Notes to the Consolidated Financial Statements

1 General information

Shimao Property Holdings Limited (the "Company") was incorporated in the Cayman Islands on 29 October 2004 as an exempted company with limited liability under the Cayman Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY 1-1111 Cayman Islands. The Company is principally engaged in investment holding. The principal activities of the Company and its subsidiaries (together, the "Group") are property development, property investment and hotel operation in the People's Republic of China (the "PRC").

To prepare for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group has undertaken a reorganisation (the "Reorganisation"). Pursuant to the Reorganisation, which was completed on 26 January 2006, the Company acquired the entire entity interests in Shimao Property Holdings (BVI) Limited ("SPHL (BVI)") by issuing shares to their common shareholder, Gemfair Investments Limited ("Gemfair"), 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.

These consolidated financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

(a) Basis of preparation

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 under the Accounting Guideline No. 5 "Merger Accounting for Common Control Combination", using the principles of merger accounting, under which the consolidated financial statements have been prepared as if the Reorganisation had been completed on 1 January 2005, the beginning of the earliest period presented, and business of SPHL (BVI) and its then subsidiaries had always been carried out by the Group.

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

In 2006, the Group adopted the following amendments and interpretation of HKFRS, which are effective in 2006 and are relevant to the Group's operations:

- Amendments to HKAS 39 and 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 adoption of the amendments does not have any significant impact on the Group's consolidated financial statements.

- HK(IFRIC) — Int 4 "Determining whether an Arrangement contains a Lease". The Group has reviewed its contracts. The adoption of this interpretation does not have any significant impact on classification of the leases of the Group and on the expenses recognised in respect of them.

The Group chose to early adopt the following interpretation which is not effective in 2006:

- HK(IFRIC)-Int 11 "HKFRS 2 — Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007). HK(IFRIC)-Int 11 clarifies that certain types of transaction are accounted for as equity-settled or cash-settled transactions under HKFRS 2. It also addresses the accounting for share-based payment transactions involving two or more entities within one group. The early adoption does not have any significant impact on the Group's consolidated financial statements.

Certain new standards, amendments and interpretations to existing standards of HKFRS have been published but are not yet effective for annual period beginning on 1 January 2006 and have not been early adopted by the Group. Those that are relevant to the Group's operations are as follows:

- HKFRS 7 "Financial Instruments: Disclosures", and a complementary amendment to HKAS 1 "Presentation of Financial Statements — Capital Disclosures" (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions", and disclosure requirements in HKAS 32 "Financial Instruments: Disclosure and Presentation". It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 for annual period beginning on 1 January 2007.

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

- HK(IFRIC)-Int 8 "Scope of HKFRS 2" (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments — where the identifiable consideration received is less than the fair value of the equity instruments issued — to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any significant impact on the Group's consolidated financial statements.

- HK(IFRIC)-Int 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any significant impact on the Group's consolidated financial statements.

- HKFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009). HKFRS 8 supersedes HKAS 14, under which segments were identified and reported on risk and return analysis. Items were reported on the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting.

The Group has assessed the other recently published new standards, amendments and interpretations to existing standards of HKFRS, and concluded that they are not relevant to the Group's operations. These are set out as follows:

- HK(IFRIC)-Int 7 "Applying the Restatement Approach under HKAS29, Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006).

- HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after 1 June 2006).

- HK(IFRIC)-Int 12 "Service Concession Arrangement" (effective for annual periods beginning on or after 1 January 2008).

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(i) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

2 Summary of significant accounting policies *(continued)*

(b) Consolidation *(continued)*

(i) *Subsidiaries (continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, except for those acquisitions which qualify as a common control combination and are therefore accounted for using the merger accounting.

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (see Note 2(i)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference being negative goodwill is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between the companies now comprising the Group are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(ii) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests generally result in goodwill, being the excess of any consideration paid over the relevant share acquired of the carrying value of net assets of the subsidiary. If the cost of acquisition is less than the relevant interest acquired of the carrying value of net assets of the subsidiary, the difference being negative goodwill is recognised directly in the consolidated income statement.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2 Summary of significant accounting policies *(continued)*

(d) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the companies now comprising the Group are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional and presentation currency of the Company.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of their fair value gain or loss.

(iii) *Group companies*

The results and financial positions of all the companies now comprising the Group (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate;
- Income and expenses are translated at average exchange rates; and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to owners' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 Summary of significant accounting policies *(continued)*

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Buildings comprise hotel buildings and self-use buildings.

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

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs less their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are recorded in the consolidated income statement.

(f) Assets under construction

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

No depreciation is provided for assets under construction. The carrying amount of an asset under construction is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2 Summary of significant accounting policies *(continued)*

(g) Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies now comprising the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings owned by the Group. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed at each balance sheet date by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land (if any) classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Changes in fair values of investment property are recognised in the consolidated income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the consolidated income statement.

Investment property held for sale without redevelopment is classified within non-current assets held for sale, under HKFRS 5.

2 Summary of significant accounting policies *(continued)*

(h) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are at least tested annually for impairment and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Intangible assets — goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated company/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies/jointly controlled entities is included in investments in associated companies/jointly controlled entities. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(j) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill identified on acquisition (see Note 2(i)), net of any accumulated impairment losses.

The Group's share of its associated companies' post-acquisition profits or losses are recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other long-term interests that, in substance, form part of the investor's net investment in the associated company, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

2 Summary of significant accounting policies *(continued)*

(j) Associated companies *(continued)*

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

(k) Jointly controlled entities

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define their joint control over the economic activity of the entity.

Investment in a jointly controlled entity is accounted for using the equity method of accounting. The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill, if any, on acquisition.

(l) Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Development cost of properties comprises construction costs, amortisation of land use rights, borrowing costs and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

(m) Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

2 Summary of significant accounting policies *(continued)*

(n) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised on the trade date — the date on which the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

Trade and other receivables are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

(o) Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks and deposits held at call with banks.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

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

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognised as an expense in the period in which they are incurred.

(q) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 Summary of significant accounting policies *(continued)*

(q) Deferred income tax *(continued)*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(r) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

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

(ii) *Retirement benefits*

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

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

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

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

2 Summary of significant accounting policies *(continued)*

(r) Employee benefits *(continued)*

(iii) *Share-based compensation*

The Group operates an equity-settled Pre-IPO share option scheme. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The subsidiaries measure the service received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, and record expense in the financial statements of the subsidiaries, with a corresponding increase recognised in equity as a contribution from the Company.

(s) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2 Summary of significant accounting policies *(continued)*

(t) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of properties and services in the ordinary course of the Group's activities, net of returns and discounts. Revenues are recognised as follows:

(i) *Sales of properties*

Revenue from sales of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectibility of related receivables is reasonably assured. Deposits and installments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet under current liabilities.

(ii) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(iii) *Rental income*

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

(iv) *Hotel operating income*

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

(v) *Dividend income*

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

(u) Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight line basis over the expected lives of the related assets.

2 Summary of significant accounting policies *(continued)*

(v) Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(i) *The Group is the lessee other than operating lease of land use rights*

Payments made under operating leases (net of any incentives received from the lessor), are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(ii) *The Group is the lessee under operating lease of land use rights*

The Group made upfront payments to obtain operating leases of land use rights on which properties will be developed. The upfront payments of the land use rights are recorded as assets and amortised over the lease periods. The amortisation during the period of construction of the properties is capitalised as the cost of properties under development and assets under construction. The amortisation during the period before the commencement and after the completion of the construction of the properties is expensed in the consolidated income statement. The unamortised upfront payments are recognised as cost of sales when the relevant properties are sold or transferred to the cost of investment properties upon completion of the relevant properties (Note 2(f)).

