349)	—	—	(18,349)
Transfer to cost of sales	—	(11,453)	—	—	(11,453)
Fair value gains	—	—	464,139	—	464,139
Disposals	(665)	—	—	—	(665)
Acquisition of a subsidiary	—	—	—	1,556	1,556
Acquisition of additional interests in subsidiaries	—	—	—	923	923
Depreciation/amortisation charged to the income statement (Note 18)	(3,264)	(79)	—	—	(3,343)
Closing net book amount as at 30 June 2005	2,484,473	4,246,615	1,434,000	184,222	8,349,310
Additions	767,735	169,065	10,500	—	947,300
Land use right amortisation capitalised to property, plant and equipment	16,632	(16,632)	—	—	—
Land use right amortisation capitalised to property under development	—	(18,341)	—	—	(18,341)
Transfer to cost of sales	—	(383,219)	—	—	(383,219)
Fair value gains	—	—	438,500	—	438,500
Disposals	(8,756)	(727)	—	—	(9,483)
Acquisition of a subsidiary	381	—	—	412,765	413,146
Acquisition of additional interests in subsidiaries	—	—	—	10,304	10,304
Depreciation/amortisation charged to the income statement	(6,013)	(229)	—	—	(6,242)
Closing net book amount as at 31 December 2005	3,254,452	3,996,532	1,883,000	607,291	9,741,275
Representing:					
Non-current		1,695,939			
Current		<u>2,300,593</u>			
		<u>3,996,532</u>			

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4. CAPITAL EXPENDITURE (CONTINUED)

Except for investment property which is carried at fair value, all the above are stated at historical cost less depreciation/amortisation and impairment losses. The investment property was revalued on an open market value and existing use basis as at 30 June 2006, 30 June 2005 and 31 December 2005 by DTZ Debenham Tie Leung Limited, an independent professional qualified valuer.

As at 30 June 2006, the property, plant and equipment amounting to RMB3,442,421,000 (2005: RMB2,196,351,000) and land use rights amounting to RMB2,707,249,000 (2005: RMB1,813,330,000) had been pledged as collateral for the Group's borrowings (Note 14). As at 30 June 2006, the investment property had also been pledged for the Group's borrowings (Note 14).

Intangible assets comprise goodwill from acquisitions.

5. OTHER NON-CURRENT ASSETS

As at 30 June 2006, the Group had made prepayments of RMB585,284,000 (2005: RMB577,087,000) for certain land use rights, the ownership certificates of which have not been obtained. The amounts are included in other non-current assets.

6. PROPERTIES UNDER DEVELOPMENT/COMPLETED PROPERTIES HELD FOR SALE

	30 June 2006 RMB'000	31 December 2005 RMB'000
Properties under development comprises:		
Construction costs and capitalised expenditures	3,763,855	3,281,949
Interest capitalised	132,045	121,596
	3,895,900	3,403,545

As at 30 June 2006, properties under development of approximately RMB1,604,962,000 (2005: RMB648,738,000) have been pledged as collateral for the Group's borrowings (Note 14).

As at 30 June 2006, completed properties held for sale of approximately RMB142,780,000 (2005: RMB33,538,000) have also been pledged as collateral for the Group's borrowings (Note 14).

7. ASSOCIATED COMPANIES

	Six months ended 30 June		From 1 July 2005 to 31 December 2005
	2006 RMB'000	2005 RMB'000	2005 RMB'000
Balance at beginning of the period	150,220	91,035	151,748
Capital injection	—	41,444	—
Share of results			
— (Loss)/profit before income tax	(4,865)	28,759	367
— Income tax credit/(charge)	1,605	(9,490)	(1,895)
Balance at end of the period	146,960	151,748	150,220

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8. JOINTLY CONTROLLED ENTITY

The jointly controlled entity represents the Group's 50% interests in Shanghai Shimao Savills Property Management Co., Ltd. ("Shimao First Pacific"), a property management company established in Shanghai, the PRC, on 16 September 2005, with a registered capital of RMB1,000,000.

9. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2006 RMB'000	31 December 2005 RMB'000
Trade receivables (<i>Note</i>)	3,049	3,046
Deposits for resettlement costs	103,450	146,650
Other receivables	54,268	27,253
Prepayments for construction costs	101,402	103,056
Prepaid business tax and land appreciation tax on pre-sale proceeds	184,902	202,570
	447,071	482,575

Note: Trade receivables mainly arise from sales of properties. Consideration in respect of properties sold are paid in accordance with the terms of the related sales and purchase agreements. All trade receivables at each of the balance sheet dates were aged less than one year.

10. AMOUNTS DUE FROM/TO RELATED COMPANIES

	30 June 2006 RMB'000	31 December 2005 RMB'000
Amounts due from related companies:		
Jointly controlled entity — Shimao First Pacific	—	111
Amounts due to related companies:		
Holding company — Gemfair	—	1,234,760
Associated companies		
— Nanjing Shimao Real Estate Development Co.,Ltd.	—	22,093
— Fuzhou Shimao Investment Development Co.,Ltd.	—	10,112
	—	1,266,965

The balances as at 31 December 2005 were all non-trade in nature, unsecured, interest-free and have been settled by 30 June 2006. Included in amount due to Gemfair, HK\$880,000,000 (equivalent to RMB914,671,000) had been settled by issuing shares of the Company to Gemfair on 26 January 2006 (Notes 12(iii) and 13).

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11. CASH AND CASH EQUIVALENTS

	30 June 2006 RMB'000	31 December 2005 RMB'000
Bank balances and cash	1,267,039	733,809
Less: Restricted cash	(59,316)	(29,129)
	1,207,723	704,680

As at 30 June 2006, the Group's cash of approximately RMB59,316,000 (2005: RMB29,129,000) was restricted and deposited in certain banks as guarantee deposits for the benefit of mortgage loan facilities granted by the banks to the purchasers of the Group's properties.

The conversion of Renminbi 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.

12. SHARE CAPITAL

		Par value HK\$	Number of shares '000	Nominal value of ordinary shares	
				HK\$'000	RMB'000
Authorised:					
At 1 January 2005, 30 June 2005 and 31 December 2005	(i)	0.1	3,800	380	
Increase in share capital on 26 January 2006	(i)	0.1	2,996,200	299,620	
Increase in share capital on 30 March 2006	(i)	0.1	2,000,000	200,000	
At 30 June 2006			5,000,000	500,000	
Issued and fully paid:					
At 1 January 2005, 30 June 2005 and 31 December 2005	(i)	0.1	—	—	—
Issue of shares for the Reorganisation	(ii)	0.1	1,787,440	178,744	185,787
Issue of shares for settlement of debts	(iii)	0.1	212,560	21,256	22,093
Issue of shares to financial investors	(iv)	0.1	380,495	38,050	39,429
At 30 June 2006			2,380,495	238,050	247,309

Notes:

- (i) The Company was incorporated on 29 October 2004 with an authorised share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.1 each, with 1 share issued at HK\$0.1 to Gemfair, which is the holding company of the Company. Pursuant to special resolutions passed on 26 January 2006 and 30 March 2006, the authorised share capital of the Company was increased to 3,000,000,000 shares of HK\$0.1 each and 5,000,000,000 shares of HK\$0.1 each respectively.

