



Cultivating **Lifestyle**  
Realising Urban **Dreams**  
締造生活品位 成就城市夢想

A series of thin, golden-yellow wavy lines that sweep across the page from left to right, starting below the tagline and ending near the bottom of the page.

**2006**  
Annual Report

**SHIMAO PROPERTY HOLDINGS LIMITED**

**世茂房地產控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 813



*Shanghai Shimao Riviera Garden*



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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Hui Wing Mau (*Chairman*)  
Hui Sai Tan, Jason  
Ip Wai Shing  
Tang Ping Fai  
Yao Li

### Independent Non-executive Directors

Kan Lai Kuen, Alice  
Lu Hong Bing  
Gu Yunchang  
Lam Ching Kam

### AUDIT COMMITTEE

Kan Lai Kuen, Alice (*Committee Chairman*)  
Lu Hong Bing  
Gu Yunchang  
Lam Ching Kam

### REMUNERATION COMMITTEE

Hui Wing Mau (*Committee Chairman*)  
Kan Lai Kuen, Alice  
Lu Hong Bing  
Gu Yunchang  
Lam Ching Kam

### NOMINATION COMMITTEE

Hui Wing Mau (*Committee Chairman*)  
Kan Lai Kuen, Alice  
Lu Hong Bing  
Gu Yunchang  
Lam Ching Kam

### CHIEF FINANCIAL OFFICER

Hui Wai Man, Lawrence

### COMPANY SECRETARY

Lam Yee Mei, Katherine

### QUALIFIED ACCOUNTANT

Ng Yu Yuet

### AUDITORS

PricewaterhouseCoopers

### COMPLIANCE ADVISOR

Platinum Securities Company Limited

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
China Construction Bank Corporation  
Industrial and Commercial Bank of China (Asia) Limited

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
26/F., Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited  
2nd Floor  
Strathvale House  
North Church Street  
P.O. Box 513  
Grand Cayman KY1-1106  
Cayman Islands

## REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 4307-12, 43/F  
Office Tower  
Convention Plaza  
1 Harbour Road, Wanchai  
Hong Kong

## PLACE OF LISTING

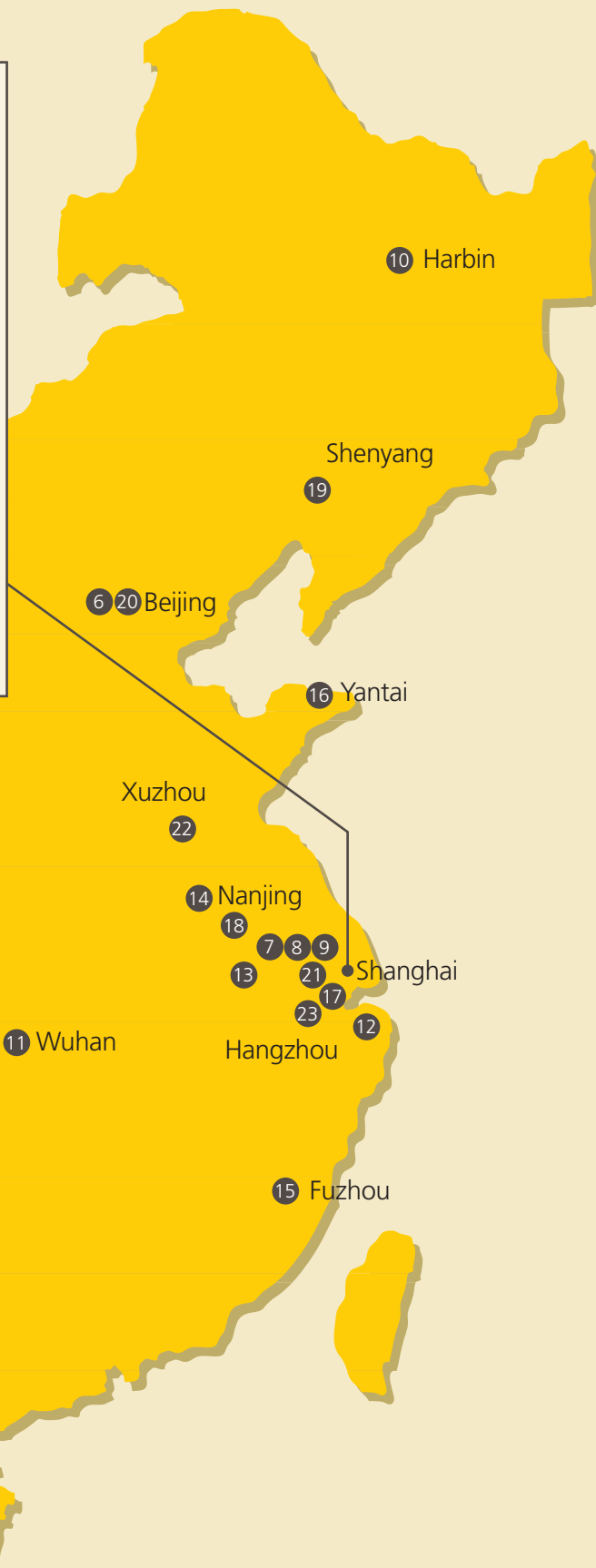
The Stock Exchange of Hong Kong Limited  
Stock code: 813

## INVESTOR AND MEDIA RELATIONS

Corporate Communications Department  
Email: [ir@shimaoproperty.com](mailto:ir@shimaoproperty.com)  
Tel: (852) 2511 9968  
Fax: (852) 2511 0278

## Geographic Location of the Projects

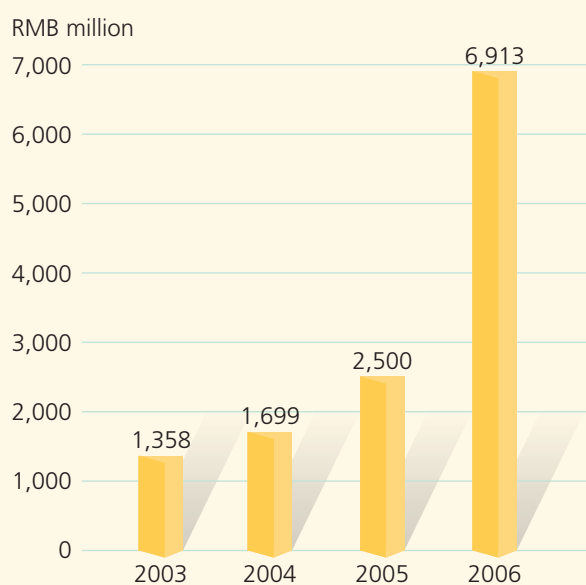
- |                                       |                                   |                         |
|---------------------------------------|-----------------------------------|-------------------------|
| ① Shanghai Shimao Riviera Garden      | ⑨ Changshu Shimao The Center      | ⑬ Jiaxing Shimao        |
| ② Shanghai Shimao International Plaza | ⑩ Harbin Shimao Riviera New City  | ⑭ Changzhou Shimao      |
| ③ Shanghai Shimao Sheshan             | ⑪ Wuhan Shimao Splendid River     | ⑮ Shenyang Shimao       |
| ④ Shanghai Hyatt on the Bund          | ⑫ Shaoxing Shimao                 | ⑯ Beijing Huaping Plaza |
| ⑤ Shanghai Shimao Wonderland          | ⑬ Wuhu Shimao                     | ⑰ Suzhou Shimao         |
| ⑥ Beijing Shimao Olive Garden         | ⑭ Nanjing Shimao Riviera New City | ⑱ Xuzhou Shimao         |
| ⑦ Kunshan Shimao Butterfly Bay        | ⑮ Fuzhou Shimao Bund Garden       | ⑲ Hangzhou Shimao       |
| ⑧ Kunshan Shimao International City   | ⑯ Yantai Shimao                   |                         |



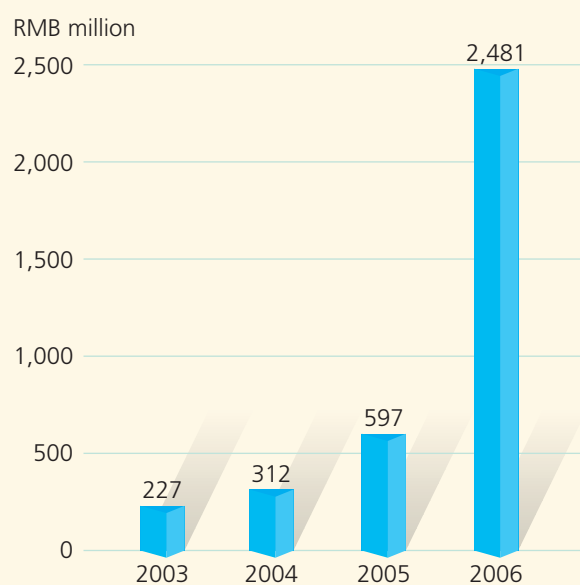
# Four Years Financial Summary

	2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000
<b>Turnover</b>	1,357,998	1,699,221	2,500,430	<b>6,913,442</b>
Cost of sales	(1,130,720)	(1,386,861)	(1,903,392)	<b>(4,432,742)</b>
<b>Gross profit</b>	227,278	312,360	597,038	<b>2,480,700</b>
Fair value gains on an investment property	—	83,551	902,639	<b>1,000,831</b>
Gain on disposal of a jointly controlled entity	240,673	—	—	<b>—</b>
Other gains	197,287	148,211	106,447	<b>157,378</b>
Selling and marketing costs	(100,005)	(124,672)	(106,388)	<b>(207,576)</b>
Administrative expenses	(67,353)	(110,371)	(189,270)	<b>(460,008)</b>
Other operating expenses	(75,226)	(3,281)	(7,343)	<b>(143,853)</b>
<b>Operating profit</b>	422,654	305,798	1,303,123	<b>2,827,472</b>
Finance costs	(24,250)	(21,355)	(8,696)	<b>(44,719)</b>
Share of results of:				
— Associated companies	(3,005)	(13,742)	17,741	<b>201,027</b>
— Jointly controlled entities	(16,140)	—	—	<b>(13)</b>
<b>Profit before income tax</b>	379,259	270,701	1,312,168	<b>2,983,767</b>
Income tax expense	(18,561)	(57,213)	(325,860)	<b>(705,017)</b>
<b>Profit for the year</b>	360,698	213,488	986,308	<b>2,278,750</b>
<b>Non-current assets</b>	3,878,756	5,488,429	8,244,973	<b>13,883,525</b>
<b>Current assets</b>	5,219,161	6,842,821	7,320,010	<b>13,812,602</b>
<b>Total assets</b>	9,097,917	12,331,250	15,564,983	<b>27,696,127</b>
<b>Non-current liabilities</b>	1,601,053	1,452,179	2,881,386	<b>7,687,482</b>
<b>Current liabilities</b>	5,007,458	8,429,602	10,173,379	<b>8,480,276</b>
<b>Total liabilities</b>	6,608,511	9,881,781	13,054,765	<b>16,167,758</b>
<b>Net assets</b>	2,489,406	2,449,469	2,510,218	<b>11,528,369</b>
<b>Interest coverage ratio</b>	7.05	4.58	6.06	<b>9.83</b>