(w) Dividend distribution

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

(x) Insurance contracts

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk is a pre-existing risk transferred from the policyholder to the insurer, and is significant only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction).

The Group assesses at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in the consolidated income statement.

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.

3 Financial risk management

The Group conducts its operations in the PRC and accordingly is subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, influence of national authorities over pricing regulation and competition in the industry.

(a) Financial risk factors

(i) *Foreign exchange risk*

The Group's businesses are principally conducted in RMB, except that certain receipts of proceeds from sales of properties, public share offerings and notes offerings are in other foreign currencies. The major non-RMB items are HK dollar and US dollar bank borrowings and unused bank deposits in HK dollar and US dollar received from public share offerings and notes offerings. Fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations. With the usage of the funds in the purchase and development of the assets in the PRC, most of the Group's foreign exposures are attributable to borrowings in US dollar and HK dollar. Given the general expectations about the strengthening of RMB, the Group has not entered into any forward exchange contracts to hedge its exposure to foreign exchange risk.

(ii) *Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its long term borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. The Group has a policy to place surplus funds with creditable financial institutions which offer the best return for the Group on a short-term basis.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) *Credit risk*

The Group has no concentrations of credit risk. Cash transactions are limited to high-credit-quality institutions. The Group has policies in place to ensure that sales of properties are made to buyers with an appropriate financial strength and appropriate percentage of down payment. Other receivables mainly comprise deposits made to government agencies for property development purposes.

(iv) *Liquidity risk*

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operation needs and commitments in respect of property projects.

3 Financial risk management *(continued)*

(b) Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values due to short-term maturities of these assets and liabilities. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4 Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes and deferred taxation

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

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

(b) Land appreciation tax

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

(c) Impairment of goodwill

The Group tests at least annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(i). The recoverable amounts of cash-generating units have been determined based on the higher of the fair value (less cost to sell) and value in use calculation of the underlying assets, mainly properties. The fair value is determined by independent valuer. These valuations and calculations require the use of estimate.

4 Critical accounting estimates and judgements *(continued)*

(d) Estimated fair value of investment properties

The best evidence of fair value is current prices in an active market for the properties with similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The Group assesses the fair value of its investment properties based on valuations determined by independent professional qualified valuers.

5 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 were all located in the PRC. As majority of the Group's consolidated turnover and results are attributable to the market in the PRC and most of the Group's consolidated assets are located in the PRC, no geographical segment information is presented.

Turnover for the year ended 31 December 2006 consists of the following:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Sale of properties	**6,735,820**	2,462,796
Hotel operating income	**146,194**	9,738
Rental income from an investment property	**31,428**	27,896
	6,913,442	2,500,430

5 Segment information *(continued)*

Segment information is as follows:

Primary reporting format — business segments

Year ended 31 December 2006

	Property development RMB'000	Hotel RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Segment turnover	6,735,820	146,194	31,428	—	6,913,442
Segment results	2,005,071	(97,379)	1,016,067	(96,287)	2,827,472
Finance costs	(2,281)	(1,668)	—	(40,770)	(44,719)
Share of results of					
— associated companies	201,027	—	—	—	201,027
— jointly controlled entity	—	—	—	(13)	(13)
Profit/(loss) before income tax	2,203,817	(99,047)	1,016,067	(137,070)	2,983,767
Income tax expense					(705,017)
Profit for the year					2,278,750
Segment assets	12,655,792	5,247,972	4,693,359	4,663,545	27,260,668
Associated companies	311,247	—	—	—	311,247
Jointly controlled entity	—	—	—	487	487
	12,967,039	5,247,972	4,693,359	4,664,032	27,572,402
Deferred income tax assets					123,725
Total assets					27,696,127
Segment liabilities	7,272,014	1,842,531	769,759	83,657	9,967,961
Corporate borrowings	—	—	—	4,982,995	4,982,995
	7,272,014	1,842,531	769,759	5,066,652	14,950,956
Deferred income tax liabilities					1,216,802
Total liabilities					16,167,758
Capital and property development expenditure	6,951,598	789,292	1,737,430	5,477	9,483,797
Depreciation	8,814	61,595	179	1,539	72,127
Amortisation of land use rights as expenses	1,487	7,917	—	—	9,404
Impairment of goodwill	132,268	—	—	—	132,268
Fair value gains on investment properties	—	—	1,000,831	—	1,000,831

5 Segment information *(continued)*

Year ended 31 December 2005

	Property development RMB'000	Hotel RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Segment turnover	2,462,796	9,738	27,896	—	2,500,430
Segment results	392,518	(6,196)	951,457	(34,656)	1,303,123
Finance costs	(2,162)	(24)	—	(6,510)	(8,696)
Share of results of associated companies	17,741	—	—	—	17,741
Profit/(loss) before income tax	408,097	(6,220)	951,457	(41,166)	1,312,168
Income tax expense					(325,860)
Profit for the year					986,308
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
Total assets					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
Total liabilities					13,054,765
Capital and property development expenditure	2,676,354	832,622	251,548	2,078	3,762,602
Depreciation	5,799	2,754	304	420	9,277
Amortisation of land use rights as expenses	12	296	—	—	308
Bad debt recovered	—	—	25,000	—	25,000
Fair value gains on an investment property	—	—	902,639	—	902,639

5 Segment information *(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 equity interests in subsidiaries relating to respective segments. They exclude deferred income tax assets.

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

6 Property, plant and equipment — Group

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2006	2,432,525	607,848	16,209	22,756	193,388	3,272,726
Additions	1,360,512	60,027	5,153	5,642	—	1,431,334
Amortisation of land use rights	24,977	—	—	—	—	24,977
Disposals	—	—	(998)	(1,337)	(27,987)	(30,322)
Transfer upon completion	(1,973,864)	1,852,612	—	—	121,252	—
At 31 December 2006	1,844,150	2,520,487	20,364	27,061	286,653	4,698,715
Accumulated depreciation						
At 1 January 2006	—	2,272	6,846	7,641	1,515	18,274
Charge for the year	—	60,916	2,867	3,687	4,657	72,127
Disposals	—	—	(669)	(362)	(525)	(1,556)
At 31 December 2006	—	63,188	9,044	10,966	5,647	88,845
Net book value						
At 31 December 2006	1,844,150	2,457,299	11,320	16,095	281,006	4,609,870

6 Property, plant and equipment — Group *(continued)*

	Assets under construction RMB'000	Hotel buildings and improvements RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Self-use buildings RMB'000	Total RMB'000
Cost						
At 1 January 2005	1,989,784	—	12,325	14,771	—	2,016,880
Acquisition of subsidiaries	—	—	479	—	—	479
Additions	1,219,453	—	3,782	7,985	—	1,231,220
Amortisation of land use rights	34,023	—	—	—	—	34,023
Disposals	—	—	(377)	—	(9,499)	(9,876)
Transfer upon completion	(810,735)	607,848	—	—	202,887	—
At 31 December 2005	2,432,525	607,848	16,209	22,756	193,388	3,272,726
Accumulated depreciation						
At 1 January 2005	—	—	4,660	4,694	—	9,354
Acquisition of subsidiaries	—	—	98	—	—	98
Charge for the year	—	2,272	2,266	2,947	1,792	9,277
Disposals	—	—	(178)	—	(277)	(455)
At 31 December 2005	—	2,272	6,846	7,641	1,515	18,274
Net book value						
At 31 December 2005	2,432,525	605,576	9,363	15,115	191,873	3,254,452

Depreciation charge of RMB72,127,000 for the year ended 31 December 2006 (2005: RMB9,277,000) has been recorded in cost of sales and administrative expenses in the consolidated income statement.

