NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. GROUP REORGANISATION, BASIS OF PREPARATION AND GENERAL INFORMATION

Group reorganisation

Country Garden Holdings Company Limited (the "Company") was incorporated in the Cayman Islands on 10 November 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company and its subsidiaries underwent the following reorganisation (the "Reorganisation") in preparation for the listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

(i) Ms. Yang Huiyan, Mr. Yang Erzhu, Mr. Su Rubo, Mr. Zhang Yaoyuan and Mr. Ou Xueming (hereinafter collectively referred to as the "Existing Shareholders") and/or their respective family members established various companies in the People's Republic of China (the "PRC") engaging in property development, construction, fitting and decoration, property management and hotel operation and theme park. As part of the Reorganisation, the Existing Shareholders incorporated each of Angel View International Limited ("Angel View"), Boavista Investments Limited ("Boavista"), United Gain Group Ltd. ("United Gain"), Estonia Development Ltd. ("Estonia"), Falcon Investments Development Ltd. ("Falcon"), Infiniti Holdings Development Limited ("Infiniti"), Wise Fame Group Ltd. ("Wise Fame"), Impreza Group Limited ("Impreza"), Smart World Development Holdings Ltd. ("Smart World") and Great Best Group Holdings Limited ("Great Best") in the percentage of equity interests of approximately 70%, 12%, 6%, 6%, and 6%, respectively.

(ii) As of 31 December 2006, each of Falcon, Infiniti, Wise Fame and Impreza had acquired Angel View, Boavista, United Gain and Estonia from the Existing Shareholders respectively, and had allotted and issued their respective new shares to the Existing Shareholders in the ratio of approximately 70%, 12%, 6%, 6% and 6% as consideration. Smart World then have acquired Falcon, Infiniti, Wise Fame and Impreza from the Existing Shareholders, and had allotted and issued new shares to the Existing Shareholders in the ratio of approximately 70%, 12%, 6%, 6% and 6% as consideration. Smart World also has acquired Country Garden (Hong Kong) Development Company Limited ("HK Co") from Mr. Yeung Kwok Keung and paid approximately HK$1,124,000, (the net asset value of HK Co as at 31 August 2006), as consideration. Great Best then acquired Smart World from the Existing Shareholders, and had allotted and issued new shares to the Existing Shareholders in the ratio of approximately 70%, 12% 6%, 6% and 6% as consideration. Great Best then provided the consideration for the acquisitions of the equity interest in the PRC project companies, hotel companies, property management company, construction companies, fitting and decoration companies and theme park companies now comprising the Group from the Existing Shareholders to Angel View, Boavista, United Gain and Estonia through a loan arrangement for an aggregate amount of approximately HK$62 million and the subscription of new shares in Smart World, the sums were in turn applied for the subscription of new shares in Falcon, Infiniti, Wise Fame and Impreza by Smart World and the subscription of new shares in Angel View, Boavista, United Gain and Estonia by Falcon, Infiniti, Wise Fame and Impreza respectively.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

1. GROUP REORGANISATION, BASIS OF PREPARATION AND GENERAL INFORMATION (CONTINUED)

Group reorganisation (continued)

Particulars of Smart World and its subsidiaries (collectively, the "Smart World group") are set out below:

Name	Date of incorporation/ establishment	Nominal value of issued and fully paid share capital/paid-in capital	Percentage of attributable equity interest Directly	Percentage of attributable equity interest Indirectly	Principal activities
Incorporated in Hong Kong, a limited liability company and operates in Hong Kong:					
Country Garden (Hong Kong) Development Company Limited	21 September 2005	HK$10,000	—	100%	General trading
Incorporated in the BVI, all of which are limited liability companies and operate in the PRC:					
Angel View International Limited	7 April 2006	US$200	—	100%	Investment holding
Boavista Investments Limited	7 April 2006	US$200	—	100%	Investment holding
United Gain Group Ltd.	28 March 2006	US$200	—	100%	Investment holding
Estonia Development Ltd.	21 March 2006	US$200	—	100%	Investment holding
Falcon Investments Development Ltd.	21 March 2006	US$300	—	100%	Investment holding
Infiniti Holdings Development Limited	7 April 2006	US$300	—	100%	Investment holding
Wise Fame Group Ltd.	28 March 2006	US$300	—	100%	Investment holding
Impreza Group Limited	7 April 2006	US$300	—	100%	Investment holding
Smart World Development Holdings Ltd.	28 March 2006	US$300	100%	—	Investment holding
Established and operate in the PRC, all of which are foreign investment enterprises:					
Changsha Economic and Technological Development Area Venice Palace Hotel Co., Ltd. 長沙經濟技術開發區威尼斯酒店有限公司	6 December 2004	RMB5,000,000	—	100%	Hotel operation
Changsha Venice Palace Property Development Co., Ltd. 長沙威尼斯城房地產開發有限公司	1 August 2003	RMB32,500,000	—	100%	Property development

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

1. GROUP REORGANISATION, BASIS OF PREPARATION AND GENERAL INFORMATION (CONTINUED)

Group reorganisation (continued)

Name	Date of incorporation/ establishment	Nominal value of issued and fully paid share capital/paid-in capital	Percentage of attributable equity interest Directly	Percentage of attributable equity interest Indirectly	Principal activities
Established and operate in the PRC, all of which are foreign investment enterprises: (continued)					
Foshan Gaoming Country Garden Property Development Co., Ltd. 佛山市高明區碧桂園房地產開發有限公司	13 January 2004	RMB50,000,000	—	100%	Property development
Foshan Gaoming Country Garden Phoenix Hotel Co., Ltd. 佛山市高明區碧桂園鳳凰酒店有限公司	30 September 2005	RMB5,000,000	—	100%	Hotel operation
Foshan Nanhai Country Garden Property Development Co., Ltd. 佛山市南海區碧桂園房地產開發有限公司	24 December 2004	RMB62,500,000	—	100%	Property development
Foshan Shunde Country Garden Property Development Co., Ltd. 佛山市順德區碧桂園物業發展有限公司	2 April 1997	RMB50,000,000	—	100%	Property development
Foshan Shunde Finest Decoration & Design Enterprise 佛山市順德區雅駿裝飾設計工程有限公司	9 August 1999	RMB3,000,000	—	100%	Decoration and design
Guangdong Country Garden Property Management Co., Ltd. 廣東碧桂園物業管理有限公司	19 April 2004	RMB12,100,000	—	100%	Property management
Guangdong Giant Leap Construction Co., Ltd. ("Giant Leap Construction Co.") 廣東騰越建築工程有限公司	25 March 1997	RMB27,750,000	—	100%	Construction
Guangzhou Country Garden Property Development Co., Ltd. 廣州碧桂園物業發展有限公司	30 July 1998	RMB12,000,000	—	100%	Property development
Guangzhou Nansha Economic and Technological Development Zone Country Garden Property Development Co., Ltd. 廣州南沙經濟技術開發區碧桂園物業發展有限公司	2 August 2001	RMB55,994,938	—	100%	Property development

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

1. GROUP REORGANISATION, BASIS OF PREPARATION AND GENERAL INFORMATION (CONTINUED)

Group reorganisation (continued)

Name	Date of incorporation/ establishment	Nominal value of issued and fully paid share capital/paid-in capital	Percentage of attributable equity interest Directly	Percentage of attributable equity interest Indirectly	Principal activities
Established and operate in the PRC, all of which are foreign investment enterprises: (continued)					
Guangzhou Panyu Huanan Country Garden Club Co., Ltd. 廣州市番禺區華南碧桂園俱樂部有限公司	18 September 2000	RMB500,000	—	100%	Club operation
Guangzhou Lychee Cultural Park Co., Ltd. 廣州市紅荔文化村有限公司	7 December 2004	RMB300,000	—	100%	Theme park operation
Guangzhou Huadou Country Garden Property Development Co., Ltd. 廣州市花都碧桂園物業發展有限公司	24 January 2002	RMB16,415,554	—	100%	Property development
Heshan Country Garden Phoenix Hotel Co., Ltd. 鶴山市碧桂園鳳凰酒店有限公司	29 September 2003	RMB5,000,000	—	100%	Hotel operation
Heshan Country Garden Property Development Co., Ltd. 鶴山市碧桂園物業發展有限公司	9 July 2003	RMB10,000,000	—	100%	Property development
Jiangmen East Coast Country Garden Property Development Co., Ltd. 江門市東岸房地產發展有限公司*	13 August 2003	RMB10,637,941	—	100%	Property development
Jiangmen Jinyi Housing Co., Ltd. 江門市金怡置業有限公司*	13 August 2003	RMB16,647,284	—	100%	Hotel operation
Jiangmen Wuyi Country Garden Phoenix Hotel Co., Ltd. 江門市五邑碧桂園鳳凰酒店有限公司	14 January 2005	RMB5,000,000	—	100%	Hotel operation
Jiangmen Wuyi Country Garden Property Development Co., Ltd. 江門市五邑碧桂園房地產開發有限公司	28 September 2003	RMB10,000,000	—	100%	Property development

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

1. GROUP REORGANISATION, BASIS OF PREPARATION AND GENERAL INFORMATION (CONTINUED)

Group reorganisation (continued)