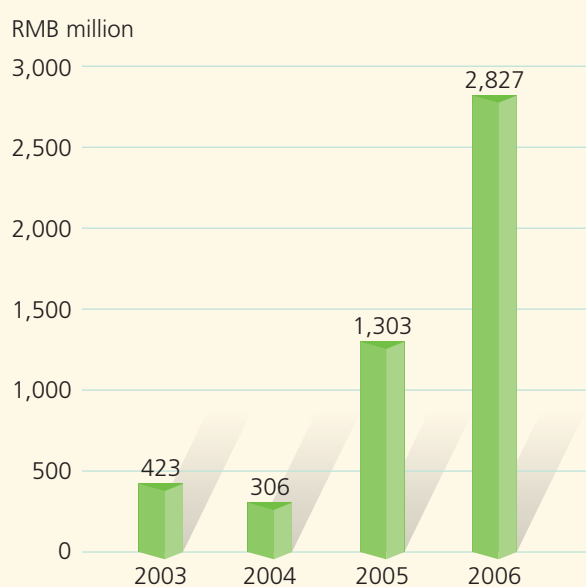
## Turnover



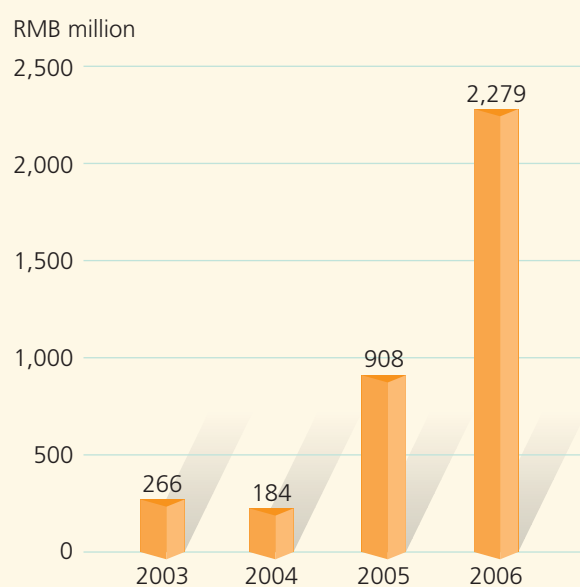
## Gross profit



## Operating profit



## Profit attributable to equity holders



# Chairman's Statement

Dear Shareholders,

I am pleased to present the first annual results of Shimao Property Holdings Limited ("Shimao Property" or the "Company" and together with its subsidiaries, the "Group") since listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5 July 2006. For the year ended 31 December 2006, our leadership in property development and investment in China has been reinforced as Shimao Property's business continued to expand healthily and rapidly, highlighted by our remarkable performance.

During the year under review, the Group realised encouraging results with significant growth in both turnover and profit attributable to shareholders compared with the last financial year. The steady development of our projects and the satisfactory sales performance were all in line with the Group's expansion strategies. The Group's turnover and gross profit were RMB6,913 million and RMB2,481 million respectively, representing an increase of 1.8 times and 3.2 times compared with last year. Net profit attributable to shareholders of the Company was RMB2,279 million, representing an increase of 1.5 times compared with last year.

The figures analysed by the management have revealed that excluding certain non-cash items (including certain fair value adjustments, fair value gains on investment properties and goodwill impairment), net profit attributable to shareholders for 2006 has increased by 3.2 times relative to 2005 at RMB2,197 million (2005: RMB526 million).

Even more inspiring was the Company's successful listing on the main board of the Stock Exchange on 5 July 2006, which marked a paramount milestone in the Group's development. Since 1 December 2006, the Company was included into the Morgan Stanley Capital International ("MSCI") Standard Equity Index and the MSCI China Index Constituent Stocks by MSCI Barra. Most recently, the Company was selected as a constituent of the 200-Stock Hang Seng Composite Index Series and Hang Seng Freefloat Index Series, effective as of 12 March 2007.

Shimao Property has always been committed to maximising shareholders' return. The success of the initial public offering ("IPO") and the issuance of 5-year floating rate senior notes and 10-year fixed rate senior notes has granted the Group access to both additional capital resources and the global capital market. As such, the Group is well positioned to capture opportunities arising from sustainable growth of China's property market and to enhance shareholders' return.



The Group will adhere to its philosophy of “Cultivating Lifestyle, Realising Urban Dreams”, to strengthen its brand at the national level, and develop large scale quality real estate projects.

In view of the Group's strong operating performance and financial strength, the Board of Directors (the “Board”) recommended the payment of a final dividend of HK20 cents per share for the year ended 31 December 2006.

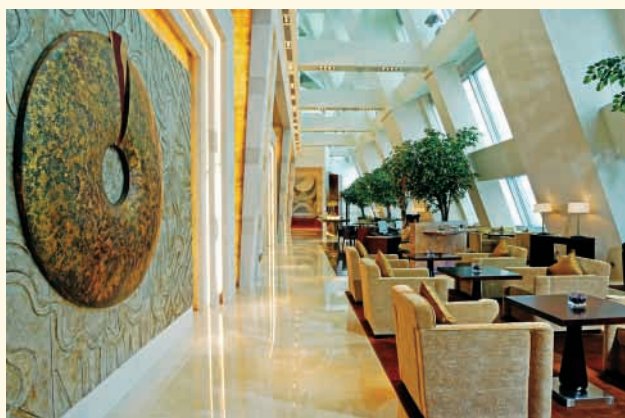
#### **Strategic Expansion Proved Successful with Satisfactory Sales Performance**

The Group accelerated the growth in sales revenue by leveraging on its strong brand name, outstanding project management capabilities and extensive cost management expertise. Revenue recognised from properties sales for the whole year amounted to RMB7,927 million (including attributable recognised sales revenue of RMB1,191 million from associated companies), representing an increase of 192.2% over 2005. Gross floor area (“GFA”) of properties sold amounted to 675,000 sq.m. (including attributable GFA of 111,000 sq.m. from associated companies), representing an increase of 159.6% over 2005. The momentum of recognised sales in areas outside of Shanghai city picked up during the year and amounted to RMB3,453 million (2005: RMB614 million). Total sales revenue from all projects in different regions served as the testimony to the success of our nationwide strategic expansion.

During the year, the Group (including associated companies) completed a total GFA of 1.4 million sq.m. (2005: 491,000 sq.m.) of eight residential projects and a



**Shanghai Shimao International Plaza**



*Le Royal Méridien Shanghai*

hotel project, which are located in Shanghai, Changshu, Kunshan, Beijing, Harbin, Nanjing and Fuzhou, representing an increase of 185.1% from last year.

### **Penetrate New Markets to Strategically Increase Our Land Bank Reserve**

During the year under review, the Group had strategically increased its land bank reserve through active participation in land auctions and listing-for-sale hosted by the Government, to manifest our confidence in becoming a large scale, integrated property developer. Planned GFA added to the land bank reserve during the year reached 6.3 million sq.m., spanning across Shaoxing, Zhejiang Province, Wuhu, Anhui Province, Yantai, Shandong Province, Jiaxing, Zhejiang Province, Changzhou, Jiangsu Province, and Shenyang, Liaoning Province. Currently, the Group has acquired three additional pieces of land. The Group's current land bank has increased to 20.16 million sq.m., which should adequately meet the Group's development needs in the coming six to seven years. To maximise our future growth, the Group will continue to search for large land parcels of premier quality throughout China, which will offer long term appreciation potential, when transformed into large scale integrated real estate projects by leveraging on the Group's resources and experiences.

### **Accelerated Investment in Non-Residential Projects to Expand Property Portfolio**

During the year, apart from developing quality residential properties, Shimao Property continued to expand its business scope to include long term investment projects,

such as hotels, retail properties and offices, in a prudent and orderly manner. The Group has added the second five star hotel to its portfolio during the year upon the commencement of operation of five star Le Royal Meridien Shanghai. At the same time, the Group acquired an entire commercial building located at Chaoyang District, Beijing to diversify our property portfolio for a long term balanced revenue stream.

Through a diversified product portfolio, the Group is confident in its ability to take full advantage of the upward trend in different types of properties, and ensure steady growth in our overall income in the future.

### **Strengthening Corporate Governance and Social Responsibilities for Favourable Development**

Shimao Property is committed to maintaining and upgrading the standard of our corporate governance. In order to fulfill our regulatory obligation as a listed company and our pledge to shareholders, the Board has established a series of committees, including the Audit Committee, the Remuneration Committee and the Nomination Committee, during the year. These committees carry out their duties in accordance with the Articles of Association to strictly monitor the internal control systems of the Company and to ensure that such systems are in compliance with the Code of Best Practice.

The Group truly believes in giving back to our society. Shimao Property has been supportive of various charitable activities. We are eager to fully apply our creative corporate culture to such programs and to cultivate a sense of social participation and dedication amongst our staff. The benefits of such activities are



*Shanghai Le Méridien Sheshan*



**Nanjing Shimao Riviera New City**

extensive, as such that the Group will continue to participate in worthy charitable causes and will include social responsibility into our overall agenda for corporate development.

### **Future Plans and Goals**

Since the listing in July 2006, Shimao Property has steadily and healthily embarked on a brand new stage of development: we have successfully secured land parcels in second and third tier cities, developed residential and commercial properties such as shopping malls and offices, and five star hotels. During the year, in addition to signing strategic alliance agreements with world-famous retailers, the group also launched two five-star hotels. While maintaining our leadership position in property development industry, Shimao Property has embarked upon significant strategic expansion with a focus on positive, stable long term development, yielding higher return for investors.

The Group will continue to expedite the implementation of its strategic roadmap into the second and third tier markets in the future. We will further our presence in the property markets in the Yangtze River Delta, the Bohai Bay and other regions with rapid economic growth. Further, the Group will mitigate risk exposure through the adoption of a dual focused development strategy for both short term and long term investments.

The Group will adhere to its philosophy of "Cultivating Lifestyle, Realising Urban Dreams", strengthen its brand at the national level, and develop large scale quality real estate projects.

