



SHANGHAI ZENDAI PROPERTY LIMITED

上海証大房地產有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 00755



2006

Interim Report

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# SHANGHAI ZENDAI PROPERTY LIMITED

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The Board of Directors of Shanghai Zendai Property Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2006.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	Notes	Six months ended	
		30 June 2006 HK\$'000 (Unaudited)	30 June 2005 HK\$'000 (Unaudited)
Turnover	4	807,581	750,401
Cost of sales		(532,940)	(592,871)
Gross profit		274,641	157,530
Other income		26,185	58,887
Selling expenses		(2,726)	(8,267)
Administrative expenses		(74,702)	(35,576)
Profit from operations	5	223,398	172,574
Share of results of associates		(8,603)	(15,481)
Finance costs		(13,082)	(1,637)
Profit before tax		201,713	155,456
Taxation	6	(40,193)	(13,651)
Profit for the period		161,520	141,805
Attributable to:			
Equity holders of the Company		135,225	130,501
Minority interests		26,295	11,304
		161,520	141,805
Earnings per share	8		
Basic		<u>HK2.75 cents</u>	<u>HK2.82 cents</u>
Diluted		<u>HK2.51 cents</u>	<u>HK2.66 cents</u>



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**CONDENSED CONSOLIDATED BALANCE SHEET**

*As at 30 June 2006*

	<i>Notes</i>	30 June 2006 <i>HK\$'000</i> (Unaudited)	31 December 2005 <i>HK\$'000</i> (Audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	4,491	4,962
Interests in associates		174,550	236,851
Deposits for acquisition of investment properties		396,268	288,461
Deposits for acquisition of further interests in associates		124,232	–
Available-for-sale investment		96	96
Restricted cash		500	500
<b>Total non-current assets</b>		<b>700,137</b>	<b>530,870</b>
<b>Current assets</b>			
Properties for sale		611,680	876,895
Trade receivables, prepayment and other receivables	10	192,708	266,782
Deposits for property development		191,196	161,132
Investments at fair value through profit or loss		28,491	2,831
Amounts due from associates		85,385	48,077
Amounts due from related companies		11,769	7,185
Amount due from a minority shareholder of a subsidiary		31,853	31,853
Prepayment of income tax		1,567	1,095
Cash and cash equivalents		202,574	361,598
<b>Asset classified as held for sale</b>		<b>1,357,223</b>	<b>1,757,448</b>
		–	120,192
<b>Total current assets</b>		<b>1,357,223</b>	<b>1,877,640</b>
<b>Total assets</b>		<b>2,057,360</b>	<b>2,408,510</b>



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	<i>Notes</i>	30 June 2006 <i>HK\$'000</i> (Unaudited)	31 December 2005 <i>HK\$'000</i> (Audited)
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	11	254,282	223,213
Receipts in advance		140,348	877,919
Amounts due to associates		3,943	670
Bank loans – secured		102,501	162,530
Tax payable		69,309	36,761
<b>Total current liabilities</b>		<u>570,383</u>	<u>1,301,093</u>
<b>Non-current liabilities</b>			
Bank loans – secured		252,973	210,655
Convertible notes	12	216,468	80,631
Deferred tax liabilities		21,041	21,041
<b>Total non-current liabilities</b>		<u>490,482</u>	<u>312,327</u>
<b>Total liabilities</b>		<u>1,060,865</u>	<u>1,613,420</u>
<b>TOTAL NET ASSETS</b>		<u>996,495</u>	<u>795,090</u>
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital		98,225	98,225
Reserves		705,863	552,869
Equity attributable to equity holders of the Company		804,088	651,094
Minority interests		192,407	143,996
<b>TOTAL EQUITY</b>		<u>996,495</u>	<u>795,090</u>

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*For the six months ended 30 June 2006*