Name	Date of incorporation/ establishment	Nominal value of issued and fully paid share capital/paid-in capital	Percentage of attributable equity interest Directly	Indirectly	Principal activities
Established and operate in the PRC, all of which are foreign investment enterprises: (continued)					
Qingyuan Country Garden Holiday Islands Hotel Co., Ltd. 清遠市碧桂園假日半島酒店有限公司	5 April 2004	RMB5,000,000	—	100%	Hotel operation
Taishan Country Garden Property Development Co., Ltd. 台山市碧桂園房地產開發有限公司	21 March 2005	RMB9,089,990	—	100%	Property development
Taishan Country Garden Phoenix Hotel Co., Ltd. 台山市碧桂園鳳凰酒店有限公司	4 August 2005	RMB8,681,231	—	100%	Hotel operation
Yangdong Country Garden Property Development Co., Ltd. 陽東縣碧桂園房地產開發有限公司	2 February 2005	US$6,250,000	—	100%	Property development
Yangjiang Country Garden Phoenix Hotel Co., Ltd. 陽江市碧桂園鳳凰酒店有限公司	2 February 2005	US$625,000	—	100%	Hotel operation
Zengcheng Country Garden Phoenix City Hotel Co., Ltd. 增城市碧桂園鳳凰城酒店有限公司	13 January 2004	RMB10,000,000	—	100%	Hotel operation
Zengcheng Country Garden Property Development Co., Ltd. 增城市碧桂園物業發展有限公司	22 September 2000	RMB200,000,000	—	100%	Property development
Foshan Shunde Jun'an Country Garden Property Development Co., Ltd. 佛山市順德區均安碧桂園物業發展有限公司	28 June 2000	RMB10,000,000	—	90%	Property development
Guangzhou Huanan Country Garden Property Development Co., Ltd. ("Huanan Property Development") 廣州華南碧桂園房地產開發有限公司***	15 October 2003	RMB8,000,000	—	50%	Property development

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

1. GROUP REORGANISATION, BASIS OF PREPARATION AND GENERAL INFORMATION (CONTINUED)

Group reorganisation (continued)

Name	Date of incorporation/ establishment	Nominal value of issued and fully paid share capital/paid-in capital	Percentage of attributable equity interest Directly	Indirectly	Principal activities
Established and operate in the PRC, all of which are foreign investment enterprises: (continued)					
Shaoguan Shunhong Property Development Co., Ltd. 韶關市順宏房地產開發有限公司	12 July 2006	RMB30,000,000	—	100%	Property development
Zhaoqing Gaoxin Country Garden Property Development Co., Ltd. 肇慶市高新區碧桂園房地產開發有限公司	10 July 2006	RMB5,000,000	—	100%	Property development
Tianjin Phoenix Investment Development Co., Ltd. 天津鳳凰投資發展有限公司	5 July 2006	RMB30,000,000	—	70%	Property development
Huizhou Huiyang Qishan Holiday Resorts Development Co., Ltd. 惠州市惠陽區岐山度假村發展有限公司**	29 March 2002	RMB10,000,000	—	90%	Property development
Gaoyao Biyi Property Development Co., Ltd. 高要市碧頤房地產開發有限公司**	15 September 2006	RMB20,000,000	—	51%	Property development
Zhaoqing Gaoyao Country Garden Phoenix Hotel Co., Ltd. 肇慶市高要碧桂園鳳凰酒店有限公司**	31 December 2006	RMB5,000,000	—	51%	Hotel operation
Tianjin Country Garden Phoenix Hotel Co., Ltd. 天津碧桂園鳳凰酒店有限公司	26 December 2006	RMB10,000,000	—	100%	Hotel operation
Tianjin Country Garden Investment Development Co., Ltd. 天津碧桂園投資發展有限公司	26 December 2006	RMB10,000,000	—	100%	Property development
Manzhouli Country Garden Property Development Co., Ltd. 滿洲里碧桂園房地產開發有限公司	12 December 2006	RMB10,000,000	—	100%	Property development

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

1. GROUP REORGANISATION, BASIS OF PREPARATION AND GENERAL INFORMATION (CONTINUED)

Group reorganisation (continued)

Name	Date of incorporation/ establishment	Nominal value of issued and fully paid share capital/paid-in capital	Percentage of attributable equity interest Directly	Indirectly	Principal activities
Established and operate in the PRC, all of which are foreign investment enterprises: (continued)					
Chaohu Country Garden Property Development Co., Ltd. 巢湖市碧桂園房地產開發有限公司	18 December 2006	RMB10,000,000	—	100%	Property development

* Acquired by the Group on 20 April 2005, see note 32 for details.

** Acquired by the Group on 31 December 2006, see note 32 for details.

*** The Directors are of the opinion that the Group has the power to govern the financial and operating policies of Huanan Property Development by virtue of possessing dominating position in the meeting of board of Directors, therefore, it is regarded as a subsidiary of the Group.

The English names of the PRC companies referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

1. GROUP REORGANISATION, BASIS OF PREPARATION AND GENERAL INFORMATION (CONTINUED)

Group reorganisation (continued)

(iii) Concrete Win Limited ("Concrete Win"), Automic Group Ltd. ("Automic"), Easy Hope Holdings Ltd. ("Easy Hope"), Acura International Global Limited ("Acura") and Highlander Group Limited ("Highlander"), were set up in the British Virgin Islands ("BVI") and wholly owned by Ms. Yang Huiyan, Mr. Yang Erzhu, Mr. Su Rubo, Mr. Zhang Yaoyuan and Mr. Ou Xueming respectively. On 21 March 2007, Concrete Win, Automic, Easy Hope, Acura and Highlander acquired the existing shares of Smart World from Great Best and the debt of approximately HK$62 million owed by Angel View, Boavista and Estonia to Great Best at the total consideration of HK$747,656,986, which was equivalent to the net asset value of Smart World as at 30 September 2006. After the above acquisition, Smart World was then owned by Concrete Win, Automic, Easy Hope, Acura and Highlander as to approximately 70%, 12%, 6%, 6% and 6% respectively.

(iv) On 26 March 2007, the Company acquired Smart World from Concrete Win, Automic, Easy Hope, Acura and Highlander, and allotted and issued 999,999,900 shares to them as consideration.

After the Reorganisation, the Company became the holding company of Smart World group. Concrete Win also became the immediate and ultimate holding company of the Company.

Basis of preparation

For the purpose of these combined financial statements, the combining entities are the Company and the Smart World group (collective referred to as the "Group"). The combined financial statements have been prepared to reflect the aggregation of the financial statements of the Company and the consolidated financial statements of the Smart World group (the "Smart World Consolidated Financial Statements"), both are ultimately controlled by Mr. Yeung Kwok Keung and his certain family members (collectively the "Yeung's Family") as a result of contractual arrangements made among the Yeung's Family.

The Smart World Consolidated Financial Statements include the financial position, results and cash flows of the companies comprising the Smart World group using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

General information

The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands. During the year, the Company is engaged in investment holding and the subsidiaries of the Company were principally engaged in the property development, construction, fitting and decoration, property management and hotel operation and theme park.

The Company's shares were listed on the Stock Exchange on 20 April 2007.

These combined financial statements are presented in units of Renminbi ("Rmb") thousand Yuan, unless otherwise stated and have been approved for issue by the board of directors of the Company on 20 April 2007.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The preparation of combined financial statements in conformity with the 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 combined financial statements are disclosed in note 4 below.

The following new standard, amendment and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods and the Group has not early adopted:

- HKFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures, will be effective for the Group's accounting 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 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 has assessed the impact of these new and revised standards and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by these new and revised standards;

- HK(IFRIC)-Interpretation 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). This interpretation 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 this interpretation from 1 January 2007, but it is not expected to have any impact on the combined financial statements; and

- HK(IFRIC)-Interpretation 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). This interpretation 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 this interpretation from 1 January 2007, but it is not expected to have any impact on the combined financial statements.

(a) Merger accounting for common control combination

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Merger accounting for common control combination (continued)

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as an expense in the period in which they are incurred.

(b) 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.

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. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Subsidiaries (continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies 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.

(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 activities within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the accounts 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"). For the purpose of this report, the combined financial statements is presented in 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 transaction. 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 combined income statement.

(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 for each balance sheet of the companies now comprising the Group are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement of the companies now comprising the Group are translated at average exchange rates; and
- All resulting exchange differences are recognised as a separate component of equity.

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.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Buildings	20 years
Machinery	5–10 years
Motor vehicles	5–10 years
Furniture, fitting and equipment	5–8 years

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

Construction in progress represents the direct costs of construction incurred of property, plant and equipment less any impairment losses. No provision for depreciation is made on construction in progress until such time the relevant assets are completed and put into use. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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

(f) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are 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 that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial assets

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They 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. Loans and receivables are classified as "trade and other receivables" in the balance sheet (note 12).

(ii) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets (except for unlisted equity investments that do not have quoted price in active market and whose fair value cannot be reliably measured) are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

The fair values of quoted investments are based on current bid prices. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of loans and other receivables is described in note 2(l).

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Properties under development

Properties under development are stated at the lower of cost and net realisable value. 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 and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Development cost of property comprises construction costs, depreciation of machinery and equipment, amortisation of land use rights 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.

(i) Completed properties held for sale

Completed properties remaining unsold at the balance sheet date 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.

(j) Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(k) Construction contracts

Contract costs are recognised when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Construction contracts (continued)

The Group uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within "trade and other receivables".

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

(l) Trade and other 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 it will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. 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 combined income statement.

(m) Cash and cash equivalents

Cash and cash equivalent includes cash in hand and at banks and deposits held at call with banks with original maturities of three months or less.

(n) 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 income statements over the period of the borrowings using the effective interest method.

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

(o) Borrowing costs

Borrowing costs are charged to the income statement in the accounting period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) 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 accounts. However, the deferred income tax is not accounted for if it 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. 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, 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.

(q) Employee benefits

(i) *Employee leave entitlements*

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Employee benefits (continued)

(ii) *Retirement benefits (continued)*

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.

(r) 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 has been 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 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.

(s) Revenue recognition

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

(i) *Sales of properties*

Revenue from sales of properties is recognised when the risks and rewards of 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 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 combined balance sheet as advanced proceeds received from customers under current liabilities.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue recognition (continued)

(ii) *Property management*

Revenue arising from property management is recognised in the accounting period in which the services are rendered.

(iii) *Construction services*

Revenue arising from construction services is recognised in the accounting period in which the services is rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided (note 2(k)).

(iv) *Decoration services*

Revenue from decoration services is recognised in the accounting period in which the services are rendered.

(v) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cashflow discounted at 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.

(vi) *Rental income*

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

(vii) *Hotel operation*

Revenue from hotel operation is recognised in the accounting period in which the services are rendered.