Notes to the Condensed Consolidated Interim Financial Statements

12. SHARE CAPITAL (CONTINUED)

Notes: (continued)

- (ii) Pursuant to an agreement entered into between Gemfair and the Company on 26 January 2006, the Company issued 1,787,439,612 ordinary shares, credited as fully paid up, to Gemfair, in consideration for the acquisition of the entire share capital of SPHL(BVI).
- (iii) On 26 January 2006, two novation agreements were entered by the Company and Gemfair with Peak Castle Assets Limited ("Peak Castle") and SPHL(BVI) respectively, in which the Company agreed to assume the debts of Peak Castle and SPHL(BVI) owing to Gemfair, totalling HK\$880,000,000 (equivalent to RMB914,671,000). The Company repaid the debt by issuing total of 212,560,387 ordinary issues to Gemfair.
- (iv) Pursuant to agreements entered by the Company with third party financial investors, an aggregate of 380,494,664 ordinary shares of the Company, representing about 16% of the enlarged capital of the Company, were subscribed by these investors at a total consideration of approximately HK\$1,575,300,000 (equivalent to RMB1,632,351,000). These subscriptions were fully settled by 7 March 2006.
- (v) On 5 July 2006, the Company issued 595,124,000 ordinary shares of HK\$0.1 each at HK\$6.25 per share in connection with the listing, and raised gross proceeds of approximately HK\$3,719,525,000. In addition, on 12 July 2006, pursuant to the exercise of the over-allotment option of the listing, additional 89,268,500 ordinary shares of HK\$0.1 each were issued at HK\$6.25 per share and gross proceeds of HK\$557,928,000 were raised.

Pre-IPO share options

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

As at 30 June 2006, 63,920,000 outstanding options were not exercisable as they have not yet been vested. These options with an exercise price of HK\$5.625 per share upon vesting will be expired on 8 June 2012.

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13. RESERVES

	Merger reserve	Share premium	Share based compensation reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(Note (i))</i>		<i>(Note (ii))</i>		
Balance at 1 January 2006	—	—	—	2,510,218	2,510,218
Profit for the period attributable to the equity holders of the Company	—	—	—	703,612	703,612
Issue of shares for the Reorganisation <i>(Note 12(ii))</i>	(185,787)	—	—	—	(185,787)
Issue of shares for settlement of debts <i>(Note 12(iii))</i>	—	892,578	—	—	892,578
Issue of shares to financial investors <i>(Note 12(iv))</i>	—	1,592,922	—	—	1,592,922
Share issuing expenses	—	(4,062)	—	—	(4,062)
Employee share option scheme — value of employee services	—	—	3,610	—	3,610
Balance at 30 June 2006	(185,787)	2,481,438	3,610	3,213,830	5,513,091
Balance at 1 January 2005	—	—	—	1,914,315	1,914,315
Profit for the period attributable to the equity holders of the Company	—	—	—	305,813	305,813
Balance at 30 June 2005	—	—	—	2,220,128	2,220,128
Profit for the period attributable to the equity holders of the Company	—	—	—	602,180	602,180
Dividends	—	—	—	(312,090)	(312,090)
Balance at 31 December 2005	—	—	—	2,510,218	2,510,218

Notes:

- (i) Merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiary purchased pursuant to the Reorganisation over the nominal value of the shares of the Company issued in exchange as set out in Note 1.
- (ii) Share based compensation reserve represents value of employee services in respect of share options granted under the Pre-IPO Share Option Scheme (Note 12).
- (iii) According to the Articles of Association of the respective subsidiaries established in the PRC, which are foreign investment enterprises, the subsidiaries shall set aside certain percentage of their net income after offsetting accumulated losses from prior years as reported in their statutory accounts for the reserve fund, enterprise expansion fund and staff bonus and welfare fund. The reserve fund and enterprise expansion fund form part of the shareholders' funds. The staff bonus and welfare fund will be accounted for as liabilities. There has not been any appropriation to such funds in previous years or during the period. The appropriation to such funds is at the discretion of the board of directors of the respective subsidiaries.

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14. BORROWINGS

	30 June 2006 RMB'000	31 December 2005 RMB'000
Borrowings included in non-current liabilities		
Long-term bank borrowings — secured	3,173,390	2,462,698
Less: Amounts due within one year	(390,363)	(549,294)
	2,783,027	1,913,404
Borrowings included in current liabilities		
Short-term bank borrowings — secured	160,000	175,000
Current portion of long-term bank borrowings	390,363	549,294
	550,363	724,294

Movement of bank borrowings is analysed as follows:

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Opening balance at 1 January	2,637,698	1,825,981
Additions of borrowings	966,192	621,890
Repayments of borrowings	(270,500)	(839,000)
Closing balance at 30 June	3,333,390	1,608,871

As at 30 June 2006, all of the Group's borrowings were secured by property, plant and equipment, investment property, land use rights (Note 4), properties under development and completed properties held for sale (Note 6).