Meanwhile, in order to broaden the Group's income basis and strive for a balanced growth, the Group is prudent in identifying other investment opportunities. Our goal is to become an integrated large scale enterprise with sound strategies and favourable revenue growth potential. The Group will continue to adhere to a prudent approach in our operation, develop our business with the support of in-depth market studies and analysis, and endeavor to be a first mover to capitalise on new business opportunities, in order to maximise return for our shareholders with even more impressive achievements in a sustainable manner.

### **Appreciation**

The Group's outstanding results of the year were attributable to the concerted efforts of the management and all staff. On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our staff for their dedication, loyalty and contribution during the year. Furthermore, we would like to extend our appreciation to our customers, business partners, shareholders, and professional advisors for their unreserved support in making it yet another fruitful year for Shimao Property.

### **Hui Wing Mau**

*Chairman*

Hong Kong, 27 March 2007



**Beijing Shimao Olive Garden**









# Management Discussion and Analysis





**Wuhan Shimao Splendid River** (artist impression)



**Shanghai Shimao Wonderland** (artist impression)

## The Year Under Review

### "A Rewarding and Fruitful Year"

Shimao Property was successfully listed on The Stock Exchange of Hong Kong Limited on 5 July 2006. The Group's outstanding performance and sound expansion strategies secured investors' confidence. Such confidence sustained into the second half of 2006 as the Group's new projects and initiatives announced in the second half of the year were very well received by the investing public.

Prior to the IPO, the Group entered into subscription agreements with financial institutions including Morgan Stanley, Standard Chartered Bank and CCB International. In addition to offering financial support, their experience and expertise, which is highly regarded in the financial service industry, would further enhance the Group's financial and operational management capabilities, strengthen its overall risk control system, and endorse the Group's brand profile.

Furthermore, Shimao Property became a constituent of the MSCI Standard Equity Index and MSCI China Index in November 2006, in recognition of the Group's heavyweight status amongst China's real estate developers. Effective as of 12 March 2007, the Group was also selected as a constituent of the 200-stock Hang Seng Composite Index Series and Hang Seng Freefloat Index Series.

Having foreseen rising opportunities in China, the Group issued US\$600 million of Senior Notes through an international offering in November 2006, which was received with very strong investors' demand. This has enabled the Group to further strengthen its financial position and fuel the process of its expansion.





During the year under review, the Group made consistent efforts to strengthen its presence in the Yangtze River Delta and extend to the Bohai Bay region. To speed up the development of large scale residential, commercial and hotel projects, the Group adopted a highly-strategic approach, increasing its current land bank portfolio for new projects to a substantial GFA of 20.16 million sq.m.. Every piece of land is acquired with a specific development plan which ensures that the project pipeline is mapped out to shorten the gap between site acquisition to presale for cash generation towards the timely delivery of projects upon completion.

## Financial Review

### Turnover

The Group announced its first interim results on 30 August 2006 with excellent performance from the first half, the positive trend has continued into the second half of the year.

The Group's turnover for the year ended 31 December 2006 was RMB6,913 million (2005: RMB2,500 million) comprising primarily proceeds from property sales. Turnover increased by 176.5%, mainly because more projects were completed and units were delivered during the year. The Group's revenue from property sales amounted to RMB6,736 million or 97.4% of total revenue, representing an increase of 173.5 % over 2005. Total booked saleable area (including the attributable booked saleable area of 110,950 sq.m. contributed by associated companies) has increased to 674,611 sq.m., or increased by 159.6% compared to 2005.



*Harbin Shimao Riviera New City*





Fuzhou Shimao Bund Garden

Property sales by projects, for the year ended 31 December 2005 and 2006, can be analysed as follows:

Project name	2006		2005	
	Booked saleable area (sq.m.)	Turnover (RMB' million)	Booked saleable area (sq.m.)	Turnover (RMB' million)
Shanghai Shimao Riviera Garden	187,885	3,974	108,652	2,098
Kunshan Shimao Butterfly Bay	124,019	627	0	0
Changshu Shimao The Center	114,811	584	0	0
Harbin Shimao Riviera New City — Phase 1	59,772	251	112,594	365
Beijing Shimao Olive Garden	61,414	800	0	0
Shanghai Shimao Sheshan Villas	15,760	500	0	0
Sub-total	563,661	6,736	221,246	2,463
Fuzhou Shimao Bund Garden — attributable (Note)	57,349	644	38,569	249
Nanjing Shimao Riviera New City — Phase 1 — attributable (Note)	53,601	547	0	0
Sub-total	110,950	1,191	38,569	249
Total	674,611	7,927	259,815	2,712

Note: Sales revenue from associated companies, Nanjing Shimao Riviera New City and Fuzhou Shimao Bund Garden attributable to the Group, has not been included in the turnover of the Group for the year ended 31 December 2006.

Average selling price of the booked GFA for the Group (including associated companies) rose from approximately RMB10,400 per sq.m. in 2005 to RMB11,700 per sq.m. in 2006. The rise was attributable to the higher-than-average selling price of Shanghai Shimao Riviera Garden, Shanghai Shimao Sheshan Villas and Beijing Shimao Olive Garden in 2006.

Recurring income amounted to RMB177 million or 2.6% of the total revenue (2005 : RMB38 million or 1.5%), closely reflecting the increase in the proportion of

investment properties and hotels in the Group's portfolio. Recurring income includes income from both hotel and retail properties, which accounted for 82.3%, and 17.7% of the Group's recurring income respectively.

#### Cost of Sales

Cost of sales mainly comprised land cost, construction costs, capitalised borrowing cost, sales tax, land appreciation tax ("LAT") and the direct operating costs of hotels and retail properties. The items can be analysed as:

	2006 (RMB' million)	2005 (RMB' million)
Sales tax	350	129
LAT	355	162
Land cost, construction cost and capitalised borrowing costs	3,640	1,607
Direct operating costs of hotels and retail properties	88	5
Total	4,433	1,903





**Beijing Huaping Plaza**

### Fair Value Gains on Investment Properties

The Group recorded a fair value gain of RMB633 million contributed by Phase 1 retail property of Shanghai Shimao International Plaza. The fair value gain after deferred income tax was RMB424 million.

On 29 December 2006, we acquired an office and a commercial building at a prime location in Beijing CBD. The total acquisition cost, including deed tax and stamp duty, was RMB1,082 million and the fair value, according to a valuation report prepared by DTZ Debenham Tie Leung Limited dated 31 December 2006, was RMB1,450 million. As a result, we recognised a fair value gain after deferred income tax of RMB247 million.

### Other Gains

Other gains of RMB157 million (2005: RMB 106 million) mainly included interest income, gain on disposal of property, plant and equipment, and income tax refund on reinvestment. Other gains increased by RMB51 million compared to 2005, mainly due to substantial increase in interest income derived from proceeds received from the IPO and Senior Notes issuance.

### Selling and Marketing Costs and Administrative Expenses

Selling and marketing costs and administrative expenses were RMB208 million and RMB460 million (2005: RMB106 million and RMB189 million) respectively, accounting for 3.0% and 6.7% (2005: 4.3% and 7.6%) of the Group's total revenue. The increase in the selling and marketing costs and administrative expenses were mainly because more projects were being launched or under development compared to 2005.



**Changshu Shimao The Center** (artist impression)





*Wuhan Shimao Splendid River*

#### **Share of Results of Associated Companies**

Share of results of associated companies amounted to RMB201 million (2005: RMB18 million). The increase was because more units were completed and delivered in Fuzhou project in 2006 than 2005. Nanjing project started to contribute net profit to the Group with the completion and delivery of units in 2006.

#### **Finance Costs**

Finance costs increased by RMB35 million from RMB9 million in 2005 to RMB44 million in 2006 mainly due to the interest expense incurred in relation to the US\$600 million Senior Notes issued in November 2006.

#### **Taxation**

The Group's total income tax expense amounted to RMB705 million (2005: RMB326 million) for the year. Applicable income tax rates for Shanghai Shimao Riviera

Garden and Shimao Jianshe were 15%, for Shanghai Shimao Sheshan Villa was 27% and for Harbin Shimao Riviera New City was 30%, while the applicable rate for the Group's other projects stood at 33%.

#### **Profit Attributable to Equity Holders**

The Group's net profit attributable to equity holders amounted to RMB2,279 million for the year ended 31 December 2006 (2005 : RMB908 million), representing an increase of 151.0% relative to last year. Profit attributable to equity holders, excluding the fair value gain on investment properties net of deferred income tax of RMB671 million, goodwill impairment of RMB132 million and fair value adjustment for Shanghai Shimao Riviera Garden net of deferred income tax of RMB457 million, would be RMB2,197 million (2005 : RMB526 million).



*Kunshan Shimao Butterfly Bay*

## Analysis on the Financial Performance after Exclusion of Management Analysed Non-cash Items

	2006 (RMB' million)	2005 (RMB' million)
Management analysed gross profit	3,018	947
Management analysed operating profit	2,495	750
Management analysed profit attributable to equity holders for the year	2,197	526
Management analysed earnings per share — Basic (RMB)	0.824	0.295

Management's analysis showed that after eliminating certain non-cash items which included fair value adjustment for Shanghai Shimao Riviera Garden, and the fair value gain on investment properties and impairment of goodwill, the Group's net profit attributable to equity

holders increased 3.2 times compared to 2005, amounting to RMB2,197 million (2005: RMB526 million). The components of these non-cash items, which have been excluded in the preparation for the above management analyses, are set out as follows:

	2006 (RMB' million)	2005 (RMB' million)
Fair value adjustment — included in cost of sales (Note)	537	350
Fair value gains on investment properties	(1,001)	(903)
Impairment of goodwill — included in other operating expenses	132	—
<b>Total deduction before tax</b>	<b>(332)</b>	<b>(553)</b>
<b>Total deduction after tax and minorities interest</b>	<b>(82)</b>	<b>(382)</b>

Note: In respect of Shanghai Shimao Riviera Garden project

Management analysed gross profit netting off these non-cash items included in cost of sales was RMB3,018 million (2005: RMB947 million) and the management analysed gross profit margin was 43.7% (2005: 37.9%).

Management analysed operating profit, netting off these non cash items included in cost of sales, fair value gains on investment properties and impairment of goodwill, was RMB2,495 million (2005: RMB750 million), with an increase of 2.3 times over 2005.

Management analysed profit attributable to shareholders netting off all non-cash items for the year was RMB2,197 million (2005: RMB526 million) or increased 3.2 times compared to 2005.

## Financing Activities

The Group's excellent business performance has substantiated its move to step up its expansion efforts. To prepare for further expansion, the Group saw the need to raise funds from the international bond market. On 21 November 2006, the Group announced the issuance of US\$500 million of Senior Notes through an international offering, which was eventually increased to US\$600 million in view of strong investors' demand. This, undoubtedly, has further strengthened the Group's capital resources for the future development.