As at 31 December 2006, assets under construction and buildings of the Group with a total carrying amount of RMB3,986,899,000 (2005: RMB2,196,351,000) were pledged as collateral for certain bank borrowings of the Group (Note 20).

As at 31 December 2006, interest capitalised in assets under construction amounted to RMB157,263,000 (2005: RMB318,291,000).

The capitalisation rate of borrowings was 6.58% for the year ended 31 December 2006 (2005: 5.95%).

7 Investment properties — Group

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Opening balance	**1,883,000**	969,861
Additions	**1,116,169**	10,500
Fair value gains	**1,000,831**	902,639
Ending balance	**4,000,000**	1,883,000

On 29 December 2006, the Group acquired an office building in Beijing at a total cost of RMB1,082,025,000.

The investment properties were revalued on an open market value and existing use basis at each balance sheet date by DTZ Debenham Tie Leung Limited, an independent professional qualified valuer. The valuations were based on current prices in an active market for similar properties.

As at 31 December 2006, the Group's investment properties were held in the PRC on leases of between 10 to 50 years. An investment property with a carrying amount of RMB2,550,000,000 (2005: RMB1,883,000,000) was pledged as collateral for the Group's borrowings (Note 20).

8 Land use rights/other non-current assets — Group

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Opening balance of land use rights	**3,996,532**	4,216,413
Additions	**1,130,613**	246,539
Amortisation		
— Capitalised in property, plant and equipment	**(24,977)**	(34,023)
— Capitalised in properties under development	**(48,844)**	(36,690)
— Recognised as expenses (Note 25)	**(9,404)**	(308)
Transfer to cost of sales	**(682,066)**	(394,672)
Disposals	**(4,934)**	(727)
Ending balance of land use rights	**4,356,920**	3,996,532
Land use rights under development included under current assets	**(3,007,728)**	(2,300,593)
Land use rights included under non-current assets	**1,349,192**	1,695,939
Land use rights		
— relating to property, plant and equipment	**1,349,192**	1,214,443
— relating to properties to be developed for sale	**3,007,728**	2,782,089
	4,356,920	3,996,532
Outside Hong Kong, held on leases of:		
Over 50 years	**2,516,668**	2,782,089
Between 10 to 50 years	**1,840,252**	1,214,443
	4,356,920	3,996,532

Land use rights comprise cost of acquiring rights to use certain land, which are all located in the PRC, for property development over fixed periods.

As at 31 December 2006, land use rights of RMB2,699,341,000 (2005: RMB1,813,330,000) were pledged as collateral for the Group's bank borrowings (Note 20).

As at 31 December 2006, the Group had made prepayments of RMB3,013,981,000 (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.

9 Intangible assets — Group

Intangible assets comprise goodwill arising from acquisitions:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Opening balance	**607,291**	181,743
Goodwill on acquisition of subsidiaries	**—**	414,321
Goodwill on acquisition of additional interests in subsidiaries	**—**	11,227
Impairment of goodwill recognised as expenses (Note 25)	**(132,268)**	—
Ending balance	**475,023**	607,291

Impairment tests for goodwill

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

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Property development	**303,946**	436,214
Hotel operations	**130,928**	130,928
Property investment	**40,149**	40,149
	475,023	607,291

The recoverable amount of a CGU is determined based on the higher of the fair value (less cost to sell) of the related properties, determined by independent professional qualified valuers, or its value-in-use estimate.

Under property development CGU, certain underlying properties were completed and sold during the year, and the attributable goodwill totalling RMB132,268,000 cannot be substantiated and therefore is considered impaired.

The goodwill impairment was included in other operating expenses in the consolidated income statement.

10 Properties under development — Group

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Properties under development comprises:		
Construction costs and capitalised expenditures	**2,312,188**	3,282,885
Interests capitalised	**72,323**	120,660
	2,384,511	3,403,545

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Interest capitalised		
Opening balance	**120,660**	93,650
Additions	**109,532**	53,476
Transfer to cost of sales	**(103,440)**	(20,813)
Transfer to completed properties held for sale	**(54,429)**	(5,653)
Ending balance	**72,323**	120,660

The properties under development are all located in the PRC.

As at 31 December 2006, properties under development of approximately RMB1,328,094,000 (2005: RMB648,738,000) were pledged as collateral for the Group's bank borrowings (Note 20).

The capitalisation rate of borrowings was 6.29% for the year ended 31 December 2006 (2005: 5.61%).

11 Completed properties held for sale — Group

All completed properties held for sale are located in the PRC on leases of between 40 to 70 years.

As at 31 December 2006, completed properties held for sale of approximately RMB930,340,000 (2005: RMB33,538,000) were pledged as collateral for the Group's bank borrowings (Note 20).

12 Investment in subsidiaries — Company

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**223,805**	—
Amounts due from subsidiaries	**7,846,913**	—

The amounts due from subsidiaries were interest-free, unsecured and have no specific repayment terms.

Details of the subsidiaries of the Group as at 31 December 2006 are set out in Note 33.

13 Associated companies — Group

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Opening balance	**150,220**	91,035
Capital injection	**—**	41,444
Share of results		
— Profit before income tax	**309,095**	29,126
— Income tax expense	**(108,068)**	(11,385)
Dividend received	**(40,000)**	—
Ending balance	**311,247**	150,220

13 Associated companies — Group *(continued)*

The extracts of the financial information of the Group's associated companies are as follows:

Name	**Assets** RMB'000	**Liabilities** RMB'000	**Turnover** RMB'000	**Profit/ (loss)** RMB'000	**% of interest held by the Group**
2006					
Fuzhou Shimao Investment Development Co., Ltd. ("Fuzhou Project JV")	**687,751**	**396,709**	**1,287,812**	**236,235**	**50%**
Nanjing Shimao Real Estate Development Co., Ltd. ("Nanjing Project JV")	**1,420,358**	**1,088,906**	**1,093,505**	**165,818**	**50%**
	2,108,109	**1,485,615**	**2,381,317**	**402,053**	
2005					
Fuzhou Project JV	962,627	744,231	497,454	56,979	50%
Nanjing Project JV	1,518,104	1,354,016	—	(21,498)	50%
	2,480,731	2,098,247	497,454	35,481	

Details of the associated companies of the Group as at 31 December 2006 are set out in Note 33.

14 Jointly controlled entity — Group

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Opening balance	**500**	—
Capital injection	**—**	500
Share of results		
— Loss for the year	**(13)**	—
Ending balance	**487**	500

Details of the jointly controlled entity of the Group as at 31 December 2006 are set out in Note 33.

15 Trade and other receivables and prepayments

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Group		
Trade receivables (note)	**250,861**	3,046
Deposits for resettlement costs	**103,450**	146,650
Other receivables	**119,562**	27,253
Prepayments for construction costs	**45,226**	103,056
Prepaid business tax and land appreciation tax on pre-sale proceeds	**57,369**	202,570
	576,468	482,575

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Company		
Other receivables and prepayments	**16,668**	26

Note:

Trade receivables are mainly arisen 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.

As at 31 December 2006, the fair value of trade receivables, deposits for resettlement costs, and other receivables of the Group and the Company approximate their carrying amounts.

16 Amounts due from related companies — Group

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Common directors		
Shanghai Shimao Co., Ltd. ("A Share Company")	**150**	—
Shimao International Holdings Limited ("Shimao International")	**151**	—
Shanghai Shimao Enterprise Co., Ltd.	**150**	—
Associated company		
Nanjing Project JV	**150**	—
Jointly controlled entity		
Shanghai Shimao Savills Property Management Co., Ltd. ("Shimao First Pacific")	**—**	111
	601	111

As at 31 December 2006, amounts due from related companies were arisen from the transactions set out in Note 36(a)(i). The balances are unsecured, interest-free and have no fixed repayment terms.