(viii) *School fee income*

Fee income from school as ancillary facility to the property development business is recognised in the accounting period in which the services are rendered.

(t) 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*

Payments made under operating leases (net of any incentives received from the lessor), including up-front prepayment made for the land use rights, are charged to the combined income statement or capitalised in the properties under development (note 2(h)) on a straight-line basis over the period of the lease.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Leases (continued)

(ii) *The Group is the lessor*

Assets leased out under operating leases are included in property, plant and equipment and completed properties held for sale in the combined balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment.

(u) Dividend distribution

Dividend distribution to the then equity holders of the companies now comprising the Group during the year is recognised in these combined financial statements in the period in which the dividends are approved by the equity holders or the board of directors, where applicable, of relevant companies now comprising the Group.

(v) 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 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 sales proceeds are in other foreign currencies. As at 31 December 2006, most of the Group's assets and liabilities were denominated in RMB and in the opinion of the Directors, the Group would not have significant foreign currency risk exposure.

(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 not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) *Credit risk*

The Group has no concentrations on credit risk. Cash transactions are limited to high-credit-quality institutions. The extent of the Group's credit exposure is represented by the aggregate balance of cash in bank and trade and other receivables.

The Group has arranged bank financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 30.

(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 construction commitments.

(b) Fair value estimation

The nominal value less impairment provisions of trade and other receivables and the nominal value of trade and other payables approximate their fair values due to their short maturities. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the combined financial statements are evaluated and 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

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate 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 difference will impact the income tax and deferred tax provision 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 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 taxes

The Group is subject to land appreciation taxes in the PRC. However, the implementation and settlement of these taxes varies among various tax jurisdictions in cities of the PRC, and the Group has not finalised its land appreciation taxes 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 taxes. The Group recognised these land appreciation taxes 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 taxes have been finalised with local tax authorities.

(c) Construction contract revenue recognition

According to the accounting policies of construction contracts as stated in note 2(k), the Group uses the "percentage of completion method" to determine the appropriate revenues to be recognised in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

Upon applying the percentage of completion method, the Group needs to estimate the gross profit margin of each construction contract, which was determined based on the estimated total construction contract costs and total construction contract sum. If the actual gross profit margin of each construction contract differs from the management's estimates, the construction contract revenue to be recognised within the next year will need to be adjusted accordingly.

In addition, the Directors are of the opinion that there were no expected losses, where the estimated total construction contract costs exceed the total construction contract revenue, which need to be recognised in the income statement.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(d) Depreciation

Depreciation of operating assets constitutes a substantial operating cost for the Group. The costs of property, plant and equipment are charged as depreciation expense over the estimated useful lives of the respective assets using the straight-line method. The Group periodically reviews changes in technology and industry conditions, asset retirement activity and salvage values to determine adjustments to estimated remaining useful lives and depreciation rates.

Actual economic lives may differ from estimated useful lives. Periodic reviews could result in a change in depreciable lives and therefore depreciation expense in future periods.

5. SEGMENT INFORMATION

The Group is principally engaged in the property development, construction, fitting and decoration, property management and hotel operation and theme park businesses. Other businesses of the Group mainly represent operation of schools as ancillary facilities to the property development business, which were disposed of in 2006 (see note 33). As less than 10% of the Group's combined turnover and results are attributable to the market outside the PRC and less than 10% of the Group's combined assets are located outside the PRC, no geographical segment data is presented.

Revenue consists of the following:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Sales of properties	**6,961,365**	4,086,679
Rendering of construction services	**514,240**	535,757
Rendering of hotel services	**193,956**	185,264
Rendering of property management services	**170,368**	134,494
Rendering of school services	**59,100**	114,659
Rendering of decoration services	**41,908**	134,632
	7,940,937	5,191,485

5. SEGMENT INFORMATION (CONTINUED)

Segment information is as follows:

Primary reporting format — business segments

The segment results for the year ended 31 December 2006 are as follows:

	Property development RMB'000	Construction, fitting and decoration RMB'000	Property management RMB'000	Hotel operation and theme park RMB'000	Others RMB'000	Elimination RMB'000	Group RMB'000
Gross segment revenue	6,961,365	3,445,118	187,767	201,012	59,100	—	10,854,362
Inter-segment revenue	—	(2,888,970)	(17,399)	(7,056)	—	—	(2,913,425)
Revenue	6,961,365	556,148	170,368	193,956	59,100	—	7,940,937
Segment results	1,557,451	550,773	26,878	14,262	8,107	(102,393)	2,055,078
Gains on disposals of subsidiaries and businesses (note 33)	—	—	—	—	—	—	26,497
Finance costs							(264,776)
Profit before income tax							1,816,799
Income tax expense							(144,320)
Profit for the year							1,672,479

The segment results for the year ended 31 December 2005 are as follows:

	Property development RMB'000	Construction, fitting and decoration RMB'000	Property management RMB'000	Hotel operation and theme park RMB'000	Others RMB'000	Elimination RMB'000	Group RMB'000
Gross segment revenue	4,086,679	4,146,177	159,486	192,008	114,659	—	8,699,009
Inter-segment revenue	—	(3,475,788)	(24,992)	(6,744)	—	—	(3,507,524)
Revenue	4,086,679	670,389	134,494	185,264	114,659	—	5,191,485
Segment results	892,901	756,069	12,547	(4,246)	14,638	(486,396)	1,185,513
Finance costs							(220,981)
Profit before income tax							964,532
Income tax expense							(375,019)
Profit for the year							589,513

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. SEGMENT INFORMATION (CONTINUED)

Primary reporting format — business segments (continued)

Inter-segment transfers or transactions are entered into under the terms and conditions agreed by both parties.

Other segment items including in the combined income statement and capital expenditure are as follows:

	Year ended 31 December 2006						
	Property development RMB'000	Construction, fitting and decoration RMB'000	Property management RMB'000	Hotel operation and theme park RMB'000	Others RMB'000	Elimination RMB'000	Group RMB'000
Depreciation (note 6)	**27,126**	**33,824**	**7,054**	**69,296**	**5,642**	**(5,778)**	**137,164**
Amortisation (note 7)	**37,519**	**1,440**	**—**	**688**	**—**	**—**	**39,647**
Impairment of property, plant and equipment (note 6)	**—**	**—**	**—**	**3,267**	**154**	**—**	**3,421**
Capital expenditure (note 6)	**286,686**	**6,819**	**5,352**	**78,451**	**535**	**(45,229)**	**332,614**

	Year ended 31 December 2005						
	Property development RMB'000	Construction, fitting and decoration RMB'000	Property management RMB'000	Hotel operation and theme park RMB'000	Others RMB'000	Elimination RMB'000	Group RMB'000
Depreciation (note 6)	26,142	43,269	6,314	53,786	11,030	(6,906)	133,635
Amortisation (note 7)	37,008	2,288	—	3,023	—	—	42,319
Impairment of property, plant and equipment (note 6)	—	—	—	3,007	1,354	—	4,361
Capital expenditure (note 6)	46,954	69,569	2,208	174,210	3,632	(59,052)	237,521

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. SEGMENT INFORMATION (CONTINUED)

Primary reporting format — business segments (continued)

The segment assets and liabilities at 31 December 2006 are as follows:

	Property development RMB'000	Construction, fitting and decoration RMB'000	Property management RMB'000	Hotel operation and theme park RMB'000	Others RMB'000	Elimination RMB'000	Group RMB'000
Segment assets	**20,227,493**	**4,367,792**	**119,137**	**986,482**	**—**	**(10,945,103)**	**14,755,801**
Unallocated							**555,566**
Total assets							**15,311,367**
Segment liabilities	**15,662,588**	**2,559,287**	**83,899**	**966,359**	**—**	**(9,941,288)**	**9,330,845**
Unallocated							**4,505,160**
Total liabilities							**13,836,005**

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

	Property development RMB'000	Construction, fitting and decoration RMB'000	Property management RMB'000	Hotel operation and theme park RMB'000	Others RMB'000	Elimination RMB'000	Group RMB'000
Segment assets	13,713,182	5,061,062	169,935	825,486	420,861	(6,887,662)	13,302,864
Unallocated							723,852
Total assets							14,026,716
Segment liabilities	7,544,670	2,514,463	157,198	803,592	388,466	(5,290,806)	6,117,583
Unallocated							5,587,295
Total liabilities							11,704,878

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. SEGMENT INFORMATION (CONTINUED)

Primary reporting format — business segments (continued)

Segment assets consist primarily of property, plant and equipment, land use rights, properties under development, completed properties held for sale, inventories, receivables and operating cash. They exclude deferred income tax assets.

Segment liabilities consist primarily of operating liabilities. They exclude deferred income tax liabilities, income tax payable and borrowings.

Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through business combinations (notes 6 and 32).