15. 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 are as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Deferred income tax assets	154,952	76,484
Deferred income tax liabilities	(1,095,309)	(967,982)
	(940,357)	(891,498)

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15. DEFERRED INCOME TAX (CONTINUED)

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

	Assets/(liabilities)				
	Temporary differences on recognition of sales and related cost of sales	Temporary differences on recognition of expenses	Fair value gains on investment properties	Fair value adjustments on assets and liabilities upon acquisitions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2006	211,732	48,051	(324,800)	(826,481)	(891,498)
Credited/(charged) to the income statement	4,465	31,342	(134,309)	49,643	(48,859)
Balance at 30 June 2006	216,197	79,393	(459,109)	(776,838)	(940,357)
Balance at 1 January 2005	182,523	9,229	(26,929)	(879,002)	(714,179)
Credited/(charged) to the income statement	3,251	4,422	(153,165)	7,352	(138,140)
Balance at 30 June 2005	185,774	13,651	(180,094)	(871,650)	(852,319)
Acquisition of a subsidiary	—	2,025	—	—	2,025
Credited/(charged) to the income statement	25,958	32,375	(144,706)	45,169	(41,204)
Balance at 31 December 2005	211,732	48,051	(324,800)	(826,481)	(891,498)

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16. TRADE AND OTHER PAYABLES

	30 June 2006 RMB'000	31 December 2005 RMB'000
Trade payables (<i>Note (a)</i>)	2,779,727	2,697,337
Other payables (<i>Note (b)</i>)	1,077,965	1,127,609
Accrued expenses	24,382	29,343
Other taxes payable	80,024	89,429
	3,962,098	3,943,718

Notes:

(a) The ageing analysis of trade payables is as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Within 90 days	2,213,916	2,238,690
Over 90 days and within 180 days	565,811	458,647
	2,779,727	2,697,337

(b) Other payables comprise:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Deposits and advances from constructors	7,991	20,338
Acquisition consideration payable	—	87,000
Excess proceeds received from customers	16,468	12,579
Provisions for land appreciation tax	1,032,484	996,122
Miscellaneous	21,022	11,570
	1,077,965	1,127,609

17. OTHER GAINS

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Government grants received (<i>Note (i)</i>)	3,500	3,201
Income tax refund on reinvestment (<i>Note (ii)</i>)	3,767	—
Temporary rental and advertising income	1,872	3,110
Interest income	11,505	4,184
Net exchange gain	3,541	946
Bad debt recovered	—	25,000
Compensation from a third party for violation of contracts (<i>Note (iii)</i>)	10,219	—
Miscellaneous	909	246
	35,313	36,687

Notes to the Condensed Consolidated Interim Financial Statements

17. OTHER GAINS (CONTINUED)

Notes:

- (i) RMB3,500,000 (2005: RMB3,201,000) received during the period represents the subsidy from city of Harbin to encourage enterprise's development in local area.
- (ii) According to the tax regulations of the PRC, income tax refund on reinvestments is available to foreign investors when they reinvest their profit from invested entities in the PRC to the same or other invested entities in the PRC, instead of remitting outside the PRC. The amounts represented the income tax refund received by the Group for its reinvestment of profit from a PRC incorporated subsidiary into its other PRC incorporated subsidiaries.
- (iii) Pursuant to a final court verdict on 13 January 2006, a third party is ordered to compensate the Group for its violation of selling contracts relating to a piece of land. The compensation was received in May 2006.