The carrying amounts of amounts due from related companies approximate their fair values.

17 Cash and cash equivalents

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Group		
Bank balances and cash	**6,023,090**	733,809
Less: Restricted cash	**(73,501)**	(29,129)
	5,949,589	704,680

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Company		
Bank balances and cash — unrestricted	**4,100,786**	—

As at 31 December 2006, the Group's cash of approximately RMB73,501,000 (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 RMB denominated balances into foreign currencies and the remittance of the foreign currencies out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

The effective interest rate on bank deposits as at 31 December 2006 was 1.04% (2005: 0.90%).

18 Share capital

Details of share capital of the Company are as follows:

	Note	Par value	Number of shares	Nominal value of of ordinary shares	
		HK$	'000	HK$'000	RMB'000
Authorised:					
At 1 January 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 31 December 2006			5,000,000	500,000	
Issued and fully paid:					
At 1 January 2005 and 31 December 2005 — 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
New issues of shares	(v)	0.1	684,393	68,439	70,212
At 31 December 2006			3,064,888	306,489	317,521

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.

(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). The shares issued for the Reorganisation were deemed to have been issued on 1 January 2005, see note (vi) below.

(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 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 then 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.

18 Share capital *(continued)*

Notes: *(continued)*

(vi) The share capital presented in the consolidated balance sheet as at 1 January 2005 and 31 December 2005 represents the share capital of the Company, arising on incorporation and from the Reorganisation transaction described in notes (i) and (ii) above. The shares issued for the Reorganisation were deemed to have been in issue throughout the accounting periods presented in these financial statements in accordance with the basis of preparation referred to in Note 2(a). The difference between the nominal value of these shares, being HK$178,743,961 and the nominal value of shares, being US$1 (equivalent to HK$8) of the subsidiary purchased pursuant to the Reorganisation is accounted for as merger reserve as at 1 January 2005 and 31 December 2005 (Note 19). Other than crediting the share capital and debiting the merger reserve with an amount of RMB185,787,000 (being translated from HK$178,743,953), there has been no adjustment arising from the adoption of merger accounting for the Reorganisation which affects the net assets and net profit or loss of the combining entities or the consolidated reserves.

(a) Pre-IPO Share Option Scheme

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 of HK$5.625 per share under the Pre-IPO Share Option Scheme is determined at a 10% discount to the global offering price, which was 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. These options will expire on 8 June 2012.

As at 31 December 2006, 63,920,000 outstanding options were not exercisable as they have not yet been vested.

The fair value of the options granted determined using the binomial model was HK$92,324,000. The significant inputs to the model were share price of HK$6.25 at the grant date, exercise price of HK$5.625, volatility of 30.5%, expected dividend yield of 3.3%, an expected option life of 6 years and an annual risk-free interest rate of 4.7%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the past one year of similar listed companies.

(b) Share Option Scheme

Pursuant to the shareholders' resolution passed on 9 June 2006, another share option scheme ("Share Option Scheme") was conditionally approved. Pursuant to the terms of the Share Option Scheme, the Company may grant options at its discretion, to any eligible person (including directors, employees, officers of any member of the Group, advisors, consultants, distributors, contractors, contract manufactures, agents, customers, business partners, joint venture partners and service providers of any members of the Group). The total number of shares which may be issued upon exercise of all options (the "Share Option") granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company must not exceed 30% of the Company's shares in issue from time to time.

No options may be granted under the Share Option Scheme after 10 years since the adoption. The vesting periods, exercise periods and vesting conditions may be specified by the Company at the time of the grant, and the options expire no later than 10 years from the relevant date of grant. The exercise price of the option under the Share Option Scheme shall be no less than the higher of (i) the closing price of the Company's shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange for the five Stock Exchange business days immediately preceding the date of grant; (iii) the nominal value of a share of the Company on the date of grant.

No option has been granted under the Share Option Scheme since its adoption.

19 Reserves

Group	Merger reserve RMB'000 (Note (i))	Share premium RMB'000	Share based compensation reserve RMB'000 (Note (ii))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2006					
— Issue of shares for the Reorganisation (Note 18(ii))	**(185,787)**	**—**	**—**	**—**	**(185,787)**
— Others	**—**	**—**	**—**	**2,510,218**	**2,510,218**
	(185,787)	**—**	**—**	**2,510,218**	**2,324,431**
Profit for the year attributable to the equity holders of the Company	**—**	**—**	**—**	**2,278,750**	**2,278,750**
Issue of shares for settlement of debts (Note 18(iii))	**—**	**892,578**	**—**	**—**	**892,578**
Issue of shares to financial investors (Note 18(iv))	**—**	**1,592,922**	**—**	**—**	**1,592,922**
Issue of shares in connection with the listing (Note 18(v))	**—**	**4,318,027**	**—**	**—**	**4,318,027**
Share issuing expenses	**—**	**(233,879)**	**—**	**—**	**(233,879)**
Employee share option scheme — value of employee services	**—**	**—**	**38,019**	**—**	**38,019**
Balance at 31 December 2006	**(185,787)**	**6,569,648**	**38,019**	**4,788,968**	**11,210,848**
Representing:					
Final dividend proposed				**615,859**	**615,859**
Others				**4,173,109**	**10,594,989**
				4,788,968	**11,210,848**
Balance at 1 January 2005					
— Issue of shares for the Reorganisation (Note 18(ii))	(185,787)	—	—	—	(185,787)
— Others	—	—	—	1,914,315	1,914,315
	(185,787)	—	—	1,914,315	1,728,528
Profit for the year attributable to the equity holders of the Company	—	—	—	907,993	907,993
Dividends	—	—	—	(312,090)	(312,090)
Balance at 31 December 2005	(185,787)	—	—	2,510,218	2,324,431
Representing:					
Final dividend proposed				—	—
Others				2,510,218	2,324,431
				2,510,218	2,324,431

19 Reserves *(continued)*

Company	Share premium RMB'000	Share based compensation reserve RMB'000 (Note (ii))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2006	—	—	**(5)**	**(5)**
Profit for the year attributable to the equity holders of the Company	—	—	**637,539**	**637,539**
Issue of shares for settlement of debts (Note 18(iii))	**892,578**	—	—	**892,578**
Issue of shares to financial investors (Note 18(iv))	**1,592,922**	—	—	**1,592,922**
Issue of shares in connection with the listing (Note 18(v))	**4,318,027**	—	—	**4,318,027**
Share issuing expenses	**(233,879)**	—	—	**(233,879)**
Employee share option scheme — value of employee services	—	**38,019**	—	**38,019**
Balance at 31 December 2006	**6,569,648**	**38,019**	**637,534**	**7,245,201**
Representing:				
Final dividend proposed			**615,859**	**615,859**
Others			**21,675**	**6,629,342**
			637,534	**7,245,201**
Balance at 1 January 2005	—	—	—	—
Loss for the year attributable to the equity holders of the Company	—	—	(5)	(5)
Balance at 31 December 2005	—	—	(5)	(5)
Representing:				
Final dividend proposed			—	—
Others			(5)	(5)
			(5)	(5)

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 and 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 18(a)).

(iii) The distributable reserve of the Company as at 31 December 2006 amounted to RMB7,245,201,000 (2005: Nil).