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture, fitting and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2005						
Cost	566,429	259,312	223,743	94,232	138,512	1,282,228
Accumulated depreciation	(94,964)	(128,607)	(116,079)	(34,001)	—	(373,651)
Accumulated impairment	—	(1,219)	(2,907)	(7,246)	—	(11,372)
Net book amount	471,465	129,486	104,757	52,985	138,512	897,205
Year ended 31 December 2005						
Opening net book amount	471,465	129,486	104,757	52,985	138,512	897,205
Acquisition of subsidiaries (note 32)	—	—	—	—	20,632	20,632
Additions	32,958	46,116	35,984	31,397	70,434	216,889
Reclassification	100,627	6,141	—	—	(106,768)	—
Disposals	—	—	(71)	(119)	—	(190)
Depreciation	(39,075)	(46,555)	(30,959)	(17,046)	—	(133,635)
Impairment charge	(3,007)	(87)	—	(1,267)	—	(4,361)
Closing net book amount	562,968	135,101	109,711	65,950	122,810	996,540
At 31 December 2005						
Cost	700,014	311,569	259,618	125,511	122,810	1,519,522
Accumulated depreciation	(134,039)	(175,162)	(147,000)	(51,048)	—	(507,249)
Accumulated impairment	(3,007)	(1,306)	(2,907)	(8,513)	—	(15,733)
Net book amount	562,968	135,101	109,711	65,950	122,810	996,540
Year ended 31 December 2006						
Opening net book amount	562,968	135,101	109,711	65,950	122,810	996,540
Additions	10,902	30,075	21,280	33,769	236,238	332,264
Reclassification	9,280	—	—	—	(9,280)	—
Acquisition of subsidiaries (note 32)	—	—	126	224	—	350
Disposals of subsidiaries and businesses (note 33)	(105,120)	(51,705)	(11,800)	(4,031)	(4,969)	(177,625)
Disposals	(10,991)	(21,799)	(13,200)	(20,383)	—	(66,373)
Depreciation	(45,372)	(39,177)	(29,201)	(23,414)	—	(137,164)
Impairment charge	—	(3,268)	—	(153)	—	(3,421)
Closing net book amount	421,667	49,227	76,916	51,962	344,799	944,571
At 31 December 2006						
Cost	521,906	137,096	201,583	98,096	344,799	1,303,480
Accumulated depreciation	(97,232)	(83,782)	(124,667)	(46,084)	—	(351,765)
Accumulated impairment	(3,007)	(4,087)	—	(50)	—	(7,144)
Net book amount	421,667	49,227	76,916	51,962	344,799	944,571

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation charge was capitalised or expensed in the following categories in the combined balance sheet and income statement:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Properties under development	**33,289**	33,007
Cost of sales	**76,214**	78,035
Selling and marketing costs	**8,490**	3,581
Administrative expenses	**19,171**	19,012
	137,164	133,635

As at 31 December 2006, buildings with net book amounts totalling RMB357,745,000 (2005: RMB346,868,000) and construction in progress with net book amounts totalling RMB64,913,000 (2005: Nil) were pledged as collateral for the Group's borrowings.

As at 31 December 2006, title certificates of buildings with net book amounts totalling RMB19,324,000 (2005: RMB155,918,000) were still in the progress of being obtained.

Included in buildings are the hotels located in the PRC which are classified as property, plant and equipment, the net book value of which amounted to RMB381,837,000 as at 31 December 2006 (2005: RMB475,095,000).

In May 2006, certain buildings with net book amounts totalling RMB36,556,000 were pledged as collateral for the borrowings of Qingyuan Country Garden Property Development Co., Ltd. ("Qingyuan Country Garden"), a related company controlled by the Existing Shareholders (note 30), which had been released as at 31 December 2006.

7. LAND USE RIGHTS

	31 December	
	2006	2005
	RMB'000	RMB'000
Opening net book amount	**3,716,656**	3,210,959
Acquisition of subsidiaries (note 32)	**89,200**	59,748
Additions	**781,598**	752,448
Amortisation:		
— expensed in administrative expenses	**(39,647)**	(42,319)
— capitalised in properties under development (note 9)	**(23,152)**	(18,998)
Disposals of subsidiaries and businesses (note 33)	**(282,527)**	—
Transfer to cost of sales	**(485,737)**	(245,182)
	3,756,391	3,716,656
Amount expected to be transferred to cost of sales within normal operating cycle included under current assets	**(1,584,777)**	(1,607,841)
Closing net book amount	**2,171,614**	2,108,815
Outside Hong Kong, held on leases of:		
Between 50 to 70 years	**3,636,535**	3,628,799
Between 10 to 50 years	**119,856**	87,857
	3,756,391	3,716,656

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. Amortisation of land use rights is recognised as an expense or capitalised in properties under development on a straight-line basis over the unexpired period of the rights and the remaining carrying amount is recognised as cost of sales when the relevant properties are sold.

As at 31 December 2006, land use rights with net book amounts totalling RMB1,427,365,000 (2005: RMB1,450,298,000) were pledged as collateral for the Group's borrowings, respectively. As at 31 December 2005, land use rights with net book amounts totalling RMB179,672,000 were pledged as collateral for the borrowings of Qingyuan Country Garden (note 30), which had been released as at 31 December 2006.

As at 31 December 2006, certificates of land use rights with net book amounts totalling RMB7,264,000 (2005: RMB6,682,000) were still in the progress of being obtained.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December	
	2006	2005
	RMB'000	RMB'000
Unlisted securities without active market	**20,000**	25,000

The carrying amounts of the above available-for-sale financial assets approximate their fair value.

9. PROPERTIES UNDER DEVELOPMENT

	31 December	
	2006	2005
	RMB'000	RMB'000
Properties under development expected to be completed:		
Within normal operating cycle included under current assets	**3,725,848**	3,245,454
Beyond normal operating cycle included under non-current assets	**212,573**	113,842
	3,938,421	3,359,296
Amount comprises:		
Construction costs	**3,915,269**	3,340,298
Amortisation of land use rights (note 7)	**23,152**	18,998
	3,938,421	3,359,296

The properties under development are located in the PRC.

10. COMPLETED PROPERTIES HELD FOR SALE

	31 December	
	2006	2005
	RMB'000	RMB'000
Completed properties held for sale, at cost	**1,641,029**	1,295,393

The completed properties held for sale are located in the PRC.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

11. INVENTORIES

	31 December	
	2006	2005
	RMB'000	RMB'000
Construction materials, at cost	**89,955**	114,041

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB1,898,271,000 for the year ended 31 December 2006 (2005: RMB2,199,154,000).

12. TRADE AND OTHER RECEIVABLES

	31 December	
	2006	2005
	RMB'000	RMB'000
Trade receivables: (note (a)):	**49,937**	96,109
Related parties (note 34(d))	**—**	26,055
Third parties	**49,937**	70,054
Other receivables:	**818,499**	1,867,114
Related parties (note 34(d))	**638,797**	1,719,844
Third parties	**182,659**	169,487
Provision for impairment of receivables	**(2,957)**	(22,217)
Amounts due from customers for contract work (note (b))	**103,694**	401,401
Prepayments — third parties	**466,934**	206,727
	1,439,064	2,571,351

Notes:

(a) Trade receivables are mainly arisen from rendering of construction services and sales of properties. Customers are generally granted credit terms of 1 to 3 months for construction business and no credit terms for property development business. The ageing analysis of trade receivables was as follows:

	31 December	
	2006	2005
	RMB'000	RMB'000
Within 90 days	**32,918**	51,060
Over 90 days and within 180 days	**7,589**	12,870
Over 180 days and within 365 days	**3,277**	26,547
Over 365 days	**6,153**	5,632
	49,937	96,109

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Amounts due from customers for contract work at the balance sheet date were as follows:

	31 December 2006 RMB'000	31 December 2005 RMB'000
Cost incurred	**2,700,866**	1,894,612
Recognised profits (less recognised losses)	**1,363,660**	759,504
	4,064,526	2,654,116
Less: progress billings	**(3,960,832)**	(2,252,715)
	103,694	401,401
Represented by:		
Amounts due from customers	**103,694**	401,401
Including: Related companies (note 34(d))	**92,623**	401,395
Third parties	**11,071**	6

13. RESTRICTED CASH

In accordance with relevant documents issued by local State-Owned Land and Resource Bureau, certain property development companies of the Group are required to place in designated bank accounts certain amount of presale proceeds of properties as guarantee deposits for constructions of related properties. The deposits can only be used for purchases of construction materials and payments of construction fee of the relevant property projects when approval from local State-Owned Land and Resource Bureau is obtained. Such guarantee deposits will only be released after completion of related pre-sold properties or issuance of the real estate ownership certificate, whichever is the earlier.

14. CASH AND CASH EQUIVALENTS

	31 December 2006 RMB'000	31 December 2005 RMB'000
Cash at bank and in hand:		
Denominated in RMB	**1,961,122**	958,781
Denominated in other currencies	**23,236**	1,736
	1,984,358	960,517
Less: Restricted cash (note 13)	**(454,669)**	(135,810)
	1,529,689	824,707

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

15. COMBINED CAPITAL

As disclosed in note 1 above, the combined financial statements have been prepared to reflect the aggregation of the financial statements of the Company and the Smart World Consolidated Financial Statements, which have been prepared under the merger accounting method. Accordingly, the initial issued ordinary shares plus share premium totalling RMB764,568,000 of Smart World were assumed to have been issued on 1 January 2005, and the difference between that amount and the aggregate amounts of the respective registered capital (if applicable) of the companies comprising the Group as at 31 December 2005 and 2006 had been captured under the merger reserve account.

For the presentation of the combined financial statements, the combined capital of the Group as at 2006 represented the share capital including share premium of Smart World and the Company.

16. RESERVES

	Merger reserve (note (b))	**Statutory reserves (note (a))**	**Retained earnings**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2005	(557,908)	58,074	1,399,811	899,977
Capital injections to subsidiaries by their then shareholders	407,606	—	—	407,606
Profit for the year	—	—	615,425	615,425
Transfer to statutory reserves	—	58,189	(58,189)	—
Dividends (note (27))	—	—	(382,792)	(382,792)
Balance at 31 December 2005/1 January 2006	(150,302)	116,263	1,574,255	1,540,216
Capital injections to subsidiaries by their then shareholders	9,551	—	—	9,551
Profit for the year	—	—	1,519,473	1,519,473
Transfer to statutory reserves	—	67,470	(67,470)	—
Disposals of subsidiaries and businesses (note 33)	(9,050)	(1,227)	—	(10,277)
Dividends (note 27)	—	—	(2,513,704)	(2,513,704)
Balance at 31 December 2006	(149,801)	182,506	512,554	545,259

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

16. RESERVES (CONTINUED)

Notes:

(a) In accordance with the relevant government regulations in the PRC and the provisions of the articles of association of the PRC companies now comprising the Group, before the Reorganisation, were required to appropriate at each year end 10% and 5% to 10% of the profit for the year after setting off the accumulated losses brought forward (based on figures reported in the statutory financial statements) to a statutory surplus reserve and a statutory public welfare fund respectively. These reserves are required to be retained in the PRC companies now comprising the Group for designated purposes.