18. EXPENSES BY NATURE

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

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Staff costs — including directors' emoluments (<i>Note (a)</i>)	79,775	35,299
Depreciation	18,801	3,264
Amortisation of land use rights	1,228	79
Advertising, promotion and commission costs	47,341	22,206
Cost of properties sold	1,270,182	82,858
Business taxes and other levies on sales of properties (<i>Note (b)</i>)	107,765	8,430
Land appreciation tax incurred, net of the related accruals already made upon acquisition of subsidiaries (<i>Note (c)</i>)	29,767	21,672
Impairment of goodwill	62,000	—
Direct outgoings arising from investment properties	1,648	1,590

Notes:

(a) Directors' emoluments included in staff costs are as follows:

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Fees	4,296	—
Emoluments		
Salaries and other short term benefits	3,041	—
Retirement scheme contributions	25	—
Share options granted	600	—
	7,962	—

(b) Business tax

The PRC companies of the Group are subject to business taxes of 5% and other levies on their revenues from sale of properties.

Notes to the Condensed Consolidated Interim Financial Statements

18. EXPENSES BY NATURE (CONTINUED)**(c) 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 amortisation of land use rights, borrowing costs, business taxes and all property development expenditures. The tax is incurred upon transfer of property ownership.

Upon acquisition of subsidiaries which are engaged in property development, an accrual for land appreciation tax is made based on the fair value of the properties being developed by the subsidiaries for sale before arriving at the goodwill/negative goodwill on the acquisition.

19. FINANCE COSTS

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Interest on bank borrowings		
— wholly repayable within five years	74,458	39,402
— not wholly repayable within five years	20,972	6,028
Interest on borrowing from a related company	—	3,939
	95,430	49,369
Less: Interest capitalised	(87,158)	(41,666)
	8,272	7,703

20. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profits in Hong Kong.

PRC enterprise income tax is provided for at 33% (2005: 33%) of the profits for the PRC statutory financial purpose, adjusted for those items, which are not assessable or deductible for the PRC enterprise income tax purpose. Two subsidiaries and a jointly controlled entity established in the Shanghai Pudong New Area of the PRC are entitled to a preferential rate of 15% (2005: 15%). In addition, another two subsidiaries established in other areas enjoyed preferential tax rates of 27% and 30% respectively (2005: 27% and 30% respectively).

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
PRC enterprise income tax		
— Current income tax	159,655	21,571
— Deferred income tax	48,859	138,140
	208,514	159,711

Notes to the Condensed Consolidated Interim Financial Statements

21. DIVIDENDS

At a meeting held on 31 August 2006, the Board did not recommend the payment of any interim dividend for the six months ended 30 June 2006 (2005: Nil).

On 31 December 2005, a dividend of HK\$300,000,000 (equivalent to RMB312,090,000) per share was declared by SPHL(BVI). The amount was included in amounts due to Gemfair, a related company, as at 31 December 2005.

22. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the period. In determining the weighted average number of ordinary shares in issue, a total of 1,787,439,612 ordinary shares issued for the Reorganisation were deemed to have been issued since 1 January 2005.

	Six months ended 30 June	
	2006	2005
Profit attributable to the equity holders of the Company (RMB'000)	703,612	305,813
Weighted average number of ordinary shares in issue (thousands)	2,276,841	1,787,440
Basic earnings per share (RMB cents)	30.9	17.1

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the share options granted under the Pre-IPO Share Option Scheme (*Note 12*) assuming they were exercised.

	Six months ended 30 June 2006
Profit attributable to the equity holders of the Company (RMB'000)	703,612
Weighted average number of ordinary shares in issue (thousands)	2,276,841
Adjustment for share options granted under the Pre-IPO Share Option Scheme (thousands)	777
Weighted average number of ordinary shares for diluted earnings per share (thousands)	2,277,618
Diluted earnings per share (RMB cents)	30.9

No disclosure of diluted earnings per share for the six months ended 30 June 2005 has been made as there was no potential dilutive ordinary share outstanding during that period.