20 Borrowings

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Group		
Borrowings included in non-current liabilities:		
Bank borrowings — secured	**2,884,994**	2,462,698
Bank borrowings — unsecured	**170,000**	—
Senior notes — secured	**4,572,995**	—
	7,627,989	2,462,698
Less: Amounts due within one year	**(1,157,309)**	(549,294)
	6,470,680	1,913,404
Borrowings included in current liabilities:		
Bank borrowings — secured	**185,000**	175,000
Bank borrowings — unsecured	**310,000**	—
Current portion of long-term borrowings	**1,157,309**	549,294
	1,652,309	724,294

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Company		
Borrowings included in non-current liabilities:		
Senior notes — secured	**4,572,995**	—

As at 31 December 2006, the Group's total secured bank borrowings of RMB3,069,994,000 (2005: RMB2,547,698,000) were secured by its assets under construction and buildings (Note 6), an investment property (Note 7), land use rights (Note 8) and properties under development (Note 10).

As at 31 December 2005, RMB30,000,000 of bank borrowings were secured by the properties of a related company of the Group, and the security was released after repayment of borrowings in March 2006. RMB60,000,000 of bank borrowings was secured by a related company by its equity interests in A Share Company, and the security was released in April 2006. Among secured bank borrowings, RMB1,254,697,000 were additionally guaranteed by the Chairman of the Company, Mr. Hui Wing Mau, of which RMB890,000,000 was released in April 2006 and RMB364,697,000 was released upon listing of the Company.

20 Borrowings *(continued)*

On 29 November 2006, the Company issued a total of US$600,000,000 senior notes, including US$250,000,000 at a floating rate of interest due 1 December 2011 and US$350,000,000 at a fixed rate of interest due 1 December 2016. The Company may at its option redeem the notes, in whole or in part, by certain dates based on the terms of the notes. The notes are senior obligations guaranteed by certain subsidiaries other than those organised under the laws of the PRC ("Subsidiary Guarantors"), and secured by the shares of these Subsidiary Guarantors.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates or maturity whichever is the earlier date is as follows:

	6 months or less	**6–12 months**	**1–5 years**	**Over 5 years**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group					
Borrowings included in non-current liabilities:					
At 31 December 2006	2,391,400	1,411,700	—	2,667,580	6,470,680
At 31 December 2005	150,000	1,448,000	315,404	—	1,913,404
Borrowings included in current liabilities:					
At 31 December 2006	1,174,009	478,300	—	—	1,652,309
At 31 December 2005	320,264	404,030	—	—	724,294
Company					
Borrowings included in non-current liabilities:					
At 31 December 2006	1,905,415	—	—	2,667,580	4,572,995
At 31 December 2005	—	—	—	—	—

20 Borrowings *(continued)*

The maturity of the borrowings included in non-current liabilities is as follows:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Group		
Bank borrowings:		
Between 1 and 2 years	**353,345**	728,000
Between 2 and 5 years	**1,060,146**	795,404
Over 5 years	**484,194**	390,000
Senior notes:		
Between 2 and 5 years	**1,905,415**	—
Over 5 years	**2,667,580**	—
	6,470,680	1,913,404
Company		
Senior notes:		
Between 2 and 5 years	**1,905,415**	—
Over 5 years	**2,667,580**	—
	4,572,995	—

The effective interest rates at the balance sheet date were as follows:

	As at 31 December	
	2006	2005
Group		
Bank borrowings — RMB	**6.49%**	6.08%
Bank borrowings — US dollar	**7.02%**	6.04%
Bank borrowings — HK dollar	**5.97%**	5.85%
Senior notes — US dollar	**7.93%**	—
Company		
Senior notes — US dollar	**7.93%**	—

20 Borrowings *(continued)*

The carrying amounts and fair values of non-current borrowings are as follows:

	Carrying amounts RMB'000	Fair values RMB'000
Group		
At 31 December 2006	**6,470,680**	**6,468,714**
At 31 December 2005	1,913,404	1,906,296
Company		
At 31 December 2006	**4,572,995**	**4,572,995**
At 31 December 2005	—	—

The fair values are based on cash flows discounted using rates based on weighted average borrowing rates of 6.81% as at 31 December 2006 (2005: 6.24%).

The carrying amounts of short-term borrowings approximate their fair value.

The carrying amounts of the borrowings are denominated in the following currencies:

	As at 31 December	
	2006 **RMB'000**	2005 RMB'000
Group		
RMB	**3,158,000**	2,273,000
HK dollar	**79,646**	104,030
US dollar	**4,885,343**	260,668
	8,122,989	2,637,698
Company		
US dollar	**4,572,995**	—

21 Deferred income tax — Group

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

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Deferred income tax assets		
— to be recovered after more than 12 months	**64,273**	29,612
— to be recovered within 12 months	**59,452**	46,872
	123,725	76,484
Deferred income tax liabilities		
— to be recovered after more than 12 months	**1,190,447**	869,043
— to be recovered within 12 months	**26,355**	98,939
	1,216,802	967,982
	1,093,077	891,498

The net movement on the deferred taxation is as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Beginning of the year	**891,498**	714,179
Acquisition of a subsidiary	**—**	(2,025)
Charged to the consolidated income statement (Note 28)	**201,579**	179,344
End of the year	**1,093,077**	891,498

21 Deferred income tax — Group *(continued)*

Movement in deferred income tax assets and liabilities for the year ended 31 December 2006, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Temporary differences on recognition of sales and related cost of sales RMB'000	Temporary differences on recognition of expenses RMB'000	Total RMB'000
At 1 January 2005	182,523	9,229	191,752
Acquisition of a subsidiary	—	2,025	2,025
Credited to the consolidated income statement	29,209	36,797	66,006
At 31 December 2005	211,732	48,051	259,783
Credited to the consolidated income statement	8,780	27,217	35,997
At 31 December 2006	**220,512**	**75,268**	**295,780**

Deferred income tax liabilities

	Fair value gains on investment properties RMB'000	Fair value adjustments on assets and liabilities upon acquisition RMB'000	Total RMB'000
At 1 January 2005	26,929	879,002	905,931
Charged/(credited) to the consolidated income statement	297,871	(52,521)	245,350
At 31 December 2005	324,800	826,481	1,151,281
Charged/(credited) to the consolidated income statement	330,274	(92,698)	237,576
At 31 December 2006	**655,074**	**733,783**	**1,388,857**

21 Deferred income tax — Group *(continued)*

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

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB24,556,000 (2005: RMB22,918,000) in respect of accumulated losses amounting to RMB139,693,000 (2005: RMB129,181,000). Accumulated losses amounting to RMB30,299,000, RMB66,285,000, RMB32,597,000 and RMB10,512,000 as at 31 December 2006 will expire in 2010, 2011, 2012 and 2013 respectively.

22 Trade and other payables

Group

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Trade payables (note (a))	**3,502,628**	2,697,337
Other payables (note (b))	**1,417,738**	1,127,609
Accrued expenses	**111,685**	29,343
Other taxes payable	**112,313**	89,429
	5,144,364	3,943,718

Company

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Other payables and accruals	**52,455**	—

Notes:

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

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Within 90 days	**3,140,316**	2,238,690
Over 90 days and within 180 days	**362,312**	458,647
	3,502,628	2,697,337

22 Trade and other payables *(continued)*

Notes: *(continued)*

(b) Other payables comprise:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Deposits and advances from constructors	**6,495**	20,338
Acquisition consideration payable	**4,764**	87,000
Excess proceeds received from customers	**37,443**	12,579
Provision for land appreciation tax	**1,343,972**	996,122
Fees collected from customers on behalf of government agencies	**13,209**	2,663
Miscellaneous	**11,855**	8,907
	1,417,738	1,127,609

23 Amounts due to related companies

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Group		
Common directors:		
Gemfair	**—**	1,234,760
Associated companies:		
Nanjing Project JV	**—**	22,093
Fuzhou Project JV	**249,850**	10,112
	249,850	1,266,965

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Company		
Common directors:		
Perfect Zone International Limited	**—**	31

The balances are non-trade in nature, unsecured, interest-free and have no fixed repayment terms. The amount of RMB249,850,000 due to Fuzhou Project JV was repaid in January 2007.