## Liquidity and Financial Resources

As of 31 December 2006, the Group's cash and bank balance was RMB6,023 million (2005 : RMB734 million), in which HK\$801 million (equivalent to RMB805 million) were the remaining proceeds from the initial public offering and US\$419 million (equivalent to RMB3,276 million) was from the issuance of the Senior Notes. Approximately 81% of total cash and bank balances are denominated in US dollars and HK dollars and the rest is

denominated in RMB. The Group's total debts amounted to RMB8,123 million which comprise bank loans of RMB3,550 million and Senior Notes of US\$600 million (equivalent to RMB4,573 million). Net debts (total debts less cash and bank balance) of the Group was RMB2,100 million which, converted into net gearing ratio (net debts/ total equity), of 18.2% (2005 : 75.8%). The net gearing ratio improved significantly mainly due to the broadening of the Group's equity base through capital injection by financial investors and IPO during the year.

The maturity of the borrowings is set out as follows:

Group	As of 31 December	
	2006 (RMB' million)	2005 (RMB' million)
Bank borrowings		
Within 1 year	1,652	724
Between 1 and 2 years	353	728
Between 2 and 5 years	1,060	796
Over 5 years	485	390
Senior notes		
Between 2 and 5 years	1,905	—
Over 5 years	2,668	—
	<b>8,123</b>	<b>2,638</b>

## Financial Guarantees

The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. As of 31 December 2006, the amount was RMB883 million (2005 : RMB1,450 million).

## Pledges of Assets

As of 31 December 2006, the Group has pledged a portion of its investment properties with carrying value of RMB11,495 million which included land and buildings completed and under development, for sale and for investment, to banks to secure general banking facilities (2005 : RMB6,575 million).

## Foreign Exchange Risks

Other than financing activities such as foreign currency bank borrowings, the IPO and the US\$600 million Senior Notes which were denominated in foreign currencies, the Group conducts its business almost exclusively in Renminbi and does not have any other direct exposure to foreign exchange fluctuations. Should the value of Renminbi appreciate, the Group would be affected mainly by the outstanding foreign currency borrowings and the level of US\$ and HK\$ cash and bank balances maintained. At present, Renminbi is not a freely convertible currency. The PRC government may adopt progressive measures to adjust the exchange rate of Renminbi upwards in the future which may expose the

## Management Discussion and Analysis

Group to exchange rate losses when converting the rest of IPO proceeds from HK\$ and when converting the rest of Senior Note Issue proceeds from US\$ into RMB. However, the Group may benefit from exchange rate gains when converting RMB to pay back the Senior Notes and foreign currency borrowings denominated in HK\$ and US\$. As of 31 December 2006, borrowings in foreign currencies included bank loans of US\$40 million and HK\$79 million, and the Senior Notes of US\$600 million.

### Use of Proceeds from the Initial Public Offering

The Company's shares were listed on the main board of the Stock Exchange of Hong Kong Limited on 5 July 2006. The Group has raised the net proceeds of approximately HK\$4,060 million from the IPO. The Company had applied approximately HK\$3,259 million into existing and new projects, which is in compliance with the intended use of proceeds as entailed on pages 183 and 184 of the prospectus. As of 31 December 2006, the balance of approximately HK\$801 million remained as bank deposits.

### Employees and Remuneration Policy

As of 31 December 2006, the Group employed a total of 987 employees. Total remuneration for the year amounted to RMB223 million. The Group has adopted a performance-based rewarding system to motivate its staff. In addition to a basic salary, year-end bonuses will be offered to those staff with outstanding performance. Share option schemes were adopted to attract and retain talents to contribute to the Group. In relation to staff training, the Group also provides different types of programmes for its staff to improve their skills and develop their respective expertise.

### Market Overview

Throughout year 2006, the central government continued to announce a series of macroeconomic policies designed to slow down the rapid growth of China's economy to a balanced and sustainable level by controlling money supply, credit availability and fixed assets investments. Particular attention has been paid to regulate certain high-growth sectors including the property market. Such measures include:

- Tighter controls over land supply
- Controlling the construction ratio of high end housing units against small sized residences
- Raising banks' benchmark lending rate and introducing a minimum capital adequacy ratio of 35% on property developers
- Levying a business tax on the total sale price of residential properties sold within five years after purchase
- Increasing minimum down payment for certain property purchases
- Foreigner buyers are subject to a value-added tax for capital gain from property disposals and not allowed to buy residences that are not for their own use; foreign firms are required to hold capital no less than 50% of the value of a property investment worth over US\$10 million
- LAT will be levied on income derived from the transfer of land use rights, buildings, premises or related facilities on such land
- Government plans to build houses for low-income families

Meanwhile, according to the preliminary estimation of the National Bureau of Statistics, the national economy maintained steady while China's gross domestic product for 2006 increased by 10.7% to reach RMB20,940.7 billion, which is 0.3% higher than last year. The substantial growth signifies an economic boom where the demand for office and retail properties are expected to increase in foreseeable future.

The Bureau also revealed that the per capita disposable income of urban population was RMB11,759, a year-on-year growth of 12.1%, or the real growth rate of 10.4%, or 0.8% above the previous year. The per capita net income of rural population was RMB3,587, a year-on-year growth of 10.2%, or a real growth of 7.4% which was 1.2% higher than 2005. The prospects for a general increase in income would help spur home buying demand and improve living conditions.



**Shanghai Hyatt on the Bund** (artist impression)

According to the National Development and Reform Commission, in February 2007, property prices in 70 large and medium sized mainland cities rose by an average of 5.3% year on year while first hand residential property prices rose 5.9% year-on-year. In December 2006, investment in domestic real estate amounted to RMB1,938.2 billion, representing an increase of 21.8% year on year, or equivalent to 2% above the relevant growth rate in last year.

Data from the National Tourism Administration showed that 22.21 million foreign visitors arrived in China in the year of 2006, representing an increase of 9.7% from 2005. Total revenue in foreign currency associated to inbound foreign visitors rose by 15.9% to about US\$34 billion. Overseas visitors received by the cities of Shanghai, Beijing and Nanjing reached 4 million, 3.38 million and 0.65 million respectively, up 5.3%, 8.3% and 27.5% from year 2005. The steady growth in the number of overseas visitors suggested rising demand for hotel rooms in China. With more international conferences, exhibitions, trade shows and other events to be held in

China, the number of business travelers and tourists entering the mainland is expected to rise in the long run hence stimulating the demand for accommodation and in particular benefiting the five star hotel market in leading mainland cities.

## Operational Review

### I Land Bank and Land Acquisitions

During the review period, through tender, auctions and listing-for-sale, the Group has strategically expanded its land bank in various provinces and cities in China. This is a testimony of the Group's capability as an integrated large scale real estate developer in the mainland.

Six plots of land with a total planned GFA of 6.31 million sq.m., were secured in 2006. Subsequently, in the first two months of 2007, three more plots of land with a total planned GFA of 3.52 million sq.m. were acquired and planned for large scale projects. The land plots are characterised by their excellent location and transportation connectivity to regional city centers, or are located in second and third tier cities where development potential is high.

Tactically, the Group has speeded up its geographic expansion through acquiring more land in the Yangtze River Delta area to strengthen its foothold in this region. The Group also entered the property market in Liaoning and Shandong provinces in order to capitalise on China's endeavor to enhance the development momentum in the Bohai Bay area, to complement the two economic powerhouses in Yangtze River Delta and Pearl River Delta.

The Group is of the view that profit margins generated from projects in first tier cities will gradually narrow while the residential markets in second and third tier cities will grow substantially and continuously. The Group has identified and entered into numerous high growth markets in a timely manner, enabling the Group to purchase plots of land in prime locations (or locations expected to be prime sites later) and at a reasonable cost.



## Management Discussion and Analysis

Since 1 January 2006, the Group has acquired land parcels and one completed investment property with a total planned GFA of 9.83 million sq.m.

Details of the newly acquired land are tabled as follows:

Project name	Acquisition date	Total Planned GFA (sq.m.)	Uses	Land cost (RMB' million)
<i>2006 (before IPO)</i>				
Shaoxing Shimao	May	1,299,700	Residential, Retail & Office	1,555
Wuhu Shimao	May	609,000	Residential, Retail & Hotel	401
<i>2006 (after IPO)</i>				
Yantai Shimao	August	280,000	Residential, Retail & Hotel	372
Jiaxing Shimao	August	1,050,000	Residential, Retail & Hotel	484
Changzhou Shimao	October	1,500,000	Residential & Retail	2,408
Shenyang Shimao	December	1,500,000	Residential, Retail, Office & Hotel	1,600
Beijing Huaping Plaza	December	70,175	Retail & Office	1,050
<b>Sub total</b>		<b>6,308,875</b>		<b>7,870</b>
<i>2007</i>				
Suzhou Shimao	January	1,500,000	Residential & Retail	1,704
Xuzhou Shimao	February	1,300,000	Residential & Retail	1,200
Hangzhou Shimao	February	718,840	Residential	816
<b>Sub total</b>		<b>3,518,840</b>		<b>3,720</b>
<b>Total</b>		<b>9,827,715</b>		<b>11,590</b>

As of 31 December 2006, total planned GFA of the Group's land bank reserve stood at 16.64 million sq.m. The Group adheres to a strategy where land acquired would immediately undergo meticulous planning and development. This approach also complements the

Group's long term strategy to balance its portfolio of properties-for-sale versus investment properties to approximately seventy-thirty distribution to secure recurring income and a healthy cash flow.