After the PRC companies now comprising the Group were converted into foreign investment enterprises pursuant to the Reorganisation (described in note 1), these companies are required, in accordance with relevant rules and regulations concerning foreign investment enterprise established in the PRC and the revised Articles of Association of these companies, to make appropriations from net profit to the reserve fund, staff and workers' bonus and welfare fund and enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions are made to investors. The percentage of profits to be appropriated to the above three funds are solely determined by the board of directors of the PRC companies now comprising the Group, except for those which are also wholly foreign owned enterprises, their transfer of 10% of the profit of each year to the reserve fund is mandatory until the accumulated total of the fund reaches 50% of their registered capital.

(b) Merger reserve of the Group represents the difference between the nominal value of combined capital of the Group and the fair value of the subsidiaries transferred to the Group pursuant to the Reorganisation.

17. BORROWINGS

	31 December	
	2006	2005
	RMB'000	RMB'000
Borrowings included in non-current liabilities:		
Bank borrowings — secured	**3,876,700**	3,410,505
Borrowings from related parties (note 34(d))	**—**	644,205
Less: current portion of non-current borrowings	**(1,018,500)**	(331,500)
	2,858,200	3,723,210
Borrowings included in current liabilities:		
Bank borrowings — secured	**140,000**	270,000
Borrowings from related parties (note 34(d))	**64,592**	—
Current portion of non-current borrowings	**1,018,500**	331,500
	1,223,092	601,500

The Group's borrowings of RMB4,016,700,000 at 31 December 2006 (2005: RMB3,680,505,000) were jointly secured by certain properties and land use rights of the Group (notes 6 and 7) and of certain related companies, and also jointly guaranteed by the group companies and certain related companies.

17. BORROWINGS (CONTINUED)

The details of guarantee and security given by the related companies are as follows:

As at	Borrowing amount RMB'000	Guarantee details	Security details
31 December 2006	80,000	None	Certain land use rights of Guangzhou Zhencheng Property Development Co., Ltd.
31 December 2005	149,000	None	Certain land use rights of Panyu Country Garden
	340,000	None	Certain land use rights of Qingyuan Country Garden
	200,000	Panyu Country Garden, Floral City Country Garden and Qingyuan Country Garden	None
	100,000	None	Certain land use rights of Qingyuan Golf
	88,000	Qingyuan Country Garden	Certain land use rights of Qingyuan Country Garden
	12,000	Qingyuan Country Garden	None

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

	6 months or less RMB'000	6–12 months RMB'000	1–5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Borrowings included in non-current liabilities:					
At 31 December 2006	2,858,200	—	—	—	2,858,200
At 31 December 2005	3,723,210	—	—	—	3,723,210
Borrowings included in current liabilities:					
At 31 December 2006	1,223,092	—	—	—	1,223,092
At 31 December 2005	601,500	—	—	—	601,500

17. BORROWINGS (CONTINUED)

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

	31 December	
	2006	2005
	RMB'000	RMB'000
Between 1 and 2 years	**2,044,400**	2,306,000
Between 2 and 5 years	**813,800**	1,417,210
	2,858,200	3,723,210

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

	31 December	
	2006	2005
Borrowings	**6.222%**	6.270%

The carrying amounts of all the Group's borrowings are denominated in RMB and approximate their fair value.

18. DEFERRED INCOME TAX

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

	31 December	
	2006	2005
	RMB'000	RMB'000
Deferred income tax assets:		
— to be realised after more than 12 months	**391,386**	363,951
— to be realised within 12 months	**164,180**	359,901
	555,566	723,852
Deferred income tax liabilities:		
— to be settled after more than 12 months	**(130,957)**	(409,228)
— to be settled within 12 months	**—**	(225,464)
	(130,957)	(634,692)
	424,609	89,160

18. DEFERRED INCOME TAX (CONTINUED)

The net movement on the deferred taxation is as follows:

	31 December 2006 RMB'000	31 December 2005 RMB'000
Beginning of the year	**89,160**	(114,999)
Acquisition of subsidiaries (note 32)	**(15,195)**	—
Disposals of subsidiaries and businesses (note 33)	**(4,472)**	—
Recognised in the combined income statements (note 26)	**355,116**	204,159
End of the year	**424,609**	89,160

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

Deferred tax assets:

	Recognition of sales of property and related cost of sales RMB'000	**Impairment of assets** RMB'000	**Recognition of expenses** RMB'000	**Elimination of unrealised profits** RMB'000	**Tax losses** RMB'000	**Total** RMB'000
At 1 January 2005	162,310	7,063	44,336	217,476	152	431,337
Credited to the combined income statements	113,330	—	31,203	146,475	1,507	292,515
At 31 December 2005	275,640	7,063	75,539	363,951	1,659	723,852
(Charged)/credited to the combined income statements	(242,350)	(6,356)	32,468	27,435	24,989	(163,814)
Disposals of subsidiaries and businesses (note 33)	—	—	(4,472)	—	—	(4,472)
At 31 December 2006	33,290	707	103,535	391,386	26,648	555,566

Deferred income tax assets are recognised for tax losses carried forward 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 RMB4,095,000 as at 31 December 2006 (2005: RMB14,220,000) in respect of accumulated losses amounting to RMB12,408,000 as at 31 December 2006 (2005: RMB43,091,000), respectively. Accumulated losses amounting to RMB3,440,000, RMB4,474,000, RMB1,646,000, RMB690,000 and RMB2,158,000 as at 31 December 2006 will expire in 2007, 2008, 2009, 2010 and 2011, respectively.

18. DEFERRED INCOME TAX (CONTINUED)

Deferred tax liabilities:

	Revaluation surplus on land use rights RMB'000	Recognition of construction contract revenue and contract costs RMB'000	Total RMB'000
At 1 January 2005	—	(546,336)	(546,336)
Charged to the combined income statements	—	(88,356)	(88,356)
At 31 December 2005	—	(634,692)	(634,692)
Acquisition of subsidiaries (note 32)	(15,195)	—	(15,195)
Credited to the combined income statements (note)	—	518,930	518,930
At 31 December 2006	(15,195)	(115,762)	(130,957)

Note:

The amount mainly represents the effect of the granting of a tax holiday concession to Giant Leap Construction Co., a subsidiary of the Group, during the year ended 31 December 2006 (see also note 26).

19. TRADE AND OTHER PAYABLES

	31 December	
	2006 RMB'000	2005 RMB'000
Trade payables: (note (a))	**517,018**	526,613
Related parties (note 34(d))	**37,567**	154,255
Third parties	**479,451**	372,358
Other payables:	**279,129**	714,709
Related parties (note 34(d))	**—**	464,841
Third parties	**279,129**	249,868
Staff welfare benefit payable	**120,853**	197,972
Accrued expenses	**42,845**	20,277
Other taxes payable (note (b))	**889,014**	573,794
Tuition deposits (note (c))	**—**	254,168
	1,848,859	2,287,533

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

19. TRADE AND OTHER PAYABLES (CONTINUED)

Notes:

(a) The ageing analysis of trade payables at the balance sheet date was as follows:

	31 December	
	2006	2005
	RMB'000	RMB'000
Within 90 days	**407,915**	329,323
Over 90 days and within 180 days	**35,967**	48,231
Over 180 days and within 365 days	**15,407**	43,366
Over 365 days	**57,729**	105,693
	517,018	526,613

(b) Other taxes payable mainly represent land appreciation tax payable (note 22(b)).

(c) Tuition deposits represent the deposits received from the students, which are unsecured, interest-free and repayable on demand.

20. OTHER GAINS — NET

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Forfeiture income	**5,476**	7,482
Interest income	**20,192**	7,844
Gains/(losses) on disposals of property, plant and equipment (note 28)	**1,265**	(190)
Gains on disposals of subsidiaries and businesses (note 33)	**26,497**	—
Negative goodwill recognised as income (note 32)	**10,360**	—
Others	**(4,782)**	1,179
	59,008	16,315

21. OTHER EXPENSES

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Donations	**9,089**	61,447
Impairment charges of property, plant and equipment (note 6)	**3,421**	4,361
Late payment surcharges	**33,374**	—
	45,884	65,808

22. OPERATING PROFIT

Operating profit is stated after charging the following:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Auditors' remuneration	**1,204**	73
Advertising costs	**83,653**	120,701
Business taxes and other levies (a)	**506,745**	387,088
Costs of completed properties sold	**3,637,652**	1,870,996
Depreciation (note 6)	**137,164**	133,635
Land appreciation tax (b)	**373,903**	329,339
Land use rights amortisation (note 7)	**39,647**	42,319
Staff costs — excluding directors' emoluments (note 24)	**1,184,310**	1,020,505

(a) Business tax

The PRC companies now comprising the Group are subject to business taxes on their revenues at the following rates:

Category	**Rate**
Sales of properties	5%
Property construction and decoration	3%
Property management	5%
Hotel services	5%

(b) PRC land appreciation tax

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including lease charges of land use rights and all property development expenditures, which is included in the combined income statement as cost of sales.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

23. FINANCE COSTS

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Interest expense:		
— bank borrowings	**237,895**	164,369
— borrowings from related parties (note 34(b))	**26,881**	56,612
	264,776	220,981

24. STAFF COSTS — EXCLUDING DIRECTORS' EMOLUMENTS

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Wages and salaries	**1,138,550**	987,347
Retirement scheme contribution	**7,943**	13,029
Staff welfare	**18,046**	7,545
Medical benefits	**15,020**	4,884
Other allowances and benefits	**4,751**	7,700
	1,184,310	1,020,505

25. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The remuneration of each Director of the Company for the year ended 31 December 2006 is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Inducement fees RMB'000	Other benefits RMB'000	Employer's contribution to pension scheme RMB'000	Compensation for loss of office as director RMB'000	Total RMB'000
Mr. Yeung Kwok Keung	—	1,326	133	—	—	2	—	1,461
Mr. Cui Jianbo	—	600	388	—	—	2	—	990
Mr. Yang Erzhu	—	869	75	—	88	2	—	1,034
Ms. Yang Huiyan	—	367	12	—	—	1	—	380
Mr. Su Rubo	—	869	75	—	88	2	—	1,034
Mr. Zhang Yaoyuan	—	894	75	—	—	—	—	969
Mr. Ou Xueming	—	869	75	—	144	2	—	1,090
Mr. Yang Zhicheng	—	150	197	—	—	2	—	349
Mr. Yang Yongchao	—	1,430	139	—	—	2	—	1,571
Mr. Lai Ming, Joseph	—	—	—	—	—	—	—	—
Mr. Shek Lai Him, Abraham	—	—	—	—	—	—	—	—
Mr. Tong Wui Tung, Ronald	—	—	—	—	—	—	—	—

25. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Directors' emoluments (continued)

The remuneration of each Director of the Company for the year ended 31 December 2005 is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Inducement fees RMB'000	Other benefits RMB'000	Employer's contribution to retirement scheme RMB'000	Compensation for loss of office as Director RMB'000	Total RMB'000
Mr. Yeung Kwok Keung	—	600	—	—	108	2	—	710
Mr. Cui Jianbo	—	600	388	—	—	2	—	990
Mr. Yang Erzhu	—	285	—	—	186	2	—	473
Ms. Yang Huiyan	—	607	100	—	—	—	—	707
Mr. Su Rubo	—	600	—	—	83	2	—	685
Mr. Zhang Yaoyuan	—	600	—	—	—	1	—	601
Mr. Ou Xueming	—	600	—	—	13	2	—	615
Mr. Yang Zhicheng	—	150	187	—	—	1	—	338
Mr. Yang Yongchao	—	1,170	329	—	—	1	—	1,500
Mr. Lai Ming, Joseph	—	—	—	—	—	—	—	—
Mr. Shek Lai Him, Abraham	—	—	—	—	—	—	—	—
Mr. Tong Wui Tung, Ronald	—	—	—	—	—	—	—	—

Except Mr. Yang Erzhu who was appointed by the Company on 10 November 2006, other Directors were appointed by the Company on 4 December 2006. During 2006, no Director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office, no director waived or has agreed to waive any emoluments.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group in the year ended 31 December 2006 include four directors (2005: two), whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2005: three) individual in the year ended 31 December 2006, are as follows:

	Year ended 31 December	
	2006 RMB'000	2005 RMB'000
Salaries and other benefits	**1,278**	2,651
Retirement scheme contributions	**1**	3
	1,279	2,654

The emoluments fell within the following bands:

	Year ended 31 December	
	2006	2005
Nil to HK$1,000,000	**—**	2
HK$1,000,000 to HK$1,500,000	**1**	1

26. INCOME TAX EXPENSE

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Current income tax		
— PRC enterprise income tax	**499,057**	579,178
— Hong Kong profits tax	**379**	—
Deferred income tax (note 18)	**(355,116)**	(204,159)
	144,320	375,019

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 now comprising the Group as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Profit before income tax	**1,816,799**	964,532
Calculated at PRC enterprise income tax rate of 33%	**599,544**	318,296
Effect of different tax rate	**(373)**	—
Effect of tax exemption*	**(106,594)**	—
Tax losses not recognised as deferred income tax assets	**708**	4,142
Utilisation of previous tax losses	**(552)**	(139)
Expenses not deductible for tax	**47,655**	52,720
Change in tax rate of Giant Leap Construction Co.*	**(396,068)**	—
Income tax expense	**144,320**	375,019

PRC enterprise income tax is provided at the rate of 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.

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year ended 31 December 2006. No Hong Kong profits tax was provided for the year ended 31 December 2005 as the Group did not have any assessable profits.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

26. INCOME TAX EXPENSE (CONTINUED)

* Giant Leap Construction Co. provides for deferred taxation on temporary differences arising between the tax bases of assets and liabilities in relation to the construction business and their corresponding carrying amounts in the accounts. The tax bases of the relevant assets and liabilities were determined based on the billing schedules pursuant to the construction contracts while the carrying amounts in the accounts were recognised based on the accounting policy of percentage of completion of the Group (note 2(k)). In August 2006, upon the conversion into a foreign investment enterprise, Giant Leap Construction Co. was granted by the local tax authority the income tax holiday of "two years exemption and followed by three years of a 50% tax reduction" and in this context, 2006 has been considered as the first profit-making year of Giant Leap Construction Co. with full income tax exemption. As a result of the granting of the tax holiday, the deferred taxation on the temporary differences brought forward from 2005 has been recalculated and accordingly, the change in deferred taxation has been accounted for as a deferred tax credit in the year ended 31 December 2006.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25%, which will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's combined financial statements will depend on the implementation details that have not been issued as of the date of the approval of these combined financial statements. Therefore, the Group cannot reasonably estimate the financial impact of the new tax law to the Group at this stage.

27. DIVIDENDS

The following dividends were declared by the companies now comprising the Group to their then equity holders:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Dividends	**2,513,704**	382,792

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful due to the preparation of the financial statements on combined basis as disclosed in Note 1 above.

28. CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Profit for the year	**1,672,479**	589,513
Adjustments for:		
Income tax expense (note 26)	**144,320**	375,019
Interest income (note 20)	**(20,192)**	(7,844)
Interest expense (note 23)	**264,776**	220,981
Depreciation (note 6)	**137,164**	133,635
Amortisation of land use rights (note 7)	**39,647**	42,319
(Gains)/losses on disposals of property, plant and equipment (note)	**(1,265)**	190
Negative goodwill recognised as income (note 32)	**(10,360)**	—
Gains on disposals of subsidiaries (note 33)	**(26,497)**	—
Impairment charges of property, plant and equipment (note 6)	**3,421**	4,361
Changes in working capital (excluding the effects of acquisition and disposals of subsidiaries):		
Property under development and completed properties held for sale	**(1,035,472)**	(2,001,005)
Inventories	**(13,417)**	(9,583)
Land use rights	**(261,711)**	(457,494)
Restricted cash	**(359,382)**	(5,809)
Trade and other receivables	**535,394**	(170,543)
Prepaid taxes	**(402,227)**	(132,979)
Trade and other payables	**347,692**	422,269
Advanced proceeds received from customers	**3,812,626**	1,850,389
Cash generated from operations	**4,826,996**	853,419

Note:

(Gains)/losses on disposals of property, plant and equipment are as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Net book amount disposed of	**66,373**	190
Proceeds received	**(67,638)**	—
(Gains)/losses on disposals	**(1,265)**	190

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

29. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion is not considered meaningful due to the Reorganisation and the preparation of the results on combined basis as disclosed in Note 1 above.

30. CONTINGENCIES

The Group had the following contingent liabilities:

	31 December	
	2006	2005
	RMB'000	RMB'000
Guarantees in respect of mortgage facilities for certain purchasers (note (a))	**5,822,731**	3,213,766
Guarantees provided to a related company for bank borrowings (note (b))	**—**	230,600
	5,822,731	3,444,366

Notes:

(a) It represented the 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. Of the amounts as at 31 December 2006, RMB764,414,000 (2005: RMB945,660,000) was to be discharged two years from the day the mortgaged loans become due; and RMB5,058,317,000 (2005: RMB2,268,106,000) was to be discharged upon earlier of (i) issuance of the real estate ownership certificate which are generally be available within three months after the purchasers take possession of the relevant properties; and (ii) the satisfaction of mortgaged loan by the purchasers of properties.

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.

(b) It represented guarantees provided to Qingyuan Country Garden for obtaining bank borrowings, which had been released as at 31 December 2006.

31. COMMITMENTS

(a) Commitments for capital and property development expenditures

	31 December 2006 RMB'000	2005 RMB'000
Contracted but not provided for		
Property, plant and equipment	**32,265**	8,324
Property development expenditure	**678,423**	857,727
	710,688	866,051

(b) Operating lease commitments

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

	31 December 2006 RMB'000	2005 RMB'000
Not later than one year	**4,028**	1,390
Later than one year and not later than five years	**6,659**	1,313
Later than five years	**8,621**	4,452
	19,308	7,155

(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:

	31 December 2006 RMB'000	2005 RMB'000
Not later than one year	**16,558**	13,710
Later than one year and not later than five years	**55,091**	25,251
Later than five years	**134,103**	25,040
	205,752	64,001

32. BUSINESS COMBINATIONS

On 20 April 2005, the Existing Shareholders acquired all the equity interest in Jiangmen East Coast Country Garden Property Development Co., Ltd. ("Jiangmen East Coast") and Jiangmen Jinyi Housing Co., Ltd. ("Jiangmen Jinyi Housing") from third parties at a consideration of RMB3,280,000 and RMB12,800,000, respectively. For the year ended 31 December 2005, Jiangmen East Coast and Jiangmen Jinyi Housing did not generate any revenue and incur any operating results.