The carrying amounts of amounts due to related companies approximate their fair values.

24 Other gains

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Government grants received (note (a))	**10,000**	10,000
Income tax refund on reinvestment (note (b))	**20,428**	23,225
Temporary rental and advertising income	**1,872**	5,801
Interest income	**83,753**	6,830
Net exchange gain	**—**	31,088
Bad debt recovered	**—**	25,000
Gain on disposal of property, plant and equipment	**26,373**	2,988
Compensation from a third party for violation of contracts (note (c))	**10,219**	—
Trademark income	**750**	—
Miscellaneous	**3,983**	1,515
	157,378	106,447

Notes:

(a) RMB10,000,000 (2005: RMB10,000,000) received during the year represents the subsidy from City of Harbin to encourage enterprises development in the local area.

(b) According to the tax regulations of the PRC, income tax refund on reinvestment is available to foreign investors when they reinvest their profits from invested entities in the PRC to the same or other invested entities in the PRC, instead of remitting outside the PRC. The amount represented the income tax refund received by the Group for its reinvestment of profit from a PRC subsidiary into its other PRC subsidiaries.

(c) 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.

25 Expenses by nature

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

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Staff costs — including directors' emoluments (note (a))	**223,303**	95,428
Auditors' remuneration	**3,141**	2,722
Depreciation (Note 6)	**72,127**	9,277
Amortisation of land use rights (Note 8)	**9,404**	308
Advertising, promotion and commission costs	**193,954**	86,240
Cost of properties sold	**3,640,088**	1,607,773
Business taxes and other levies on sales of properties (note (b))	**339,975**	124,024
Land appreciation tax incurred, net of the related accruals already made upon acquisition of subsidiaries (note (c))	**355,306**	162,204
Impairment of goodwill (Note 9)	**132,268**	—
Charitable donations	**8,120**	6,174
Direct outgoings arising from investment properties that generate rental income	**9,087**	8,893
Operating lease rental expenses	**23,252**	13,674
Hotel operating expenses	**68,765**	2,061
Net exchange loss	**30,572**	—
Office expenses	**23,883**	13,362
Other expenses	**110,934**	74,253
Total cost of sales, selling and marketing costs, administrative expenses and other operating expenses	**5,244,179**	2,206,393

(a) Staff costs (including directors' emoluments) comprise:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Wages and salaries	**144,886**	74,250
Pension costs — statutory pension (Note 32)	**11,516**	6,207
Employee share option scheme	**38,019**	—
Other allowances and benefits	**28,882**	14,971
	223,303	95,428

(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.

25 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 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.

26 Finance costs

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Interest on bank borrowings		
— wholly repayable within five years	**195,882**	75,878
— not wholly repayable within five years	**27,601**	43,868
Interest on senior notes		
— wholly repayable within five years	**13,164**	—
— not wholly repayable within five years	**20,739**	—
Interest on borrowing from a related company	**—**	4,543
	257,386	124,289
Less: interest capitalised	**(212,667)**	(115,593)
	44,719	8,696

27 Emoluments for directors and five highest paid individuals

(a) Directors' emoluments

The remuneration of each of the directors of the Company for the year ended 31 December 2006 is set out as follows:

Name of director	Fees	Basic salaries, allowances and benefits in kind	Bonuses	Inducement fee	Retirement benefit contributions	Employee share option scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Mr. Hui Wing Mau	6,149	—	512	—	12	—	6,673
Mr. Hui Sai Tan, Jason	1,047	709	689	—	12	1,815	4,272
Mr. Ip Wai Shing	344	1,205	689	574	12	1,760	4,584
Mr. Tang Ping Fai	295	1,033	590	492	12	1,815	4,237
Ms. Yao Li	418	947	590	—	12	1,815	3,782
Independent non-executive directors							
Ms. Kan Lai Kuen, Alice	195	—	—	—	—	—	195
Mr. Lu Hong Bing	246	—	—	—	—	—	246
Mr. Gu Yuchang	176	—	—	—	—	—	176
Mr. Lam Ching Kam	143	—	—	—	—	—	143

The executive directors of the Company did not receive any remuneration in respect of their services rendered to the Group for the year ended 31 December 2005. No emolument was paid to any independent non-executive directors for the year ended 31 December 2005.

No directors of the Company waived or agreed to waive any remuneration during the years ended 31 December 2005 and 2006.

27 Emoluments for directors and five highest paid individuals *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2006 are all directors. For the year ended 31 December 2005, none of the five highest paid individuals is director of the Company. The aggregate amounts of emoluments of the five highest paid individuals is set out below:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Fees	**8,253**	—
Basic salaries and allowances	**3,894**	4,635
Bonuses	**4,136**	620
Retirement scheme contributions	**60**	58
Employee share option scheme	**7,205**	—
	23,548	5,313

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
	RMB'000	RMB'000
Nil to RMB1,000,000	**—**	2
RMB1,000,001 – RMB1,500,000	**—**	3
RMB3,500,001 – RMB4,000,000	**1**	—
RMB4,000,001 – RMB4,500,000	**2**	—
RMB4,500,001 – RMB5,000,000	**1**	—
RMB6,500,001 – RMB7,000,000	**1**	—

(c) During the year, no emolument was paid or is payable by the Group to any of the above directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office apart from those disclosed above.

28 Income tax expense

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
PRC enterprise income tax		
Current income tax	**503,438**	146,516
Deferred income tax (Note 21)	**201,579**	179,344
	705,017	325,860

Share of income tax expense of associated companies of RMB108,068,000 (2005: RMB11,385,000) (Note 13) is included in the consolidated income statement under share of results of associated companies.

28 Income tax expense *(continued)*

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the companies within the Group as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Profit before income tax	**2,983,767**	1,312,168
Less: share of results of associated companies and a jointly controlled entity	**(201,014)**	(17,741)
	2,782,753	1,294,427
Calculated at PRC enterprise income tax rate of 33%	**918,308**	427,161
Tax saving due to preferential rate	**(273,389)**	(77,372)
Effect of different tax rates in other countries	**(2,087)**	(625)
Expenses not deductible for income tax purposes (note (a))	**91,810**	3,170
Income not subject to tax (note (b))	**(31,263)**	(22,868)
Tax losses not recognised	**1,638**	3,414
Tax losses utilised	**—**	(7,020)
Tax charge	**705,017**	325,860

Notes:

(a) For the year ended 31 December 2006, expenses not deductible for income tax purposes mainly resulted from the impairment of goodwill of RMB132,268,000, exchange loss of RMB46,099,000, employee share options of RMB38,019,000 and expenses incurred in the Company and its subsidiaries established in the British Virgin Islands, and certain donation expenses which are not deductible for tax purposes.

(b) For the year ended 31 December 2006, income not subject to tax arose mainly from interest income of RMB74,310,000 from the Company and its subsidiaries established in the British Virgin Islands, and income tax refund on reinvestment of RMB20,428,000; whereas the amount for the year ended 31 December 2005 arose mainly from exchange gains of RMB46,072,000 and income tax refund on reinvestment of RMB23,225,000.

Hong Kong profits tax

No Hong Kong profits tax has been provided for as the Group has no assessable profit in Hong Kong for the year ended 31 December 2006 (2005: Nil).