Development status of the Group's land bank as of 31 December 2006 is analysed below:

Project Name	Completed — Of	Under development	Held for future development	Pending land use rights	Attributable interest to the Group
	which held for investment/held				
	for sales				
	GFA				
	(sq.m.)	Planned GFA (sq.m.)	Planned GFA (sq.m.)	Planned GFA (sq.m.)	%
Shanghai Shimao Riviera Garden	11,905	193,529	43,000	39,800	100%
Shimao International Plaza	138,515	32,420	—	—	100%
Shanghai Shimao Sheshan	85,088	15,437	28,058	—	100%
Shanghai Hyatt on the Bund	—	100,972	—	—	100%
Shanghai Shimao Wonderland	—	—	551,000	—	100%
Beijing Shimao Olive Garden	18,075	206,341	—	—	100%
Kunshan Shimao Butterfly Bay	156,157	286,882	657,960	—	100%
Kunshan Shimao International City	—	—	202,400	1,126,784	100%
Changshu Shimao The Center	19,860	368,966	—	1,444,678	100%
Harbin Shimao Riviera New City — Phase 1	389,265	108,651	—	—	100%
Harbin Shimao Riviera New City — Phase 3	—	—	—	949,238	100%
Wuhan Shimao Splendid River	—	173,749	—	1,642,251	100%
Shaoxing Shimao	—	460,000	—	839,700	100%
Wuhu Shimao	—	—	—	609,000	100%
Yantai Shimao	—	—	—	280,000	100%
Jiaxing Shimao	—	—	—	1,050,000	100%
Changshu Shimao	—	—	—	1,500,000	100%
Shenyang Shimao	—	—	—	1,500,000	100%
Beijing Huaping Plaza	70,175	—	—	—	100%
Nanjing Shimao Riviera New City — Phase 1	21,292	286,149	61,852	—	50%
Nanjing Shimao Riviera New City — Phase 2	—	—	—	962,653	50%
Fuzhou Shimao Bund Garden	12,830	—	—	—	50%
Total	923,162	2,233,096	1,544,270	11,944,104	
Attributable GFA	906,101	2,090,022	1,513,344	11,462,778	

#### Latest land bank and land acquisition status

The array of acquisitions has made the Group one of the largest property developers in China in terms of land bank reserve. Currently, the Group's land bank reserve has a total planned GFA of approximately 20.16 million sq.m., taking into account the two new plots of land acquired in Suzhou and Xuzhou in January 2007 and one in Hangzhou in February 2007 with a combined planned GFA of 3.52 million sq.m.

#### II Property Development and Sales

During the year under review, revenue from property sales amounted to RMB6,736 million, representing an increase of 173.5% over 2005. Total GFA sold (including attributable GFA of 110,950 sq.m. contributed by associated companies) was about 675,000 sq.m., representing an impressive increase of 159.6% from a year earlier. This is because certain properties of eight projects were completed in 2006, compared to three projects in 2005.

## Management Discussion and Analysis

As of 31 December 2006, 97.4% of the Group's turnover was attributable to residential sales.

### **(1) Completed projects (residential, commercial, retail)**

The Group completed a total saleable GFA of 1,301,706 sq.m. in eight projects in Shanghai,

Harbin, Beijing, Changshu, Kunshan, Nanjing and Fuzhou, compared to three projects with a saleable GFA 421,332 sq.m. in 2005.

Projects completed in the year ended 31 December 2006 include:

Project Name	Saleable Area (sq.m.)	Group's Interest in Project (%)
1) Shanghai Shimao Riviera Garden	198,612	100%
2) Shanghai Shimao Sheshan Villas	33,692	100%
3) Harbin Shimao Riviera New City — Phase 1	345,013	100%
4) Beijing Shimao Olive Garden	67,123	100%
5) Changshu Shimao The Center	139,748	100%
6) Kunshan Shimao Butterfly Bay	280,176	100%
7) Nanjing Shimao Riviera New City — Phase 1	121,360	50%
8) Fuzhou Shimao Bund Garden	115,982	50%
<b>Total</b>	<b>1,301,706</b>	

### **(2) Projects in the pipeline**

The Group expects that eight projects, with a total GFA of approximately 1 million sq.m., would be completed in 2007. In addition, as of 31 December 2006, inventory of saleable GFA stood at approximately 638,010 sq.m. Total GFA available for sale in 2007 will be approximately 1.65 million sq.m.

Looking ahead, the Group is optimistic that total GFA completed in 2008 would grow substantially from 2007.

Details of the projects available for sale in 2007 are analysed as follows:

Project Name	Total Planned GFA (sq.m.)	Group's Interest in Project (%)
1) Shanghai Shimao Sheshan Villa	25,305	100%
2) Harbin Shimao Riviera New City — Phase 1	80,000	100%
3) Beijing Shimao Olive Garden	171,519	100%
4) Changshu Shimao The Center	140,000	100%
5) Kunshan Shimao Butterfly Bay	130,000	100%
6) Wuhan Shimao Splendid River	160,000	100%
7) Nanjing Shimao Riviera New City — Phase 1	121,507	50%
8) Shaoxing Shimao	180,000	100%
<b>Sub total</b>	<b>1,008,331</b>	
Total inventory GFA as of 31 December 2006 held by		
• Our subsidiaries	611,022	100%
• Our associated companies	26,988	50%
<b>Sub total</b>	<b>638,010</b>	
<b>Total</b>	<b>1,646,341</b>	

### III Investment Properties and Hotels

The Group continued to expand into property investment to mitigate its exposure to market volatility or policy changes. In order to achieve greater balance in revenues, stability in income streams, and cash flow, the long term target of the Group is to increase the proportion of hotel, retail and office properties so that the Group's investment properties will account for about 30% of the Group's profit.

During the year under review, turnover from the Group's hotels investment and leasing income from retail properties amounted to RMB177 million, or 2.6% of the Group's turnover. This represents an increase of 372.0% over last year.

#### (1) Hotels

The Group strives to develop a portfolio of five-star hotels targeting business and high net worth overseas and domestic travellers. Building a portfolio of self-owned hotel properties is an essential move towards the Group's objective in maintaining a diversified property portfolio.

During the year under review, Shanghai Le Méridien Sheshan celebrated its grand opening in April 2006 and Le Royal Méridien Shanghai commenced trial operation in September and was formally opened for business in December. Two other five-star hotels, namely Hyatt on the Bund Shanghai and Nanjing Hyatt Regency are under construction. We intend to build more hotels to complement our geographic expansion plan. New hotel projects are planned for cities such as Wuhan, Yantai and Shenyang.

To maintain the service quality at a superior level, the Group has entered into management contracts with leading international hotel management groups. Starwood Group has been appointed to operate Shanghai Le Méridien Sheshan and Le Royal Méridien Shanghai while the Hyatt Hotel Group has been commissioned to operate another two five-star hotels, namely Hyatt on The Bund Shanghai and Nanjing Hyatt Regency. Similar management contracts are planned for other upcoming hotel projects.

With the opening of Hyatt on the Bund in 2007, the Group's hotel room inventory in Shanghai will increase to 1,728 rooms which will account for approximately 15% of the five-star hotel market in Shanghai. During the year, revenue generated from hotel business

climbed 14 times to RMB146 million (2005: RMB10 million). The Group expects even more substantial growth in revenue in 2007.

Analysis of the status of the Group's hotel property developments is as follows:

#### Completed hotels as of 31 December 2006

Project name (location)	Opening date	No. of rooms	Total completed GFA (sq.m.)	Revenue for the year (RMB' million)
Shanghai Le Méridien Sheshan (Shanghai)	2006 April	327	69,328	89
Le Royal Méridien Shanghai (Shanghai)	2006 September	770	99,696	57
<b>Sub total</b>		<b>1,097</b>	<b>169,024</b>	<b>146</b>

#### Hotels under construction as of 31 December 2006

Project name (location)	Planned completion date	No. of rooms	Total planned GFA (sq.m.)	Revenue (RMB' million)
Hyatt on The Bund (Shanghai)	2007 second quarter	631	100,972	N.A.
Nanjing Hyatt Regency (Nanjing)	2008	426	60,010	N.A.
Shanghai Shimao Wonderland (Shanghai)	2010	400	73,000	N.A.
<b>Sub total</b>		<b>1,457</b>	<b>233,982</b>	<b>N.A.</b>
<b>Total</b>		<b>2,554</b>	<b>403,006</b>	<b>146</b>

#### (2) Completed investment properties for lease

The Group's strategy is to secure long term tenancy agreements with reputable anchor tenants while lining-up selected global retail brands as the tenancy base for investment properties.

Subsequent to year 2006, the Group entered into a management agreement with China's largest retail group, Shanghai Brilliance

(Group) Co. Ltd, to engage it as operation manager for the shopping mall of Shimao International Plaza. Tenancy agreements of 10 years with large commercial tenants are preferred in order to provide the Group with recurrent, substantial rental income. Other tenancy agreements are mostly termed for one to two years.

The Group also announced the formation of a strategic alliance with some leading worldwide retail brands, including CJ CGV of



South Korea, Decathlon from France, McDonald's Inc. (China) Ltd., Parkson Corp. from Malaysia, Starbucks Coffee Taiwan Corp. (Taiwan), SEGA (Japan) Vanguard (Hong Kong), and Watson's (Hong Kong). The move demonstrates the partners' strong confidence, reliance, and trust in the quality and opportunities accessible through the Group's projects. This followed an earlier partnership formed with Auchan from France and B&Q from the U.K. which are both Fortune 500 corporations. The alliance laid a cornerstone for the Group to tap into the commercial real estate market. Upon the establishment of this formal alliance, these brands will populate the Group's various commercial property projects.

During the year, the Group acquired Beijing Huaping Plaza with a GFA of 70,175 sq.m. Construction of Phase 2 shopping mall of Shanghai Shimao International Plaza is

expected to be completed in 2007. In addition, Shaoxing Shimao and Changshu Shimao, with a total planned GFA of nearly 200,000 sq.m. for retail purpose, are expected to commence business in 2008.

Revenue generated from commercial properties totalled RMB31 million (2005: RMB28 million), which was mainly contributed by Phase 1 of the shopping mall of Shanghai Shimao International Plaza, representing a 12.7% increase from last year.

The Group plans to maintain most of its retail and office properties in first tier cities such as Shanghai and Beijing, and certain portions in second tier cities, such as Kunshan, Wuhan, Shaoxing and Changshu, as long term investments.

The portfolio of the Group's investment properties is summarised as follows:

#### Completed investment properties for rental as of 31 December 2006

Project name	Time of completion/ acquisition	Total GFA (sq.m.)	Uses	Revenue for the year (RMB' million)
Shanghai Shimao International Plaza — Phase I	2004 December	38,819	Retail	31
Beijing Huaping Plaza	2006 December	70,175	Office & Retail	N/A
<b>Sub total</b>		<b>108,994</b>		<b>31</b>

#### Investment properties for rental under construction as of 31 December 2006

	Planned completion date	Total planned GFA (sq.m.)	Uses	Revenue (RMB' million)
Shanghai Shimao International Plaza — Phase II	2007 first half	32,420	Retail	N.A.
<b>Sub total</b>		<b>32,420</b>		<b>N.A.</b>
<b>Total</b>		<b>141,414</b>		<b>31</b>

### Business Outlook

The Board is confident of the prospects of the Group's future and believes that it has the potential to become one of the largest integrated real estate developers in China.

As the central government is determined to stabilise housing prices and curb over-investment, the authorities are expected to roll out other macroeconomic adjustments and vigorously implement existing adjustment measures. The Group considers these measures as strategic moves by the central government to consolidate and regulate the market to allow properly managed developers the room to grow. As a leading property developer specialising on large scale, high quality projects, the Group is well positioned to benefit from a better-regulated real estate market.