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Special capital reserve HK\$'000	Statutory surplus reserve HK\$'000	Convertible notes reserve HK\$'000	Retained profits/(accumulated losses) HK\$'000	Foreign exchange reserve HK\$'000	Equity attributable to equity holders of the Company HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2006	98,225	249,314	1,074	68,541	19,849	1,034	204,699	8,358	651,094	143,996	795,090
Recognition of equity component of convertible notes	-	-	-	-	-	17,769	-	-	17,769	-	17,769
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	-	22,116	22,116
Profit for the period	-	-	-	-	-	-	135,225	-	135,225	26,295	161,520
At 30 June 2006	<u>98,225</u>	<u>249,314</u>	<u>1,074</u>	<u>68,541</u>	<u>19,849</u>	<u>18,803</u>	<u>339,924</u>	<u>8,358</u>	<u>804,088</u>	<u>192,407</u>	<u>996,495</u>
At 1 January 2005											
- as originally stated	92,458	205,081	1,074	68,541	-	-	(40,500)	-	326,654	102,527	429,181
- release of negative goodwill	-	-	-	-	-	-	63,164	-	63,164	78	63,242
- as restated	92,458	205,081	1,074	68,541	-	-	22,664	-	389,818	102,605	492,423
Issue of shares	5,767	44,233	-	-	-	-	-	-	50,000	-	50,000
Recognition of equity component of convertible notes	-	-	-	-	-	1,034	-	-	1,034	-	1,034
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	15,718	15,718
Profit for the period	-	-	-	-	-	-	130,501	-	130,501	11,304	141,805
At 30 June 2005	<u>98,225</u>	<u>249,314</u>	<u>1,074</u>	<u>68,541</u>	<u>-</u>	<u>1,034</u>	<u>153,165</u>	<u>-</u>	<u>571,353</u>	<u>129,627</u>	<u>700,980</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

*For the six months ended 30 June 2006*

	Six months ended	
	30 June 2006 <i>HK\$'000</i> (Unaudited)	30 June 2005 <i>HK\$'000</i> (Unaudited)
Net cash (used in)/from operating activities	(237,020)	338,867
Net cash used in investing activities	(76,409)	(310,977)
Net cash from/(used in) financing activities	154,405	(103,962)
Net decrease in cash and cash equivalents	(159,024)	(76,072)
Cash and cash equivalents at beginning of period	361,598	271,476
Cash and cash equivalents at end of period, representing bank balances and cash	<u>202,574</u>	<u>195,404</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30 June 2006*

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 December 2005 and 1 January 2006. The application of the new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustments are required.

### 3. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not yet applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK (IFRIC) – INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" <sup>2</sup>
HK (IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK (IFRIC) – INT 9	Reassessment of embedded derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.





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## 4. SEGMENT INFORMATION

For management purpose, the Group is currently organised into three operating divisions; sales of properties, provision of travel and related service and properties investment. These divisions are the basis on which the Group reports its primary segment information.

The Group's turnover and profit for the period by business segment are as follows:

	Sales of properties Six months ended 30 June		Travel and related services Six months ended 30 June		Properties investment Six months ended 30 June		Group Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Revenue	<u>794,068</u>	<u>735,900</u>	<u>10,435</u>	<u>14,501</u>	<u>3,078</u>	<u>—</u>	<u>807,581</u>	<u>750,401</u>
Results								
Segment results	<u>212,215</u>	<u>176,786</u>	<u>(170)</u>	<u>(1,719)</u>	<u>3,078</u>	<u>—</u>	<u>215,123</u>	<u>175,067</u>
Unallocated income less expenses							<u>8,275</u>	<u>(2,493)</u>
Profit from operations							<u>223,398</u>	<u>172,574</u>
Share of results of associates	<u>(8,603)</u>	<u>(15,481)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,603)</u>	<u>(15,481)</u>
Finance costs							<u>(13,082)</u>	<u>(1,637)</u>
Profit before tax							<u>201,713</u>	<u>155,456</u>
Taxation							<u>(40,193)</u>	<u>(13,651)</u>
Profit for the period							<u>161,520</u>	<u>141,805</u>



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## 5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	Six months ended	
	30 June 2006 HK\$'000	30 June 2005 HK\$'000
Depreciation	718	1,008
Loss on disposal of investments at fair value through profit or loss	–	219
Unrealised holding loss on investments at fair value through profit or loss	15,310	330
Impairment loss on other receivables	44,643	–
and after crediting:		
Interest income	2,442	1,491
Gain on disposal of investments at fair value through profit or loss	848	–
Gain on disposal of asset classified as held for sale	21,635	–
Dividend income	526	19
Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	–	57,200
	–	57,200

## 6. TAXATION

	Six months ended	
	30 June 2006 HK\$'000	30 June 2005 HK\$'000
Current tax		
Hong Kong	–	–
Other jurisdictions	40,193	22,855
	40,193	22,855
Deferred tax	–	(9,204)
	40,193	13,651
	40,193	13,651

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit in Hong Kong for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 7. DIVIDEND

The directors do not recommend the payment of an interim dividend for the period (2005: Nil).