PRC enterprise income tax

PRC enterprise income tax is provided for at 33% of the profits for the PRC statutory financial reporting purpose, adjusted for those items, which are not assessable or deductible for the PRC enterprise income tax purpose. Two subsidiaries established in the Shanghai Pudong New Area of the PRC are entitled to a preferential tax rate of 15% for the years ended 31 December 2006 and 2005. In addition, another two subsidiaries established in other areas enjoy preferential tax rates of 27% and 30% respectively for both years ended 31 December 2006 and 2005.

A new PRC enterprise income tax law has been enacted subsequent to the year end, see Note 37(c).

29 Dividends

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Special dividend, declared, per share (note (a))	**—**	312,090
Proposed final dividend of HK20 cents per ordinary share (note (b))	**615,859**	—
	615,859	312,090

Notes:

(a) On 31 December 2005, a special 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 (Note 23).

(b) At a meeting held on 27 March 2007, the directors proposed a final dividend of HK20 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

30 Notes to the consolidated cash flow statement

Net cash (used in)/generated from operations:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Profit for the year	**2,278,750**	986,308
Adjustments for:		
Income tax expense	**705,017**	325,860
Interest income	**(83,753)**	(6,830)
Finance costs	**44,719**	8,696
Depreciation	**72,127**	9,277
Gain on disposal of property, plant and equipment	**(26,373)**	(2,988)
Share of results of associated companies	**(201,027)**	(17,741)
Share of results of a jointly controlled entity	**13**	—
Amortisation of land use rights	**9,404**	308
Fair value gains on investment properties	**(1,000,831)**	(902,639)
Staff costs — employee share option scheme	**38,019**	—
Impairment of goodwill	**132,268**	—
Exchange loss	**62,622**	—
	2,030,955	400,251
Changes in working capital:		
Properties under development and completed properties held for sale	**(294,171)**	(738,503)
Land use rights	**(2,974,888)**	(241,896)
Restricted cash	**(44,372)**	14,885
Trade and other receivables and prepayments	**(51,831)**	(225,713)
Trade and other payables	**400,262**	1,855,223
Advanced proceeds received from customers	**(3,067,120)**	(1,895)
Net cash (used in)/generated from operations	**(4,001,165)**	1,062,352

31 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. 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 on 1 January 2005.

	Year ended 31 December	
	2006	2005
Profit attributable to the equity holders of the Company (RMB'000)	**2,278,750**	907,993
Weighted average number of ordinary shares in issue (thousands)	**2,664,890**	1,787,440
Basic earnings per share (RMB cents)	**85.5**	50.8

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 18(a)) assuming they were exercised.

	Year ended 31 December 2006
Profit attributable to the equity holders of the Company (RMB'000)	**2,278,750**
Weighted average number of ordinary shares in issue (thousands)	**2,664,890**
Adjustment for share options granted under the Pre-IPO Share Option Scheme (thousands)	**14,096**
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,678,986**
Diluted earnings per share (RMB cents)	**85.1**

No disclosure of diluted earnings per share for the year ended 31 December 2005 has been made as there was no potential dilutive ordinary share outstanding during that year.

32 Pensions — defined contribution plans

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

32 Pensions — defined contribution plans *(continued)*

Details of the retirement scheme contributions for the employees, which have been dealt with in the consolidated income statement of the Group for the year ended 31 December 2006, are as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Gross scheme contributions	**11,516**	6,207

33 Subsidiaries, associated companies and a jointly controlled entity

Particulars of the subsidiaries, associated companies and a jointly controlled entity of the Group as at 31 December 2006 are as follows:

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2006	Principal activities
Subsidiaries — established and operation conducted in the PRC					
上海世茂房地產有限公司 (Shanghai Riviera Project Co)	15 March 2000	Foreign investment enterprise	Registered capital USD25,000,000	100%	Property development
上海世茂國際廣場有限責任公司 (International Plaza Project Co)	15 September 1994	Foreign investment enterprise	Registered capital RMB400,000,000	100%	Property development
上海世茂建設有限公司 (Shimao Jianshe)	16 March 2001	Foreign investment enterprise	Registered capital RMB540,000,000	100%	Investment holding
上海世莊茂園置業有限公司 (Shimao Sheshan Project Co)	19 June 2002	Foreign investment enterprise	Registered capital USD18,400,000	100%	Property development
上海世茂北外灘開發建設有限公司 (North Bund Project Co)	17 May 2002	Foreign investment enterprise	Registered capital HKD650,000,000	100%	Property development
北京世茂投資發展有限公司 (Beijing Project Co)	26 December 2000	Foreign investment enterprise	Registered capital RMB378,000,000	100%	Property development
哈爾濱世茂濱江新城開發建設有限公司 (Harbin Shimao Riviera New City Development and Construction Co., Ltd.)	24 March 2004	Foreign investment enterprise	Registered capital HKD500,000,000	100%	Property development
常熟世茂房地產開發有限公司 (Changshu Shimao Real Estate Development Co., Ltd.)	24 December 2004	Foreign investment enterprise	Registered capital HKD700,000,000	100%	Property development

33 Subsidiaries, associated companies and a jointly controlled entity *(continued)*

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2006	Principal activities
昆山世茂蝶湖灣開發建設有限公司 (Kunshan Butterfly Project Co)	10 November 2003	Foreign investment enterprise	Registered capital RMB412,410,000	100%	Property development
武漢世茂錦繡長江房地產開發有限公司 (Wuhan Shimao Splendid River Real Estate Development Co., Ltd.)	6 June 2005	Foreign investment enterprise	Registered capital USD80,000,000	100%	Property development
昆山世茂房地產開發有限公司 (Kunshan Shimao Real Estate Co., Ltd.)	24 December 2003	Foreign investment enterprise	Registered capital USD20,000,000	100%	Property development
嘉興世茂新城房地產開發有限公司 (Jiaxing Shimao New City Real Estate Development Co., Ltd.)	28 September 2006	Foreign investment enterprise	Registered capital USD46,300,000	100%	Property development
上海世茂新體驗置業有限公司 (Shanghai Shimao Wonderland Real Estate Co. Ltd.)	6 March 2006	Foreign investment enterprise	Registered capital USD50,000,000	100%	Property development
紹興世茂新城房地產開發有限公司 (Shaoxing Shimao New City Real Estate Development Co., Ltd)	11 July 2006	Foreign investment enterprise	Registered capital USD44,800,000	100%	Property development
紹興世茂置業有限公司 (Shaoxing Shimao Real Estate Co., Ltd)	11 July 2006	Foreign investment enterprise	Registered capital USD44,800,000	100%	Property development
蕪湖世茂房地產開發有限公司 (Wuhu Shimao Real Estate Development Co., Ltd.)	8 September 2006	Foreign investment enterprise	Registered capital USD37,500,000	100%	Property development
煙台世茂置業有限公司 (Yantai Shimao Real Estate Co., Ltd.)	6 September 2006	Foreign investment enterprise	Registered capital USD48,500,000	100%	Property development
常州世茂房地產開發有限公司 (Changzhou Shimao Real Estate Co., Ltd.)	27 November 2006	Foreign investment enterprise	Registered capital USD126,500,000	100%	Property development