A flourishing yet sustainable economy is even more evident with China's accession into the World Trade Organisation (WTO), where over 70 of the world's top 100 retailers, including nearly all of the top 50, have entered the China market. Under the WTO agreement, service sector of China will also be opened up orderly. With the WTO entrance, the Group sees huge potential in the market of high end market properties for commercial and residential purposes.

Further, the mainland's hotel industry will benefit from China's booming tourism in the eve of the 2008 Beijing Olympics and the 2010 World Expo, reinforcing the Group's strategy to speed up its expansion in the fast growing hotel sector.

### Company Prospect

With China's overall domestic economy maintaining a healthy growth momentum, the industry in general and the Group in particular will have room for further expansion. The Group will hasten its geographic expansion, increase its holding of investment properties and bolster its brand name.

In 2007, the Group will continue to acquire large land parcels and identify other development opportunities amongst second and third tier cities. Riding on its business success in the Yangtze River Delta region and the Bohai Bay area, the Group plans to venture into central and western China and other fast growing regions which will likely offer tremendous economic potential, while also exploring possible opportunities presented in inner cities where the markets are largely untapped.

The Group reckons that the entry barrier for commercial property development is relatively higher than the residential property development, and the percentage of Chinese developers investing in this category is lower than the global average of 2 to 3%. To ensure a stable income stream and to maintain its market leadership, the Group will seek to broaden its investment portfolio towards achieving a seventy-thirty proportion between properties-for-sale and investment properties, and mitigate potential risks through the two-pronged strategy on both short term and long term investments.

Having built up its credibility through years of consistently delivering quality projects, the "SHIMAO" brand is virtually synonymous with service and product quality. Such a wealth of brand equity has set the Group apart from its peers. The Group will further enhance its brand value through upholding its outstanding management, effective human capital, experienced sales and customer service team, and quest for innovation.

The Group believes the above strategies will facilitate the Group's corporate mission in "Cultivating Lifestyle, Realising Urban Dreams", developing quality real estate projects and maximising shareholders' returns.

# Directors and Senior Management Profiles

## DIRECTORS

### Executive Directors

#### Hui Wing Mau (*Chairman*)

**Mr. Hui Wing Mau**, aged 56, is the Chairman and Executive Director of Shimao Property Holdings Limited (the "Company") and the founder of the Group. With over 17 years' experience in property development, property investment and hotel operation, he is primarily responsible for the Group's overall strategic planning and business management. Mr. Hui is currently a member of the National Committee of the Tenth Chinese People's Political Consultative Conference, a member of the Standing Committee of Fujian Political Consultative Conference, chairman of Shanghai Overseas Chinese Chamber of Commerce, vice chairman of the Shanghai Federation of Industry and Commerce, vice chairman of China Housing Industry Association, chairman of Shanghai Housing Industry Association, a member of the Standing Committee of the China National Federation of Industry and Commerce, a council member of the China Overseas Friendship Association, an honorary professor of Tong Ji University in Shanghai and vice chairman of the Beijing University of Chemical Technology. Mr. Hui obtained a Masters Degree in Business Administration from the University of South Australia. Mr. Hui is also the non-executive chairman of Shimao International Holdings Limited ("Shimao International") and Shanghai Shimao Co. Ltd.. He has been an Executive Director of the Company since 8 November 2004. Mr. Hui is the father of Mr. Hui Sai Tan, Jason, an Executive Director of the Company.

#### Hui Sai Tan, Jason

**Mr. Hui Sai Tan, Jason**, aged 30, has been the Group Sales Controller since he joined the Group in March 2000. Mr. Jason Hui is responsible for the sales, marketing, management and design of the Group's projects. He has more than 8 years' experience in the property development industry and has presided over the sales and marketing of Shanghai Shimao Riviera Garden which boasted top sales proceeds among residential projects in Shanghai for four consecutive years from 2001 to 2004. Mr. Jason Hui obtained a Masters Degree in Business Administration from the University of South Australia in 2004, and a Master of Science Degree in Real Estate from the University of Greenwich, the United Kingdom in 2001. He has been an Executive Director of the Company since 17 November 2004 and was an executive director of Shimao International from July 2002 to June 2006. Mr. Jason Hui is the son of Mr. Hui Wing Mau, the Chairman and Executive Director of the Company.

#### Ip Wai Shing

**Mr. Ip Wai Shing**, aged 51, has been the Group Construction Controller since joining the Group in July 2003. Mr. Ip is responsible for project management support and quality assurance of the Group's projects. He obtained a Higher Certificate in Civil Engineering from Hong Kong Polytechnic in 1978. Mr. Ip has more than 29 years' experience in construction and project management, of which over 19 years are in China. Prior to joining the Group, he served as project manager of Shui On (China) Ltd., Goldnice Investments Corp., Tian An (China) Investment Co., Ltd. and the Kerry Group from 1986 to 2002. Mr. Ip has also been involved as project manager in a number of property projects including the Royal Garden Hotel in Hong Kong in the 1980's, Dorchester Tower and Brunswick Garden in Canada from 1989 to 1991 and Wuhan Tian An Holiday Inn Hotel, Wuhan Shangri-La Hotel, Harbin Shangri-La Hotel and Beijing China World Trade Center Phase III from 1993 to 2002 in China. He was an executive director of Shimao International from February 2004 to February 2005. Mr. Ip was registered as a Technician Engineer CEI of the Council of Engineering Institutions. Mr. Ip has been an Executive Director of the Company since 25 January 2006.

## Directors and Senior Management Profiles

### Tang Ping Fai

**Mr. Tang Ping Fai**, aged 53, has been the Group Contracts Controller since March 2002. Mr. Tang is responsible for monitoring construction budgets, tendering, cost control and contract administration for the Group's projects. He obtained a Masters Degree in Project Management from the University of New South Wales in Australia in 1994. Mr. Tang has more than 27 years' experience in the construction industry. He was a project surveyor of Langdon Every and Seah (Hong Kong) Limited from 1978 to 1988, chief quantity surveyor of China Overseas Building Development Co. Ltd. in 1988, a team leader of Davis Langdon and Seah (China) Limited from 1989 to 1991 and contracts manager of China World Trade Centre Ltd. from 1993 to 2000. Mr. Tang was in charge of a number of property projects as project surveyor, including the Swire Hall of the University of Hong Kong, Sir Run Run Shaw Hall of the Chinese University of Hong Kong, the Hong Kong Convention and Exhibition Centre (Phase I) and China World Trade Centre (Phases I and II) in Beijing. He was an executive director of Shimao International from February 2004 to February 2005. Mr. Tang is a chartered project management surveyor, a chartered quantity surveyor, a property and facility management surveyor and a fellow member of the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors. Mr. Tang has been an Executive Director of the Company since 25 January 2006.

### Yao Li

**Ms. Yao Li**, aged 52, has been the Group Operations Controller since November 2002. Ms. Yao is responsible for human resources management, training, property management, information technology and administrative support of the Group. Ms. Yao obtained a Masters Degree in Business Administration from the University of South Australia in 2003. She has more than 21 years' experience in office administration, human resources management and staff training. Ms. Yao worked for China Construction Bank from 1984 to 2002 and was posted to Hong Kong and Johannesburg between 1994 and 2002. She held various positions in the bank and was the Head of the Hong Kong Training Centre. She was an executive director of Shimao International from February 2004 to February 2005. Ms. Yao has been an Executive Director of the Company since 25 January 2006.

### Independent Non-executive Directors

#### Kan Lai Kuen, Alice

**Ms. Kan Lai Kuen, Alice**, aged 52, has been an Independent Non-executive Director of the Company since 16 March 2006 and has more than 15 years' experience in corporate finance. She is a shareholder, managing director and responsible officer of two licensed corporations under the Securities and Futures Ordinance, Asia Investment Management Limited and Asia Investment Research Limited. She is also a responsible officer of Lotus Asset Management Limited. Ms. Kan currently serves as an independent non-executive director on the boards of the following companies which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"): Shougang Concord Technology Holdings Limited, Shougang Concord International Enterprises Company Limited, Regal Hotels International Holdings Limited, G-Vision International (Holdings) Limited and Sunway International Holdings Limited. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Hong Kong Institute of Directors. Ms. Kan held various senior positions in international and local banks and financial institutions.

## Lu Hong Bing

**Mr. Lu Hong Bing**, aged 40, has been an Independent Non-executive Director of the Company since 17 November 2004. He obtained a Masters Degree in law from the East China University of Politics and Law in 1991 and has more than 13 years' experience in corporate and securities laws in China. He joined Shimao International in October 2001 and was an independent non-executive director of Shimao International from October 2001 until he stepped down from this position in February 2005 to become an Independent Non-executive Director of the Company. Mr. Lu currently serves as an independent non-executive director on the boards of the following companies which are listed on the Shanghai Stock Exchange: Shanghai Yuyuan Tourist Mart Co. Ltd (上海豫園旅遊商城股份有限公司) and Shanghai Shentong Metro Co. Ltd (上海申通地鐵股份有限公司). Mr. Lu is an executive partner of the Grandall Legal Group, the president of the Shanghai Bar Association, a director of the National Bar Association of China, an arbitrator of the China International Economic and Trade Arbitration Commission, an arbitrator of the Shanghai Arbitration Committee, a concurrent professor of the East China University of Politics and Law and the Shanghai Institute of Foreign Trade and a commissioner of the public offering commission of the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

## Gu Yunchang

**Mr. Gu Yunchang**, aged 62, has been an Independent Non-executive Director of the Company since April 2006. He joined the Ministry of Construction in 1979 and has over 26 years' experience in market theory and policy research, including research and analysis of the PRC property market. In 1983, he was appointed as the Secretary-General of the China Residential Property Issues Research Institute (中國住宅問題研究會) and held this position for a period of 10 years. Between 1986 and 1998, he participated in the research and formulation of the national housing policy reform and in 1998, served as one of the main draftsman for the national housing reform program in the PRC. Mr. Gu has participated in state level research projects such as "2000 China" (《2000年中國》) and "National Xiaokang Residential Property Technological Industry Project" (《小康住宅科技產業工程》). Mr. Gu has been awarded the First Class National Science Technology Advance Award (國家科技進步一等獎) in China twice. Mr. Gu was appointed Vice-President and Secretary-General of the China Real Estate Association (中國房地產業協會) from August 1998 to March 2006, and since 1998, he has been involved in promoting the development of the China real estate industry as well as undertaking the research and analysis of the China real estate market. He is also the main organizer and writer of the China Real Estate Market Report, an annual analysis report issued by the China Real Estate Association.