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## 8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	Six months ended	
	30 June 2006 HK\$'000	30 June 2005 HK\$'000
Profit attributable to equity holders	135,225	130,501
Adjustments for interest on convertible notes	5,504	1,636
Profit attributable to equity holders for diluted earnings per share	140,729	132,137
	Number of shares	
	'000	'000
Weighted average number of ordinary shares in issue	4,911,238	4,626,074
Effect of dilutive potential ordinary shares on convertible notes	706,262	333,333
Weighted average number of ordinary shares for diluted earnings per share	5,617,500	4,959,407

## 9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$299,000 (six months ended 30 June 2005: HK\$724,000) on acquisition of property, plant and equipment.

## 10. TRADE RECEIVABLES, PREPAYMENT AND OTHER RECEIVABLES

The Group generally grants no credit period to its customers on sales of properties, except for certain significant transactions where credit terms or settlement schedules are negotiated on an individual basis. A credit period ranging from 30 to 60 days is granted to customers in travel and related services.

Included in trade receivables, prepayment and other receivables of the Group are trade receivables of HK\$153,219,000 (31.12.2005: HK\$160,326,000). The aging analysis of trade receivables at the balance sheet date is as follows:

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
0 – 30 days	15,662	2,051
31 – 60 days	639	1,198
61 – 90 days	69	760
91 – 180 days	51	155,116
181 – 360 days	136,798	600
Over 360 days	–	601
	153,219	160,326



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## 11. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of HK\$171,393,000 (31.12.2005: HK\$159,738,000). The aging analysis of trade payables at the balance sheet date is as follows:

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
0 – 30 days	4,850	8,106
31 – 60 days	7,327	720
61 – 90 days	123	38,014
91 – 180 days	89,013	1,383
181 – 360 days	22,557	110,706
Over 360 days	47,523	809
	<u>171,393</u>	<u>159,738</u>

## 12. CONVERTIBLE NOTES

Pursuant to a subscription agreement dated 24 February 2006 made between Penta Investment Advisers Limited and the Company, convertible note in the principal amount of HK\$150,000,000 was issued by the Company on 15 March 2006.

The convertible note is, at the option of the holder, convertible on or after 15 March 2006 up to and including the thirtieth day prior to 15 March 2009, into fully paid ordinary shares of the Company with a par value of HK\$0.02, at an initial conversion price of HK\$0.24 per share, subject to adjustment under certain events.

The convertible note was separated into liability and equity components on its initial recognition. At the balance sheet date, the liability component is carried at amortised cost using the effective interest method.

## 13. COMMITMENTS

At 30 June 2006, the Group had contracted commitments not provided for in the financial statements in respect of property development expenditure, acquisition of investment properties and acquisition of further interests in associates amounted to HK\$967,409,000 (31.12.2005: HK\$334,663,000), HK\$257,576,000 (31.12.2005: HK\$365,385,000) and HK\$143,077,000 (31.12.2005: Nil) respectively.

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## 14. RELATED PARTY TRANSACTIONS

### (a) Related company

Six months ended

	30 June 2006 HK\$'000	30 June 2005 HK\$'000
Rental income	<u>3,078</u>	<u>—</u>

The related company is 上海証大商業旅遊投資有限公司, in which Mr. Dai Zhikang, a director of the Company, has beneficial interest.

### (b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

Six months ended

	30 June 2006 HK\$'000	30 June 2005 HK\$'000
Short-term benefits	1,867	1,335
Post-employment benefits	<u>44</u>	<u>22</u>
	<u>1,911</u>	<u>1,357</u>

The remuneration of directors and key executives is determined by the Board of directors having regard to the performance of individuals and market trends.