33 Subsidiaries, associated companies and a jointly controlled entity *(continued)*

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2006	Principal activities
沈陽世茂新發展置業有限公司 (Shenyang Shimao New Development Co., Ltd.	5 December 2006	Foreign investment enterprise	Registered capital USD99,900,000	100%	Property development
杭州世茂置業有限公司 (Hangzhou Shimao Real Estate Co., Ltd.	13 December 2006	Foreign investment enterprise	Registered capital USD35,000,000	100%	Property development
Subsidiaries — incorporated and operation conducted in the British Virgin Islands					
Shimao Property Holdings (BVI) Limited	23 August 2002	Limited liability company	1 ordinary share of USD1	100% (note)	Investment holding
Advance Assets Holdings Limited	22 June 2001	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Best Empire Investments Limited	2 July 2002	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Best Whole Investments Limited	8 September 2006	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Double Achieve Assets Limited	31 January 2002	Limited liability company	1 ordinary share of USD1	100%	Investment holding
East Light Group Limited	12 May 2006	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Everactive Properties Limited	2 May 2001	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Keen View Limited	10 May 2006	Limited liability company	1 ordinary share of USD1	100%	Dormant
Keenrich Holdings Limited	18 December 2002	Limited liability company	1 ordinary share of USD1	100%	Holding of trademarks
Mega Universe Limited	10 July 2001	Limited liability company	1 ordinary share of USD1	100%	Investment holding

33 Subsidiaries, associated companies and a jointly controlled entity *(continued)*

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2006	Principal activities
Multivision Profits Limited	26 August 2002	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Peak Castle	2 July 2002	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Precise Choice Investments Limited	18 October 2001	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Prime Master Holdings Limited	2 July 2002	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Profit Eagle Enterprises Limited	31 January 2002	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Shimao Management (Overseas) Limited	18 December 2002	Limited liability company	1 ordinary share of USD1	100%	Management services
Significant Asset Group Limited	2 July 2002	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Vicking International Ltd.	19 January 1994	Limited liability company	50,000 ordinary share of USD1	100%	Investment holding
Value Ahead Investment Limited	5 July 2001	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Wickfair Investment Limited	8 October 2004	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Widely Known Limited	6 December 2005	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Wise Atlantic Holdings Limited	8 October 2001	Limited liability company	1 ordinary share of USD1	100%	Dormant
Year Grant Investments Limited	3 September 2001	Limited liability company	1 ordinary share of USD1	100%	Investment holding

33 Subsidiaries, associated companies and a jointly controlled entity *(continued)*

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2006	Principal activities
Subsidiaries — incorporated and operation conducted in Hong Kong					
Brilliant Architectural and Construction Professional Consultancy Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HKD1	100%	Dormant
Fine Tune Investments Limited	5 June 2006	Limited liability company	1 ordinary share of HKD1	100%	Holding of trademarks
Modern Professional Architectural Design Limited	28 July 2006	Limited liability company	100,000 ordinary shares of HKD1	100%	Dormant
Shimao Holdings Company Limited	3 February 1994	Limited liability company	100 million ordinary shares of HKD1	100%	Investment holding
Topwise Limited	29 March 2005	Limited liability company	1 ordinary share of HKD1	100%	Management services
Associated companies — established and operation conducted in the PRC					
福建世茂房地產有限公司 (Fuzhou Project JV)	14 May 2003	Foreign investment enterprise	RMB200,000,000	50%	Property development
南京世茂房地產開發有限公司 (Nanjing Project JV)	23 July 2004	Foreign investment enterprise	RMB200,000,000	50%	Property development
Jointly controlled entity — established and operation conducted in the PRC					
上海世茂第一太平物業有限公司 (Shimo First Pacific)	16 September 2005	Foreign investment enterprise	RMB1,000,000	50%	Property management

Note: Directly held by the Company.

34 Financial guarantees — Group

The Group had the following financial guarantees as at 31 December 2006.

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Guarantees in respect of mortgage facilities for certain purchasers	**882,872**	1,450,222

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.

35 Commitments — Group

(a) Commitments for capital and property development expenditure

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Authorised but not contracted for	**—**	—
Contracted but not provided for		
— Property, plant and equipment	**235,162**	346,884
— Investment properties	**23,384**	170,917
— Land use rights	**6,867,627**	4,095,111
— Properties being developed by the Group for sale	**1,286,482**	2,272,983
	8,412,655	6,885,895

35 Commitments — Group *(continued)*

(b) Operating lease commitments

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

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Within one year	**12,874**	12,530
Between two to five years	**4,742**	13,039
	17,616	25,569

(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:

	As at 31 December	
	2006	2005
	RMB'000	RMB'000
Within one year	**70,000**	27,672
Between two to five years	**280,000**	280,000
After five years	**904,167**	974,167
	1,254,167	1,281,839

In 2003, the Group entered into a long-term rental agreement with a third party, Shanghai Brilliance (Group) Co., Ltd. ("Brilliance") for a period of 20 years, whereby a shopping mall is leased to Brilliance who acts as the head tenant and the Group is entitled to a minimum fixed annual rental income. On 8 February 2007, it is mutually agreed to terminate the long-term rental agreement with effect from 1 May 2007 and replaced by a management agreement with Brilliance (Note 37). The operating lease rental receivable as at 31 December 2006 included an amount of RMB1,244,947,000 from Brilliance in respect of period after 1 May 2007 which was no longer receivable following the termination of the rental agreement with Brilliance.

36 Related party transactions

(a) Other than those disclosed in Notes 16, 20 and 23, the Group had entered into the following major related party transactions during the year ended 31 December 2006.

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Continuing transactions		
Trademark fee earned from related companies (note (i))	**750**	—
Operating lease rental expenses charged by a related company (note (ii))	**1,206**	—
Property management fee and reimbursement of staff costs charged by a related company (note (iii))	**2,012**	—
Discontinuing transactions		
Interest expense on amount due to a related company (Note 26 and note (iv))	**—**	4,543

Notes:

(i) On 12 June 2006, the Group entered into a trademark framework agreement with certain related companies, namely Shanghai Shimao Enterprises Co. Ltd., Shanghai Shimao Co. Ltd , Shimao International and Mr. Hui Wing Mau, the 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 year ended 31 December 2005, the Group provided the trademark of "Shimao" to certain related companies at nil consideration.

(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 of which certain directors of the Company are also the directors, to lease part of office premises of Shimao International in Hong Kong. The Group had been using the office premises at nil consideration for the year ended 31 December 2005.

(iii) Shimao First Pacific, a jointly controlled entity of the Group, provided property management service to certain properties of the Group.

(iv) The interest for the year ended 31 December 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.

(v) During the year ended 31 December 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.

(vi) A subsidiary of the Group had provided Shanghai Mason Club Co., Ltd., of which certain directors of the Company are also the 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 year ended 31 December 2006, the clubhouse was loss making and therefore no consideration had been charged (2005: Nil).

36 Related party transactions *(continued)*

(b) Key management compensation

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Fees	**8,253**	—
Emoluments		
— Salaries and other short-term employee benefits	**16,967**	3,808
— Retirement scheme contributions	**164**	62
— Employee share option scheme	**11,546**	—
	36,930	3,870

37 Subsequent events

(a) The Group has successfully acquired certain land use rights in Suzhou, Xuzhou and Hangzhou on 17 January 2007, 4 February 2007 and 6 February 2007, at a total consideration of RMB1,704,000,000, RMB1,200,000,000 and RMB816,000,000, respectively.

(b) The Group entered into a management agreement with Brilliance to replace the former long-term rental agreement in respect of a shopping mall of the Group. According to the management agreement, Brilliance will cease to be the head tenant from 1 May 2007, and will act as the operation manager for the shopping mall for a period of 10 years starting from 1 May 2007 with remuneration calculated based on the rentals received in respect of the shopping mall. Following the termination of the rental agrement with Brilliance, the Group is entitled to and is in the process of identifying and negotiating the terms of tenancy agreements with individual tenants directly.

(c) The National People's Congress of the PRC has approved the new PRC enterprise income tax law on 16 March 2007. The tax rate will be unified for both domestic and foreign investment enterprises at 25% and the previous preferential tax treatments will be changed, with certain grandfathering provisions with effect from 1 January 2008. The Company's management is in the process of assessing its impact to the Group.

38 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Company's board of directors on 27 March 2007.