## Lam Ching Kam

**Mr. Lam Ching Kam**, aged 46, has been an Independent Non-executive Director of the Company since June 2006. He is currently a fellow member and the committee member of the PRC committee (Quantity Surveying Division) of the Hong Kong Institute of Surveyors. Mr. Lam obtained a Masters Degree in Business Administration from the Hong Kong Open University in 2004 and is a fellow member of the Chartered Institute of Building and the Royal Institution of Chartered Surveyors. Mr. Lam was the Vice Chairman of the Royal Institution of Chartered Surveyors China group from 2003 to 2006. He is a member of the China Civil Engineering Society (中國土木工程師學會會員) and also a qualified China Costing Engineer (中國造價工程師執業資格). Mr. Lam has been a consultant to the Beijing Construction Project Management Association (北京市建設監理協會) since 2003 and has engaged in professional training and vocational education in China for more than five years. Mr. Lam has been in the property development and construction industry for 22 years, and has worked for property contractors such as Shui On Building Contractors Limited, China State Construction Engineering Corporation and Hopewell Construction Co. Ltd. Mr. Lam was employed as a quantity surveyor and worked in London from 1990 to 1991. He was employed by certain consultant firms and the Architectural Services Department of the Hong Kong Government before he emigrated to Australia in 1996 and operated a project management firm in Sydney. Mr. Lam was the representative of Sino Regal Ltd. (HK) for investment

## Directors and Senior Management Profiles

projects in China from 1994 to 1996. In 1998, Mr. Lam established a surveying and management consultant firm which has been participating in many large-scale projects in China and Macau, including a Beijing Olympic 2008 project involving the hotels, offices towers and commercial complex in Olympic Park, Beijing.

### SENIOR MANAGEMENT

**Mr. Hui Wai Man, Lawrence**, aged 50, has been the Vice President and Chief Financial Officer of the Company since November 2005. Mr. Hui is responsible for the finance-related matters of the Group. Mr. Hui obtained a Bachelors Degree in Arts from Manchester Polytechnic, the United Kingdom (now known as Manchester Metropolitan University) in 1982 and has over 24 years' experience in corporate finance, project finance, taxation, accounting and audit. Prior to joining the Group, Mr. Hui worked in a number of companies, including as an executive director and chief financial officer of several companies including Guangdong Alliance Limited, Guangdong Tannery Limited, Guangnan (Holdings) Limited and Kingway Brewery Holdings Limited, finance manager of Cheung Kong (Holdings) Limited, general manager (corporate finance, leasing and property sales) of Sino Land Company Limited and group financial controller of Lai Fung Company Limited. Mr. Hui is a fellow of the Hong Kong Institute of Certified Public Accountants, an associate of the Association of Chartered Certified Accountants and The Institute of Chartered Accountants in England and Wales.

**Ms. Tang Fei**, aged 36, has joined the Group since July 2004. Ms. Tang is currently an Assistant President and Audit Controller of the Group, responsible for the internal control of the Group. Ms. Tang obtained a Masters Degree in Business Administration from the University of South Australia in 2002, and has over 14 years' experience in internal audit. Prior to joining the Group, Ms. Tang worked in the internal audit department of Bank of China from 1992 to 1998. She also worked in the audit department and treasury department of Bank of China (Hong Kong) Limited from 2000 to 2004.

**Mr. Xu Younong**, aged 48, has joined the Group since June 2001. Mr. Xu is currently an Assistant President and Regional Project Controller, responsible for project management of the Group's projects. Mr. Xu obtained a Bachelors Degree of Engineering from Tong Ji University in Shanghai in 1982. He has over 20 years' experience in architectural design and project management. Prior to joining the Group, he worked for 上海市建築材料工業設計研究院 from 1983 to 1992 as an engineer and designer. From 1993 to 2001, he worked for Shanghai Fortune World Development Company Limited as project manager.

**Mr. Liu Saifei**, aged 45, has joined the Group since 2003. Mr. Liu is currently an Assistant President and Regional Project Controller of the Group, responsible for project management of the Group's projects. He obtained a Masters Degree in Project Management from the University of Sydney, Australia in 2000. Mr. Liu has over 18 years' experience in architectural design and project management. Prior to joining the Group, he worked for CRG Contractors Dte from 1998 to 2001. From 2001 and 2003, he worked for Shanghai Merry Land Co. Ltd. as project manager.



**Mr. Yip Chi Wai**, aged 40, has been the Group Architectural Design Controller since May 2003. Mr. Yip is responsible for the architectural design of the Group's projects and has more than 12 years' experience in architectural design. Mr. Yip obtained a Bachelors Degree in Architecture from the Royal Melbourne Institute of Technology (now known as Royal Melbourne Institute of Technology University), Australia in 1995. Prior to joining the Group, Mr. Yip was a senior architect of an architectural firm in Hong Kong from 1994 to 2003. Mr. Yip has been involved in a number of property projects as architectural designer and project manager in Hong Kong and in China, including the executive building of the Hong Kong Jockey Club in Hong Kong, the award-winning Golden Land Gardens in Shenzhen and the Shanghai Square in Shanghai. Mr. Yip is a registered architect in Hong Kong, a member of the Hong Kong Institute of Architects and has a Class I Registered Architect Qualification in the PRC.

**Mr. Lam Kit Wah**, aged 49, has been the Group Interior Design Controller since November 2000. Mr. Lam is responsible for supervising the interior design of all of the Group's projects. Mr. Lam obtained a Masters Degree in Interior Design from Manchester Polytechnic, the United Kingdom (now known as Manchester Metropolitan University) in 1992 and has more than 14 years' experience in interior design and worked as a designer for a number of international architectural and design firms from 1992 to 2000. Mr. Lam has been involved in a number of property projects in Hong Kong as interior designer, including Dynasty Court at Old Peak Road in 1994, the villas at Repulse Bay in 1996 and the Hong Kong international airport (Northwest Extension) in 2000.

**Mr. Tao Yong**, aged 44, joined the Group in June 2001 and is the Development and Planning Controller of the Group. Mr. Tao is responsible for the development and planning of the Group's projects and has more than 19 years' experience in architectural design. Mr. Tao obtained a Masters Degree in Architecture from the Huazhong Institute of Technology in 1986 and a Bachelors Degree in Architecture from Tsinghua University in 1983. Prior to joining the Group, Mr. Tao worked as an architect in Shanghai Architectural Design Institute from 1986 to 1991, an architect in Tsinghua University Architectural Design Institute Shenzhen Office from 1995 to 1998, a chief architect of a property development in Shenzhen from 1998 to 2001. From 1995 to 2001, Mr. Tao was involved as an architect in a number of property projects in the PRC, including Garden Hills and Zhaoshang Mingshi Garden in Shenzhen.

**Mr. Tang Dock Chung**, aged 50, has been the Group Hotel Management Controller since April 2005. Mr. Tang is responsible for managing the Group's hotel business. Mr. Tang obtained a Bachelors Degree in Business Administration, majoring in Hotel Management and Accounting, from the University of Hawaii in 1980 and has over 27 years' experience in the hospitality industry. Prior to joining the Group, Mr. Tang worked in the InterContinental Hotels Group from 1979 to 2005 with his last position being the Regional Director of Hotel Finance and Business Support in North Asia.

## Directors and Senior Management Profiles

**Mr. Wang Jenn Kuo**, aged 42, has joined the Group since May 2005 and is currently the Group's Leasing Controller, responsible for the leasing affairs of the Group. Mr. Wang graduated from Taiwan's Fu Jen University (Department of Financial and Economic) in 1988. Mr. Wang has over 16 years' experience in property leasing and sales. Prior to joining the Group, Mr. Wang worked for Shanghai Kong Hui Property Development Co., Ltd. of Hang Lung Group, Hong Kong as vice marketing controller from 1997 to 2003. Mr. Wang also worked for Shanghai Gang Hong Industrial Development Company Limited as marketing controller from 2003 to 2005.

**Mr. Qin Hua**, aged 33, has joined the Group since January 2001 and is currently the Group's Sales Controller, responsible for the sales and marketing of the Group. He graduated from Tong Ji University (Adult Education Institute), Shanghai in 2000, studying corporate management. Mr. Qin has over 14 years' experience in property sales and marketing. Prior to joining the Group, he worked for Shanghai Kiu Lok Property Services Co. Ltd. and Shanghai Thakral Electronics Industrial Corp., Ltd as sales controller.

**Ms. Lam Yee Mei, Katherine**, aged 40, has been the Company Secretary of the Company since January 2006. Ms. Lam obtained a Bachelors Degree and a Masters Degree in Law from the University of London and has over 16 years' experience in company secretarial practice. Prior to joining the Company, Ms. Lam was the company secretary of Kingway Brewery Holdings Limited from 1997 to 2005. Ms. Lam is an associate member of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

**Mr. Ng Yu Yuet**, aged 34, has been a member of senior management and the qualified accountant of the Company since December 2004. Mr. Ng is responsible for the general financial matters of the Group. He obtained a Masters Degree in Business Administration from The Open University of Hong Kong in 2004 and has more than 13 years' experience in auditing, accounting and finance. Prior to joining the Group, Mr. Ng was the finance manager of Shimao International from July 2001 to 2004. He has also worked for a number of local and international accounting firms in Hong Kong and a company listed on the Stock Exchange, between the years of 1993 to 2001. Mr. Ng is a member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Note: Senior management of the Group during 2006 included Mr. Hui Wai Man, Lawrence, Mr. Yip Chi Wai, Mr. Lam Kit Wah, Mr. Tao Yong, Mr. Tang Dock Chung, Ms. Lam Yee Mei, Katherine and Mr. Ng Yu Yuet.

# Corporate Governance Report

Shimao Property Holdings Limited (the “Company”) is committed to achieving and maintaining high standards of corporate governance which it believes is crucial to the development of the Company and its subsidiaries (together the “Group”) and safeguard the interests of the shareholders of the Company.

The corporate governance standards of the Company are built on the principles of independence, accountability, transparency and fairness. The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) since 5 July 2006 (date of listing of the shares of the Company) except for one deviation as set out under the paragraph on “Chairman and Chief Executive Officer” below.

## A.1 Board of Directors

The board (the “Board”) of directors (the “Directors”) of the Company consisted of nine directors. The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Company by directing and supervising the Company’s affairs. The Board is committed to the Company’s objective of consistent growth and development and increase in shareholder value. The Board sets strategies for the Company and monitors the performance and activities of the executive management.