- (c) On 24 May 2006, the Group entered into an agreement with 上海証大投資發展有限公司, a company in which Mr. Dai Zhikang, director of the Company, has beneficial interest, to acquire a further 51% interests in the Group's existing associate, 上海証大三角洲置業有限公司 at a consideration of RMB248,000,000 (approximately HK\$238,462,000). Deposit of RMB99,200,000 (approximately HK\$95,385,000) was paid for this transaction at the balance sheet date.

- (d) Balances with related parties as at 30 June 2006 are set out in the balance sheet of the financial statements.

## 15. EVENTS AFTER THE BALANCE SHEET DATE

- (a) During the period, the Company proposed a reduction of the Company's share premium account of HK\$249,313,834 at 31 December 2005 to fully set off against the Company's accumulated losses of HK\$91,999,338 at 31 December 2005 and the remaining balance of the credit arising therefrom of HK\$157,314,496 be transferred to the Company's contributed surplus account. Pursuant to a special resolution passed at a special general meeting held on 12 July 2006, the reduction of share premium became effective after the balance sheet date.
- (b) Subsequent to the balance sheet date, the acquisition of further 51% interests in the Group's existing associate, as set out on note 14(c) to the financial statements, was completed.

**INDEPENDENT REVIEW REPORT  
TO THE DIRECTORS OF  
SHANGHAI ZENDAI PROPERTY LIMITED**

*(incorporated in Bermuda with limited liability)*

**Introduction**

We have been instructed by the Company to review the interim financial report set out on pages 2 to 12.

**Directors' responsibilities**

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

**Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

**BDO McCabe Lo Limited**  
*Certified Public Accountants*  
**Lee Ka Leung, Daniel**  
Practising Certificate Number P01220

Hong Kong, 13 September 2006

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Prospect

#### *Financial results*

For the six months ended 30 June 2006, turnover of the Group amounted to HK\$807,581,000, an increase of 8% as compared to approximately HK\$750,401,000 for the corresponding period last year. Profit attributable to shareholders also increased by 4% to HK\$135,225,000 from HK\$130,501,000 in the same period last year. Basic earnings per share were HK2.75 cents (2005: HK2.82 cents). During the period under review, the Group's profit was mainly derived from the sale and delivery of residential units in the northern area of Phase III of Zendai Jia Yuan.

#### *Review of operations*

In the first half of 2006, the Government (the "PRC Government") of the People's Republic of China (the "PRC") announced a new series of economic austerity measures, including regulating the proportion of supply of large, medium and small residential units, issuing policies in relation to land supply, taxation and credit approval, and limiting purchase of properties by foreigners, etc. The purposes of these measures are to foster more disciplined investment in property and to balance supply and demand, thereby directing the property market towards more regulated and healthy development. However, some smaller developers may face challenges during this adjustment period and ultimately be ousted. That would speed up consolidation of the industry.

During the period under review, there were less speculative activities and more genuine homebuyers in the Shanghai property market. Property prices remained stable and the market reported healthy growth. By tapping market trend and adopting appropriate sales strategy, and supported by excellent capital management, the Group continued to achieve steady growth.

Seeing an increasing demand for office premises, Shanghai Zendai Real Estate Company Limited ("Shanghai Zendai Land"), an 80% owned subsidiary of the Company, entered into a contract to increase its investment in the equity of Zendai Delta Land Company Limited ("Zendai Delta Land") from 24% to 75% in May 2006. The remaining interests are held by Best East Development Limited ("Best East"), a wholly-owned subsidiary of the Company. Zendai Delta Land and its subsidiaries are currently developing three major high-end residential and commercial property projects in Shanghai, including a premium residential projects, the Mandarin Palace villas; and two quality commercial projects namely Zendai Cube Tower and the Wu Dao Kou Financial Centre. The acquisition will enable the Group to enhance its overall financial performance in the future.

#### *Sale of residential projects*

During the period under review, three mid- to high-end residential projects of the Group were launched for sale, including units in the northern area of Phase III Zendai Jia Yuan, the villas of Mandarin Palace and Phase I of "Zendai Garden – Riverside Town". All of them were well received by the market, and contributed positive results to the Group.