Notes to the Condensed Consolidated Interim Financial Statements

23. CONTINGENCIES

The Group had the following contingent liabilities as at 30 June 2006:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Guarantees in respect of mortgage facilities for certain purchasers	1,978,501	1,450,222

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 take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the Group obtained the "property title certificate" for the mortgagees, or when the Group obtained the "master property title certificate" upon completion of construction.

The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

24. COMMITMENTS**(a) Commitments for capital and property development expenditure**

	30 June 2006 RMB'000	31 December 2005 RMB'000
Contracted but not provided for		
— Property, plant and equipment	636,385	346,884
— Investment properties	35,288	170,917
— Land use rights	5,543,891	4,095,111
— Properties being developed by the Group for sale	2,556,072	2,272,983
	8,771,636	6,885,895

(b) Operating lease commitments

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

	30 June 2006 RMB'000	31 December 2005 RMB'000
Within one year	14,519	12,530
Between two to five years	11,192	13,039
	25,711	25,569

Notes to the Condensed Consolidated Interim Financial Statements

24. COMMITMENTS (CONTINUED)

(c) Operating lease rentals receivable

The future aggregate minimum lease rentals receivable under non-cancellable operating leases in respect of land and buildings are as follows:

	30 June 2006 RMB'000	31 December 2005 RMB'000
Within one year	48,836	27,672
Between two to five years	280,000	280,000
After five years	939,167	974,167
	1,268,003	1,281,839

25. RELATED PARTY TRANSACTIONS

(a) Other than those disclosed in Notes 10 and 12, the Group had entered into the following major related party transactions during the period:

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Interest on amount due to a related company (<i>Note (i)</i>)	—	4,543
Office rental (<i>Note (ii)</i>)	126	—
	126	4,543

Notes:

- (i) The interest for the six months ended 30 June 2005 was related to balance due to a related party which was interest bearing at rates ranging from 5.04% to 5.31% per annum. The balance was repaid by 31 December 2005.
- (ii) On 12 June 2006, the Group entered into a lease agreement with a wholly-owned subsidiary of Shimao International, a company listed on the Stock Exchange and certain directors of the Company are also its directors, to lease part of office premises owned by Shimao International in Hong Kong. During the six months ended 30 June 2005, the Group had been using the office premises at nil consideration.
- (iii) During the six months ended 30 June 2005, certain staff of the Group had rendered project management and administrative services to a wholly-owned subsidiary of Shimao International, at nil consideration. The transaction discontinued after May 2005.
- (iv) On 12 June 2006, the Group entered into a trademark framework agreement with Shanghai Shimao Enterprises Development Co., Ltd., Shanghai Shimao Co., Ltd., Shimao International and Mr. Hui Wing Mau, Chairman of the Company, to use the "Shimao" trademarks and devices. Pursuant to the agreement, the Group agrees to grant non-exclusive licenses to these related companies at an annual royalty fee of HK\$300,000 per project from 5 July 2006 to 31 December 2008. For the six months ended 30 June 2005 and 2006, the Group provided the trademark of "Shimao" to certain related companies at nil consideration.
- (v) A subsidiary of the Group had provided Shanghai Mason Club Co., Ltd., which certain directors of the Company are also its directors, with the right to operate one of its clubhouses at a consideration based upon certain percentage of net profit of the clubhouse when it has achieved an accumulated net profit. During the six months ended 30 June 2005 and 2006, the clubhouse was loss making and therefore no consideration had been charged.

Notes to the Condensed Consolidated Interim Financial Statements

25. RELATED PARTY TRANSACTIONS (CONTINUED)**(b) Key management compensation**

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Fees	4,025	—
Emoluments		
— Salaries and other short-term benefits	7,096	1,273
— Retirement scheme contributions	63	31
— Share options granted	970	—
	12,154	1,304

26. SUBSEQUENT EVENTS

On 25 August 2006, the Group succeeded in a public bidding for a piece of land in Yantai, Shandong Province for a consideration of approximately RMB372,000,000.