Details of net assets acquired and goodwill are as follows:

	Total
	RMB'000
Total purchase consideration — in cash	16,080
Fair value of net assets acquired — as shown below	(16,080)
Goodwill	—

The assets and liabilities as of 20 April 2005 arising from the acquisition are as follows:

	Fair value	**Acquiree's carrying amount**
	RMB'000	RMB'000
Cash and cash equivalents	4	4
Construction in progress (note 6)	20,632	20,632
Land use rights (note 7)	59,748	59,748
Properties under development	41,823	41,823
Trade and other payables	(106,127)	(106,127)
Net assets acquired	16,080	16,080
Purchase consideration settled in cash	16,080	
Cash and cash equivalents in subsidiaries acquired	(4)	
Cash outflow on acquisition	16,076	

On 31 December 2006, the Group acquired 95% equity interest in Huizhou Huiyang Qishan Resorts Development Co., Ltd. ("Qishan Development") from a third party at a consideration of RMB19,000,000, and 51% equity interest in Gaoyao Biyi Property Development Co., Ltd. ("Gaoyao Development") together with Zhaoqing Gaoyao Country Garden Phoenix Hotel Co., Ltd., a wholly-owned subsidiary of Gaoyao Development, from Mr. Yang Zhigang, a close family member of the Existing Shareholders, at a consideration of RMB10,200,000. For the year ended 31 December 2006, Qishan Development and Gaoyao Development did not generate any revenue and incur any operating results.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

32. BUSINESS COMBINATIONS (CONTINUED)

Details of net assets acquired and goodwill are as follows:

	Total
	RMB'000
Purchase consideration	
— Cash paid	25,200
— Consideration payable	4,000
Total purchase consideration	29,200
Fair value of net assets acquired — shown as below	(39,560)
Negative goodwill recognised as income (note 20)	(10,360)

The assets and liabilities as of 31 December 2006 arising from the acquisition are as follows:

	Fair value	**Acquiree's carrying amount**
	RMB'000	RMB'000
Cash and cash equivalents	7,459	7,459
Trade and other receivables	279,772	279,772
Property, plant and equipment (note 6)	350	350
Land use rights (note 7)	89,200	43,154
Trade and other payables	(310,681)	(310,681)
Deferred income tax liabilities (note 18)	(15,195)	—
Net assets	50,905	20,054
Minority interests	(11,345)	
Net assets acquired	39,560	
Purchase consideration settled in cash	25,200	
Cash and cash equivalents in subsidiaries acquired	(7,459)	
Cash outflow on acquisition	17,741	

Subsequent to 31 December 2006 and on 9 February 2007, the Group disposed of 5% equity interest in Qishan Development to a third party at a consideration of RMB1,000,000 and accordingly, the Group currently holds 90% equity interest in Qishan Development.

33. DISPOSALS OF SUBSIDIARIES AND BUSINESSES

On 31 May 2006, the Group disposed of its entire equity interest in Foshan Shunde Chengcun Country Garden Co., Ltd. ("Chengcun") and Foshan Shunde Jun'an Country Garden Hotel Co., Ltd. ("Jun'an Hotel") at their respective original investment costs to a third party; and Foshan Shunde Grand Cement Co., Ltd. ("Grand Cement") and Foshan Shunde Jun'an Country Garden Golf Co., Ltd. ("Jun'an Golf") at their respective original investment costs to Foshan Shunde Lida Investment Co., Ltd., a related company controlled by the Existing Shareholders and their close family members. On 30 June 2006, the Group disposed of its entire interest in the schools ("Schools") which were ancillary facilities to the property development business at a consideration of RMB1 to the Existing Shareholders. On 31 July 2006, the Group disposed of its entire equity interest in Shanghai Songjiang Moon River Property Development Co., Ltd. ("Shanghai Moon River") at its original investment cost to a third party.

Details of the net assets of the above subsidiaries and schools disposed of and the relevant gains or losses on disposals are as follows:

	Chengcun	**Jun'an Hotel**	**Jun'an Golf**	**Grand Cement**	**Shanghai Moon River**	**Schools**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash received	7,500	400	29,058	8,967	—	—	45,925
Amounts not yet settled, included in other receivables	—	—	—	—	8,000	—	8,000
Total consideration	7,500	400	29,058	8,967	8,000	—	53,925
Net (liabilities)/assets disposed	(5,694)	1,512	7,317	81,292	(51,705)	(5,294)	27,428
Gains/(losses) on disposals	13,194	(1,112)	21,741	(72,325)	59,705	5,294	26,497

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

33. DISPOSALS OF SUBSIDIARIES AND BUSINESSES (CONTINUED)

The aggregated assets and liabilities in respect of the above disposals were as follows:

	Total RMB'000
Cash and cash equivalents	52,232
Restricted cash	40,522
Trade and other receivables	132,942
Inventories	37,504
Properties under development	106,510
Completed properties held for sale	4,201
Property, plant and equipment (note 6)	177,625
Land use rights (note 7)	282,527
Deferred income tax assets (note 18)	4,472
Entrusted loan	283,020
Borrowings	(273,020)
Trade and other payables	(761,000)
Income tax payable	(22,510)
Reserves disposed	(10,277)
	54,748
Less: minority interests disposed	(27,320)
Net assets disposed	27,428
Gains on disposals	26,497
Total consideration	53,925
Less: included in other receivables	(8,000)
Cash received	45,925
Less: cash and cash equivalents in the subsidiaries and businesses disposed	(52,232)
Cash outflow on disposals	(6,307)

34. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Existing Shareholders

Mr. Yang Erzhu, Ms. Yang Huiyan, Mr. Su Rubo, Mr. Zhang Yaoyuan and Mr. Ou Xueming.

Close family members of Existing Shareholders

Mr. Yeung Kwok Keung, Mr. Zhang Chibiao, Ms. Zhang Yingyan, Mr. Yang Minsheng, Mr. Su Zhixian, Mr. Yang Zhicheng, Mr. Yang Zhigang, Ms. Yang Ziying, Ms. Ou Jieping, Ms. Ou Jieling and Mr. Wu Weizhong.

Controlled by Existing Shareholders

Great Best	偉嘉集團控股有限公司
Foshan Shunde Elite Architectural Co., Ltd.	佛山市順德區博意建築設計院有限公司
Qingyuan Country Garden	清遠碧桂園物業發展有限公司
Qingyuan Country Cultural Development Co., Ltd.	清遠市故鄉里文化發展有限公司
Guangdong Country Garden School*	廣東碧桂園學校

Controlled by close family members of Existing Shareholders

Foshan Shunde Guohua Memorial High School	佛山市順德區國華紀念中學
Foshan Shunde Hongye Property Development Co., Ltd.**	佛山市順德區鴻業房產有限公司
Foshan Shunde Quality Growth Investment Co., Ltd.	佛山市順德區高品投資有限公司
Foshan Yilian Fiber Cable Co., Ltd.**	佛山市毅聯電纜有限公司
Foshan Shunde Kexing Fiber Cable Plastic Co., Ltd.**	佛山市順德區科興電纜塑料有限公司
Guangzhou Yaoyuanhui Electronic Appliances Co., Ltd.	廣州市耀恒輝電器有限公司
Foshan Shunde Boya Furniture Co., Ltd.**	佛山市順德區博雅家具有限公司
Foshan Shunde Lida Investment Co., Ltd.	佛山市順德區利達投資有限公司
Qingyuan Golf	清遠碧桂園假日半島高爾夫球會有限公司

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Name and relationship with related parties (continued)

Controlled by Existing Shareholders and their close family members

Foshan Shunde Floral City Country Garden Property Development Co., Ltd.**	佛山市順德區陳村鎮花城碧桂園物業發展有限公司
Panyu Country Garden	廣州番禺碧桂園物業發展有限公司
Foshan Shunde Teng'an Fire Protection Engineering Co., Ltd.**	佛山市順德區騰安消防設計工程有限公司
Shanghai Xinqiao Moon River Property Development Co., Ltd.	上海莘橋月亮河房地產開發有限公司
Shanghai Moon River Property Development Co., Ltd.	上海月亮河房地產開發有限公司
Foshan Shunde Jiangkou Water Plant Co., Ltd.	佛山市順德區江口自來水有限公司
Zengcheng Crystal Water Plant Co., Ltd.	增城市清源自來水廠有限公司
Foshan Landcoin Fiber Reinforce Plastic Co., Ltd.	佛山市順德區樂而康玻璃鋼製品有限公司
Grand Cement*	佛山市順德區鴻業水泥製品有限公司

Minority shareholders

Guangzhou Zhencheng Property Development Co., Ltd.	廣州真誠房地產開發有限公司
Foshan Shunde Yihengxin Shoe Manufacturing Co., Ltd.**	佛山市順德區藝恒信製鞋廠有限公司

* These companies were subsidiaries of the Group before they were disposed of in 2006 (see note 33 for details).

** These companies became third parties in 2006 due to the changes in their ownership as a result of the group reorganisation.

The English names of certain of the companies referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or available.

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties

Apart from those related party transactions disclosed in notes 7, 17, 32 and 33 above, the Group had the following significant transactions with related parties:

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Construction and decoration service income:		
Controlled by Existing Shareholders:		
清遠碧桂園物業發展有限公司 Qingyuan Country Garden	**380,845**	314,264
清遠市故鄉里文化發展有限公司 Qingyuan Country Cultural Development Co., Ltd.	**9,324**	11,872
廣東碧桂園學校 Guangdong Country Garden School	**14,371**	—
Controlled by close family members of Existing Shareholders:		
清遠碧桂園假日半島高爾夫球會有限公司 Qingyuan Golf	**14,956**	1,206
Controlled by Existing Shareholders and their close family members:		
佛山市順德區陳村鎮花城碧桂園物業發展有限公司 Floral City Country Garden	**497**	187,788
佛山市順德區鴻業水泥製品有限公司 Grand Cement	**13,330**	—
	433,323	515,130

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Sales of properties:		
Existing Shareholders:		
Ms. Yang Huiyan	**8,713**	—
Close family members of Existing Shareholders:		
Ms. Zhang Yingyan	**886**	—
Mr. Zhang Chibiao	**6,735**	—
Mr. Yang Minsheng	**5,763**	—
Ms. Yang Ziying	**1,458**	—
Mr. Su Zhixian	**5,385**	—
Ms. Ou Jieling	**4,708**	—
Ms. Ou Jieping	**—**	3,794
	33,648	3,794

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties (continued)