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As for the Zendai Jia Yuan project in Pudong, Shanghai, its development is divided into four phases and the first and second phases and the southern area of Phase III were already sold out. The northern area of Phase III with 994 units has been open for sale. Market response has been satisfactory with 990 units sold in aggregate, including 5 sold during the period under review. The total accumulative floor area sold was 113,908 square metres, and RMB830,129,000 (equivalent to approximately HK\$798,200,000) in terms of contract value was generated. A substantial portion of these residential apartments were delivered and revenue from sales was booked during the period under review.

Regarding the Group's premium residential project, the Mandarin Palace villas in Pudong, Shanghai, adjacent to the Century Park, sale began at the end of 2004. This project, which took three years to build, has a site area of 105,000 square metres where 50 individual villas stood. The total saleable above-ground floor area and under-ground floor area are 28,425 square metres and 15,717 square metres respectively. As at 30 June, 2006, 22 individual villas with a total floor area of 16,478 square metres (10,598 square metres above ground and 5,880 square metres under-ground) were sold, generating RMB580,510,000 (equivalent to approximately HK\$558,183,000) in terms of contract value for the Group. These villas are scheduled for delivery in the second half of 2006 and the revenue derived will be booked accordingly. As property projects similar to the Mandarin Palace or the like are becoming scarce in the market, the Group will pay special attention to the sales strategy for the project so as to maximize the return from it.

In April 2005, the Group acquired a parcel of land in Haimen, Jiangsu Province for developing a residential and commercial project named Zendai Garden-Riverside Town. The project is divided into two parts, the first is the Zendai-Dong Zhou Mansion with a total site area of 253,313 square meters which will be developed in three phases. Pre-sale of the 52 detached houses in Phase I, with a total saleable floor area of approximately 17,131 square meters, commenced sales last year. As at 30 June 2006, a total of 29 units (including 5 in the period under review) with accumulative saleable floor area of 9,775 square meters were sold, generating RMB42,562,000 (equivalent to approximately HK\$40,925,000) in terms of contract value for the Group. These units are scheduled for delivery in the second half of 2006 and the profit from sales will be booked accordingly. The second and third phase of Zendai-Dong Zhou Mansion are currently in the planning stage. As for the second part of Zendai Garden-Riverside Town of total site area approximately 324,172 square meters, it will be developed into an integrated residential area comprising low-density town houses to be built in four batches. On site of total area 84,000 square meters, the first batch of 200 units with a planned total saleable floor area of approximately 45,947 square meters will be built. Construction of the first 39 units with total saleable area of approximately 21,100 square meters will begin in the second half of 2006. The other three batches are currently under planning. Haimen Zendai intends to increase land reserve by bidding for a parcel of residential land of area approximately 810,000 square meters in the second half year.

During the period under review, the Group established a 90%-owned subsidiary 長春証大置業有限公司 in Changchun, the PRC. The new company will develop a residential project on a parcel of land of approximately 1,000,000 square meters in Changchun. Details of the project are currently being planned. Furthermore, the Group completed preliminary planning of its residential project in Jilin during the period under review. The first phase of the project with 11 villas and 118 town houses will have a total gross floor area of 34,000 square meters. Construction of the project has begun in June and is expected to be completed in 2008.



### *Commercial property development projects*

To satisfy the huge demand for offices in Shanghai, the Group has increased the proportion of investment in commercial property development since last year and began construction of “Wu Dao Kou Financial Centre” and “Zendai Cube Tower”.

“Zendai Cube Tower” is a premium commercial property project with a site area of approximately 5,492 square meters and a planned gross floor area of approximately 40,940 square meters. Adjacent to the Century Park and in close proximity to Lujiazui, it will be developed into a 21-storey commercial building with 2 levels of underground car parking spaces. Construction of the project commenced in June last year and was near top out in June this year. Pre-sale is scheduled in October and the entire project will be completed in the second half of 2007.

The Wu Dao Kou Financial Centre is another premium commercial property project. It has a site area of approximately 16,000 square meters and a total planned gross floor area of approximately 105,900 square meters. Also located close to the Century Park and in close proximity to Lujiazui, it will house grade A offices and premium commercial spaces. It will have 2 office towers, namely the north tower and the south tower. The north tower will be a 25-storey office building with planned gross floor area of approximately 51,100 square meters, and 2 levels of underground car parking spaces of approximately 15,800 square meters. The south tower will be a 12-storey office building with planned gross floor area of approximately 26,200 square meters and 2 levels of underground parking spaces of approximately 8,400 square meters. The project will also include a premium four-level shopping complex with two levels of underground car parking spaces of planned gross floor areas of approximately 3,200 square meters and approximately 1,200 square meters respectively. Construction of the project commenced in October 2005 and groundwork has already been finished. The entire project is expected to be completed in 2007.

During the period under review, the Group started the initial stage of development of its project in Yangzhou. It is making related demolition and removal arrangements to vacate the site for developing a commercial centre with a gross area of 90,000 square meters.

### *Issue of convertible notes*

Boasting a premium brand and outstanding financial performance, the Group has attracted interest of renowned institutional investors. It entered into an agreement with Penta Investment Advisers Limited (“Penta Investment”) in February this year to issue three-year convertible notes at an aggregate principal amount of HK\$150,000,000. Holders of the convertible notes shall have the right to convert the convertible notes into shares of the Company at an initial conversion price of HK\$0.24 each (subject to adjustment). The maximum number of conversion shares to be issued will be 625,000,000 new shares, representing approximately 12.73% of the issued share capital of the Company or approximately 11.29% of the enlarged issued share capital of the Company. The net proceeds from the issue of the Convertible Notes, amounted to approximately HK\$149,600,000, will be used for future investment and development of suitable property projects thereby creating more business opportunities for the Group.

### *Asset acquisition*

In May this year, Shanghai Zendai Land, an 80% owned subsidiary of the Company entered into a contract to acquire 51% interest in Zendai Delta Land at a total consideration of RMB248,000,000. Shanghai Zendai Land's share in Zendai Delta Land thus increased from 24% to 75%, while Best East, which is a wholly-owned subsidiary of the Company, owns the remaining 25%. The acquisition was completed in July 2006. Zendai Delta Land and its subsidiaries are currently developing three major high-end residential and commercial property projects in Shanghai, including a premium residential project, the Mandarin Palace villas; and two quality commercial projects, namely the Zendai Cube Tower and the Wu Dao Kou Financial Centre. The two commercial projects, which are expected to be completed in 2007, will provide 147,000 square metres of grade A offices, shopping complexes and car parking spaces. With the market in keen demand for office premises, the Group believes the acquisition will enhance its overall financial performance and widen its earning base.

### *Share premium reduction*

During the period under review, the Company proposed a share premium reduction of approximately HK\$249,314,000 to offset the accumulated losses of the Company in the sum of approximately HK\$91,999,000 as at the end of 2005. The surplus of approximately HK\$157,315,000 after offsetting the accumulated losses had been credited to the contributed surplus account of the Company. The share premium reduction was completed in August 2006. The elimination of the accumulated losses in full will give the Group greater flexibility in declaring dividends in future. The share premium reduction is in the overall interest of the Group and its shareholders.

### *Award*

During the period under review, the Group was awarded the The first batch of Advanced Unit with Honest Commitment of Property Development Enterprises in Shanghai by the Shanghai Real Estate Trade Association (上海市房地產行業協會).

### *Prospects*

The Group believe, after months of adjustment, trading of properties in the market will become more rational. Quality properties will continue to be attractive to buyers and the property market will enjoy stable development in the second half of the year and in 2007.

In the long run, steady growth of the PRC economy and the improving living standard of the Chinese people will continue to boost the development of the country's property market. The impending 2010 World Expo and 2008 Beijing Olympics will also attract more foreign investors to Shanghai, making the city an international hub for foreign investment in the PRC and driving the long term development of its property sector.