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Purchase of design service:		
Controlled by Existing Shareholders:		
佛山市順德區博意建築設計院有限公司 Foshan Shunde Elite Architectural Co., Ltd.	**70,928**	51,146
Purchase of construction materials and water:		
Controlled by Existing Shareholders and their close family members:		
佛山市順德區樂而康玻璃鋼製品有限公司 Foshan Landcoin Fiber Reinforce Plastic Co., Ltd.	**1,084**	301
佛山市順德區江口自來水有限公司 Foshan Shunde Jiangkou Water Plant Co., Ltd.	**3,389**	3,355
增城市清源自來水廠有限公司 Zengcheng Crystal Water Plant Co., Ltd.	**7,923**	16,410
佛山市順德區鴻業水泥製品有限公司 Grand Cement	**55,513**	—
	67,909	20,066
Purchase of construction materials:		
Controlled by close family members of Existing Shareholders:		
佛山市順德區博雅家具有限公司 Foshan Shunde Boya Furniture Co., Ltd.	**7,657**	6,612
佛山市毅聯電纜有限公司 Foshan Yilian Fiber Cable Co., Ltd.	**19,540**	36,760
佛山市順德區科興電纜塑料有限公司 Foshan Shunde Kexing Fiber Cable Plastic Co., Ltd.	**23,658**	39,950
廣州市耀恒輝電器有限公司 Guangzhou Yaoyuanhui Electronic Appliances Co., Ltd.	**789**	3,353
	51,644	86,675

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with related parties (continued)

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Loan interest charged by related parties:		
Existing Shareholders:		
Mr. Yang Erzhu	**1,993**	4,756
Ms. Yang Huiyan	**824**	376
Mr. Su Rubo	**1,998**	4,756
Mr. Zhang Yaoyuan	**1,998**	4,756
Mr. Ou Xueming	**1,998**	4,756
Controlled by Existing Shareholders:		
廣東碧桂園學校 Guangdong Country Garden School	**1,403**	—
偉嘉集團控股有限公司 Great Best Group Holdings Ltd.	**1,241**	—
Close family members of Existing Shareholders:		
Mr. Yeung Kwok Keung	**7,683**	20,442
Mr. Yang Minsheng	**27**	48
Ms. Ou Jieping	**27**	48
Mr. Su Zhixian	**27**	48
Mr. Zhang Chibiao	**27**	48
Controlled by close family members of Existing Shareholders:		
佛山市順德區國華紀念中學 Foshan Shunde Guohua Memorial High School	**7,635**	16,578
	26,881	56,612

(i) Construction and decoration fees were charged in accordance with the terms of the underlying agreements.

(ii) Design service fees were charged in accordance with the terms of the underlying agreements.

(iii) Properties were sold at discount to the then prevailing market price, the discount of which is determined on a discretionary basis.

(iv) Construction materials and water charges were charged in accordance with the terms of the underlying agreements. In the opinion of the Directors, the fees were determined with reference to the market price in the prescribed year.

(v) Interest on loans from related parties were charged at interest rate of bank borrowings in similar terms.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation

	Year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**10,672**	7,730
Retirement scheme contributions	**18**	15
	10,690	7,745

(d) Balances with related parties

As at 31 December 2006, the Group had the following significant trading balances with related parties:

	31 December	
	2006	2005
	RMB'000	RMB'000
Balances due from related parties		
— included in trade receivables:		
Controlled by Existing Shareholders:		
清遠市故鄉里文化發展有限公司 Qingyuan Country Cultural Development Co., Ltd.	**—**	4,087
Controlled by Existing Shareholders and their close family members:		
佛山市順德區陳村鎮花城碧桂園物業發展有限公司 Floral City Country Garden	**—**	21,968
	—	26,055
— included in amounts due from customers for contract work:		
Controlled by Existing Shareholders:		
清遠碧桂園物業發展有限公司 Qingyuan Country Garden	**80,799**	390,110
清遠市故鄉里文化發展有限公司 Qingyuan Country Cultural Development Co., Ltd.	**—**	7,785
廣東碧桂園學校 Guangdong Country Garden School	**11,824**	—
Controlled by close family members of Existing Shareholders:		
清遠碧桂園假日半島高爾夫球會有限公司 Qingyuan Golf	**—**	2,072
Controlled by Existing Shareholders and their close family members:		
廣州番禺碧桂園物業發展有限公司 Panyu Country Garden	**—**	1,428
	92,623	401,395

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Balances with related parties (continued)

	31 December	
	2006	2005
	RMB'000	RMB'000
Balances due to related parties		
— included in trade payables:		
Controlled by Existing Shareholders:		
佛山市順德區博意建築設計院有限公司 Foshan Shunde Elite Architectural Co., Ltd.	**33,418**	146,825
清遠碧桂園物業發展有限公司 Qingyuan Country Garden	**—**	3,944
Controlled by close family members of Existing Shareholders:		
佛山市順德區博雅家具有限公司 Foshan Shunde Boya Furniture Co., Ltd.	**—**	2,154
Controlled by Existing Shareholders and their close family members:		
佛山市順德區樂而康玻璃鋼製品有限公司 Foshan Landcoin Fiber Reinforce Plastic Co., Ltd.	**1,122**	1,332
佛山市順德區鴻業水泥製品有限公司 Grand Cement	**3,027**	—
	37,567	154,255

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Balances with related parties (continued)

As at 31 December 2006, the Group had the following significant non-trading balances with related parties:

	31 December	
	2006	2005
	RMB'000	RMB'000
— included in other receivables:		
Controlled by Existing Shareholders:		
佛山市順德區博意建築設計院有限公司 Foshan Shunde Elite Architectural Co., Ltd.	**—**	2,530
清遠碧桂園物業發展有限公司 Qingyuan Country Garden	**—**	442,094
Controlled by close family members of Existing Shareholders:		
佛山市順德區國華紀念中學 Foshan Shunde Guohua Memorial High School	**—**	2,180
佛山市順德區高品投資有限公司 Foshan Shunde Quality Growth Investment Co., Ltd.	**250,797**	628,028
佛山市順德區鴻業房產有限公司 Foshan Shunde Hongye Property Development Co., Ltd.	**—**	47,235
清遠碧桂園假日半島高爾夫球會有限公司 Qingyuan Golf	**—**	59,903
Controlled by Existing Shareholders and their close family members:		
上海莘橋月亮河房地產開發有限公司 Shanghai Xinqiao Moon River Property Development Co., Ltd.	**—**	5,000
增城市清源自來水廠有限公司 Zengcheng Crystal Water Plant Co., Ltd.	**—**	62,804
佛山市順德區江口自來水有限公司 Foshan Shunde Jiangkou Water Plant Co., Ltd.	**—**	30,422
廣州番禺碧桂園物業發展有限公司 Panyu Country Garden	**—**	45,782
佛山市順德區陳村鎮花城碧桂園物業發展有限公司 Floral City Country Garden	**—**	54,997
Minority shareholders:		
廣州真誠房地產開發有限公司 Guangzhou Zhencheng Property Development Co., Ltd.	**388,000**	308,000
Close family members of Existing Shareholders:		
Mr. Yang Zhicheng	**—**	2,166
Mr. Wu Weizhong	**—**	28,543
Existing Shareholders:		
Mr. Zhang Yaoyuan	**—**	160
	638,797	1,719,844

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Balances with related parties (continued)

	31 December	
	2006	2005
	RMB'000	RMB'000
— included in other payables:		
Controlled by Existing Shareholders:		
清遠碧桂園物業發展有限公司 Qingyuan Country Garden	—	299,208
Controlled by close family members of Existing Shareholders:		
佛山市順德區鴻業房產有限公司 Foshan Shunde Hongye Property Development Co., Ltd.	—	41,200
Controlled by Existing Shareholders and their close family members:		
上海莘橋月亮河房地產開發有限公司 Shanghai Xinqiao Moon River Property Development Co., Ltd.	—	15,200
佛山市順德區騰安消防設計工程有限公司 Foshan Shunde Teng'an Fire Protection Engineering Co., Ltd.	—	2,900
上海月亮河房地產開發有限公司 Shanghai Moon River Property Development Co., Ltd.	—	13,772
佛山市順德區陳村鎮花城碧桂園物業發展有限公司 Floral City Country Garden	—	17,825
廣州番禺碧桂園物業發展有限公司 Panyu Country Garden	—	72,236
Minority shareholder:		
佛山市順德區藝恒信製鞋廠有限公司 Foshan Shunde Yihengxin Shoe Manufacturing Co., Ltd.	—	2,500
	—	464,841

Notes:

(i) Trading balances due from/to related parties are unsecured, interest-free and settled in accordance with the relevant contract terms.

(ii) Non-trading balances due from/to related parties were unsecured, interest-free and repayable on demand, which have been settled as of the date of the approval of these combined financial statements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Balances with related parties (continued)

	31 December	
	2006	2005
	RMB'000	RMB'000
Loans from related parties		
— included in borrowings:		
Existing Shareholders:		
Mr. Yang Erzhu	**—**	51,326
Ms. Yang Huiyan	**—**	20,013
Mr. Su Rubo	**—**	51,326
Mr. Zhang Yaoyuan	**—**	51,326
Mr. Ou Xueming	**—**	51,326
Controlled by Existing Shareholders:		
Great Best Group Holdings Ltd	**64,592**	—
Close family members of Existing Shareholders:		
Mr. Yang Minsheng	**—**	778
Mr. Yeung Kwok Keung	**—**	205,776
Mr. Su Zhixian	**—**	778
Ms. Ou Jieping	**—**	778
Mr. Zhang Chibiao	**—**	778
Controlled by close family members of Existing Shareholders:		
佛山市順德區國華紀念中學 Foshan Shunde Guohua Memorial High School	**—**	210,000
	64,592	644,205

Loans from related parties were unsecured, interest-bearing (note 34(b)) and with fixed repayment terms.

35. EVENTS AFTER THE BALANCE SHEET DATE

On 26 March 2007, the Group has completed the Reorganisation in preparing for a listing of shares of the Company on the Main Board of the Stock Exchange, details of which are set out in note 1.

Subsequent to 31 December 2006 and up to the date of approval of these combined financial statements, Smart World has declared and paid a special dividend of approximately RMB512.6 million.

On 20 April 2007, the Company completed its global offering of 2,400,000,000 shares, which were listed on the Stock Exchange on the same date. The net proceeds from the Company's global offering amounted to approximately HK$12,537 million.