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Riding on a well-recognised brand reputation and solid business foundation, the Group will not only explore opportunities in Shanghai's property market, but will also continue to actively expand its business to other mainland cities such as Changchun, Jilin, Yangzhou, etc. Furthermore, the Group will seek to fortify its position as an integrated property developer by increasing the proportion of commercial property development and holding rental properties similar to the Zendai Thumb Plaza to increase rental returns. The completion of the acquisition of 51% interest in Zendai Delta Land through Shanghai Zendai Land in July this year has laid a solid foundation for the Group to strengthen its overall competitiveness. Looking ahead, the Group will also grasp every opportunity in the property market amid the PRC Government's macroeconomic control to maintain stable growth momentum in the long run and bring satisfactory returns to shareholders.

## Liquidity, financial resources, capital structure and gearing

As at 30 June 2006, the Group had a healthy financial position with net assets amounted to approximately HK\$996 million (31.12.2005: HK\$795 million). Net current assets increased from approximately HK\$577 million in 31 December 2005 to approximately HK\$787 million, with current ratio of approximately 2.38 times (31.12.2005: 1.44 times).

The Group adopts relatively prudent financial policy and closely monitors its cash flow. As at 30 June 2006, the Group had consolidated bank loans of approximately HK\$355 million (in which 72% was denominated in Renminbi, with the others denominated in Hong Kong dollars), out of which HK\$103 million is repayable within one year, and convertible notes with principal amount of HK\$80 million and HK\$150 million which will mature in February, 2008 and March 2009 respectively. As at 30 June 2006, the Group's bank balances and cash were approximately HK\$203 million, in which 83% was denominated in Renminbi, with the others denominated in Hong Kong dollars.

## Sale of properties

For the six months ended 30 June 2006, the turnover of this segment reached HK\$794,068,000, representing an increase of HK\$58,168,000 or 8% as compared to HK\$735,900,000 for the six months ended 30th June 2005. The profit from this segment was HK\$212,215,000, representing an increase of HK\$35,429,000 as compared to HK\$176,786,000 for the corresponding period in 2005. The increase in turnover and result of this segment were mainly attributable to the delivery of residential flats in the northern area, Phase III, Zendai Jia Yuan to buyers during the period.

## Travel and related business

For the six months ended 30 June 2006, the turnover of this segment decreased from HK\$14,501,000 to HK\$10,435,000 in the current period. The decrease in turnover of this segment was due to the reduction of tour price.

### Foreign currency exposure

As most of the Group's monetary assets and liabilities are denominated in Renminbi, the exchange rate risks of the Group is considered to be minimal.

### Employees

At 30 June 2006, the Group employed approximately 230 (2005: 240) employees in Hong Kong and the PRC. They were remunerated according to the nature of the job and market conditions. Other staff benefits include a mandatory provident fund scheme, local municipal government retirement scheme, insurance and medical insurance.

### Charges on assets

As at 30 June 2006, the Group's properties for sale of approximately HK\$135,294,000 have been pledged to banks to secure bank loans granted to the Group.

### Contingent liabilities

As at 30 June 2006, the Group had no significant contingent liabilities or outstanding litigation.

## INTERIM DIVIDEND

The board of directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

## DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

As at 30 June 2006, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were set out below:

Name of director	Capacity	Number of issued ordinary shares of the Company held	Approximate percentage of issued share capital
Dai Zhikang	Interests of controlled corporation ( <i>Note</i> )	2,705,595,000(L)	55.09%
Fang Bin	Beneficial interest	50,000,000(L)	1.02%
Zhang Wei	Beneficial interests	50,000,000(L)	1.02%



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Name of director	Capacity	Number of issued ordinary shares of the Company held	Approximate percentage of issued share capital
Lu Puling	Beneficial interest	30,000,000(L)	0.61%
Wang Xiangang	Beneficial interests	20,000,000(L)	0.41%
Tang Jian	Beneficial interests	10,000,000(L)	0.20%
Ye Wenbin	Beneficial interests	5,000,000(L)	0.10%

(L) denotes long position

*Note:* These 2,705,595,000 shares were held by Giant Glory Assets Limited. Giant Glory Assets Limited is wholly-owned by Dai Zhikang, an executive director and the chairman of the Company. Dai Zhikang is therefore deemed to be interested in these 2,705,595,000 shares of the Company held by Giant Glory Assets Limited pursuant to the SFO.

Save as disclosed above, none of the directors or chief executive of the Company had any interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO on or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as at 30 June 2006.

## SHARE OPTIONS

The Company adopted a share option scheme on 18 July 2002 (the "Scheme"), with expiry date on 17 July 2012, for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

No share options have been granted under the Scheme since its adoption.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section of "Share Options" above, at no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or underlying shares in, or debentures of, the Company or any other body corporate and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, the interests or short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name	Capacity	Number of ordinary shares of the Company	Approximate percentage of the issued share capital
Giant Glory Assets Limited ( <i>Note 1</i> )	Beneficial interests	2,705,595,000(L)	55.09%
Honour Great Holdings Limited ( <i>Note 2</i> )	Beneficial interests	500,475,000(L)	10.19%
Liu Lijuan ( <i>Note 2</i> )	Interests of controlled corporation	500,475,000(L)	10.19%
Penta Investment Advisers Ltd. ( <i>Note 3</i> )	Investment manager	886,440,000(L)	18.05%
John Zwaanstra ( <i>Note 3</i> )	Interests of controlled corporation	886,440,000(L)	18.05%
Fortuna, LLC ( <i>Note 4</i> )	Interests of controlled corporation	437,500,000(L)	8.90%
Mercurius Partners LP ( <i>Note 4</i> )	Interests of controlled corporation	437,500,000(L)	8.90%
Penta Japan Fund, Limited ( <i>Note 4</i> )	Interests of controlled corporation	437,500,000(L)	8.90%
Penta Master Fund, Limited ( <i>Note 4</i> )	Beneficial interests	437,500,000(L)	8.90%
Value Partners Limited ( <i>Note 5</i> )	Investment manager	334,083,333(L)	6.80%
Cheah Cheng Hye ( <i>Note 5</i> )	Interests of controlled corporation	334,083,333(L)	6.80%

(L) denotes long position

*Notes:*

- These 2,705,595,000 shares were held by Giant Glory Assets Limited. Giant Glory Assets Limited is wholly-owned by Dai Zhikang, an executive director and the chairman of the Company. Dai Zhikang is therefore deemed to be interested in these 2,705,595,000 shares of the Company held by Giant Glory Assets Limited pursuant to the SFO.



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2. Liu Lijuan is the beneficial owner of the entire issued share capital of Honour Great Holdings Limited and therefore is deemed to be interested in the shares of the Company held by Honour Great Holdings Limited pursuant to the SFO.
3. These include derivative interests in 625,000,000 shares of the Company. John Zwaanstra is the beneficial owner of the entire issued share capital of Penta Investment Advisers Ltd. and therefore is deemed to be interested in the shares of the Company held and deemed to be held by Penta Investment Advisers Ltd. pursuant to the SFO.
4. These represent derivative interests in 437,500,000 shares of the Company. Fortuna, LLC has 99.75% control of Mercurius Partners LP, which has 33.8% control of Penta Japan Fund, Limited, which in turn has 100% control of Penta Master Fund Limited. Accordingly, Fortuna, LLC, Mercurius Partners LP and Penta Japan Fund, Limited are deemed to be interested in the shares of the Company interested by Penta Master Fund Limited.
5. These include derivative interests in 333,333,333 shares of the Company. Cheah Cheng Hye is the beneficial owner of 32.77% issued share capital of Value Partners Limited and therefore is deemed to be interested in the shares of the Company held and deemed to be held by Value Partners Limited pursuant to the SFO.

All interests stated above represent long position held in the shares of the Company. Save as disclosed above, as at 30 June 2006, no persons, other than a director or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities for the six months ended 30 June 2006.

## **CORPORATE GOVERNANCE**

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Based on specific enquiry of the directors of the Company, the directors of the Company have confirmed they have complied with the Model Code.

## **REVIEW OF INTERIM FINANCIAL STATEMENTS**

The audit committee has reviewed with the management and external auditors, BDO McCabe Lo Limited the accounting principles and policies adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2006.

By Order of the Board  
**Dai Zhikang**  
*Chairman*

Hong Kong, 13 September 2006