The Board has four scheduled meetings a year at quarterly interval and meets as and when required. During the period from 5 July 2006 (date of listing of the shares of the Company) to 31 December 2006, the Board held 2 meetings. The attendance of the Directors at the Board meetings are set out below:

Directors	Number of attendance
<i>Executive Directors:</i>	
Hui Wing Mau ( <i>Chairman</i> )	2/2
Hui Sai Tan, Jason	2/2
Ip Wai Shing	2/2
Tang Ping Fai	2/2
Yao Li	2/2
<i>Independent Non-executive Directors:</i>	
Kan Lai Kuen, Alice	2/2
Lu Hong Bing	2/2
Gu Yunchang	2/2
Lam Ching Kam	2/2

### A.2 Chairman and Chief Executive Officer

The roles of the Chairman and chief executive officer of the Company have not been segregated as required by the provision A.2.1 of the Code.

Mr. Hui Wing Mau is the Chairman of the Company and founder of the Group. With Mr. Hui's extensive experience in property development and investment, he is responsible for the overall strategic planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive in the same person is beneficial to the business prospects and management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high calibre individuals. The Board currently comprises five Executive Directors and four Independent Non-executive Directors and therefore has a strong independence element in its composition.

### A.3 Board Composition

The Company benefits from the collective experience of its Directors, who come from a variety of different backgrounds. Brief biographical particulars of all the Company's Directors, together with information relating to the relationship among them, is set out in the "Directors and Senior Management Profiles" section under the Company's 2006 Annual Report. Their diverse range of business and professional expertise ensures that the Board has the skills and experience necessary to both promote the Company's success and monitor its affairs.

The Board comprises five Executive Directors and four Non-executive Directors. All of the four Non-executive Directors are Independent Non-executive Directors who represent more than one-third of the Board. All the Independent Non-executive Directors meet the guidelines for assessment of independence, as set out in Rule 3.13 of the Listing Rules.

### A.4 Appointments, Re-election and Removal of Directors

The Company has established a Nomination Committee on 9 June 2006 with written terms of reference. The Nomination Committee consists of five members, comprising Mr. Hui Wing Mau and the Company's four Independent Non-executive Directors. The chairman of the Nomination Committee is Mr. Hui Wing Mau.

The primary functions of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

Each of the Directors has entered into a service contract with the Company for a specific term. However, such term is subject to his/her re-appointment by the Company at general meeting upon retirement by rotation pursuant to the Articles of Association of the Company (the "Articles"). The Articles of the Company state that each director shall retire from office by rotation at least once every three years after he was last elected or re-elected and directors holding offices as chairman and managing director are also subject to retirement by rotation. The Articles of the Company also provide that any Director appointed by the Board, either to fill a casual vacancy on the Board or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

## **A.5 Responsibilities of Directors**

Every newly appointed Director of the Company shall receive an information package from the company secretary on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a Director. In addition, the package includes materials on the operations and business of the Company. The senior management and the company secretary will subsequently conduct such briefing as is necessary, to ensure that the Directors have a proper understanding of the operations and business of the Company and that they are aware of their responsibilities under the laws and applicable regulations.

Management provides appropriate and sufficient information to Directors in a timely manner to keep them apprised of the latest development of the Group and enable them to discharge their responsibilities. Directors also have independent access to senior executives in respect of operating issues.

Every Director is aware that he should give sufficient time and attention to the affairs of the Company. The Directors are continually updated with legal and regulatory developments, business and market changes and strategic development of the Group to facilitate the discharge of their responsibilities.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. All Directors confirmed they had complied with the required standard set out in the Model Code during the period from 9 June 2006 (date of adoption of the Model Code) to 31 December 2006.

## **A.6 Supply of and Access to Information**

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying Board papers are sent in full to all Directors in a timely manner.

The Directors enable, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

### **B.1 The Level and Make-up of Remuneration of Directors and Senior Management and Disclosure**

The Company has established a Remuneration Committee on 9 June 2006 with written terms of reference. The Remuneration Committee consists of five members, comprising Mr. Hui Wing Mau and the Company's four Independent Non-executive Directors. The chairman of the Remuneration Committee is Mr. Hui Wing Mau.

The primary functions of the Remuneration committee are to evaluate the performance and make recommendations on the remuneration package of the directors and senior management and evaluate, make recommendations on the Company's share option schemes, retirement scheme and the performance assessment system and bonus and commission policies.

### **C.1 Financial Reporting**

The Directors are responsible for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs and the results and cash flow for the year. In preparing the accounts for the year ended 31 December 2006, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate accounting standards; made judgements and estimates that are prudent and reasonable; and ensured the accounts are prepared on the going concern basis.

The Company recognizes that high quality corporate reporting is important in reinforcing the trustworthy relationship with the Company's stakeholders and aims at presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects in all corporate communications. The annual and interim results of the Company are announced in a timely manner within the limit of 4 months and 3 months respectively after the end of the relevant periods.

A statement by the external auditors about their reporting responsibilities is included in the Independent Auditor's Report on pages 54 and 55.

### **C.2 Internal Controls**

The Group has established an Internal Audit Department which plays an important role in the Group's internal control system. The Internal Audit Department provides an independent appraisal of the Group's financial and operational activities and make recommendations to the relevant management for necessary actions. The results of the internal audit reviews are reported to the Executive Directors and Audit Committee periodically. The Directors have reviewed the effectiveness of the Group's internal control system covering financial, operational, compliance and risk management functions for the year 2006.



### C.3 Audit Committee

The Company has established an Audit Committee on 9 June 2006 with written terms of reference pursuant to the rules set out in Chapter 3 of the Listing Rules. The Audit Committee consists of four members, namely Ms. Kan Lai Kuen, Alice, Mr. Lu Hong Bing, Mr. Gu Yunchang and Mr. Lam Ching Kam. All of them are Independent Non-executive Directors. The chairman of the Audit Committee is Ms. Kan Lai Kuen, Alice.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company, nominate and monitor external auditors and provide advice and comments to the Directors.

Attendance of individual members at Audit Committee meetings during the period from 9 June 2006 (date of establishment of the Audit Committee) to 31 December 2006 are as follows:

Directors	Number of attendance
Kan Lai Kuen, Alice ( <i>Committee Chairman</i> )	1/1
Lu Hong Bing	1/1
Gu Yunchang	1/1
Lam Ching Kam	1/1

Full minutes of Audit Committee meetings are kept by the company secretary. Draft and final versions of minutes of the Audit Committee meetings will be sent to all members of the Committee for their comment and records respectively.

The Audit Committee meets the external auditors at least once a year to discuss any areas of concerns during the audits. The Audit Committee reviews the interim and annual reports before submission to the Board. The Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

The remuneration paid and payable to the Company's auditors, Messrs. PricewaterhouseCoopers, in respect of the services rendered for the year ended 31 December 2006 is set out as follows:

Services rendered	Fee paid/payable HK\$'000
Audit service	3,000
Non-audit services:	
Review of interim financial information	1,600
Service provided in respect of issuance of senior notes	2,000
Tax consultancy	333
	6,933

The Audit Committee is provided with sufficient resources, including the advice of external auditors to discharge its duties.

The consolidated annual results of the Group for the year ended 31 December 2006 have been reviewed by the Audit Committee.

### **D.1 Management Functions**

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group whilst managing the Group's business is the responsibility of the management.

Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of systems of internal controls and risk management procedures, compliance with relevant statutory requirements and rules and regulations.

### **D.2 Board Committees**

Where board committees are established to deal with matters, the Board shall prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.

The terms of reference of the above-mentioned committees require such committees to report back to the Board on their decisions or recommendations. Material matters will be reported to the Board by the other board committees according to their respective terms of reference.

### **E.1 Effective Communication**

The management believes that effective communication with the investment community is essential. Since the listing of the Company in July 2006, the Executive Directors and Chief Financial Officer held regular briefings, attended investor forums and participated in roadshows with institutional investors and financial analysts in the PRC, Hong Kong and overseas countries to keep them abreast of the Company's business and development.

The annual general meeting provides a useful forum for the shareholders to exchange views with the Board. The Directors and Chief Financial Officer will attend the shareholder's meetings to answer the questions of shareholders. In addition, questions received from the general public and individual shareholders were answered promptly.

## **E.2 Voting by Poll**

The Articles provide that a poll may be demanded by (i) the chairman of the meeting, (ii) at least three shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting, or (iii) a shareholder or shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting, or (iv) a shareholder or shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right, or (V) any Director or Directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at the meeting. The Articles further provide that a demand by a person as proxy for a shareholder (or, in the case of a shareholder being a corporation, by its duly authorized representative) shall be deemed to be the same as a demand by a shareholder.

Details of the poll voting procedures and the rights of shareholders to demand a poll are included in the circulars to the shareholders.

The Board will continue to devote efforts to maintain good corporate governance practices of the Company in future with a view to continuously enhancing shareholder value as a whole.



# Report of the Directors



*Shanghai Le Méridien Sheshan*





## Report of the Directors

The directors (the “Directors”) of Shimao Property Holdings Limited (the “Company”) have pleasure in presenting their report and the audited financial statements of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2006.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in property development and investment. The principal activities of its principal subsidiaries are set out in note 33 to the consolidated financial statements.

### THE ISSUE AND LISTING OF SHARES

The company listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 5 July 2006 and offered and issued 684,392,500 shares (including the shares issued upon the exercise of the over-allotment option) by way of public offer in Hong Kong and international placing at an issue price of HK\$6.25 per share.

### RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2006 are set out on pages 56 to 120 of this annual report.

The Directors recommended the payment of a final dividend of HK20 cents (2005: N/A) per share in respect of the year ended 31 December 2006. No interim dividend was paid for the year ended 31 December 2006.

The dividend will be payable on 3 May 2007 to the shareholders whose names appear on the register of members of the Company on 26 April 2007. The register of members of the Company will be closed from Monday, 23 April 2007 to Thursday, 26 April 2007 (both days inclusive). In order to qualify for the above mentioned proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 20 April 2007.

### RESERVES

Movement in the reserves of the Company and the Group during the year are set out in note 19 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group’s five largest customers and suppliers were less than 30% of the Group’s total turnover and 30% of the Group’s total purchases respectively during the year.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company’s share capital) had any interest in the major suppliers noted above.



## **BANK AND OTHER BORROWINGS**

Particulars of bank and other borrowings of the Company and the Group as at 31 December 2006 are set out in note 20 to the consolidated financial statements.

## **DONATIONS**

Charitable and other donations made by the Group during the year amounted to RMB8,120,000 (2005: RMB6,174,000).

## **PROPERTY, PLANT AND EQUIPMENT**

Details of property, plant and equipment of the Group are set out in note 6 to the consolidated financial statements.

## **SHARE CAPITAL**

Details of movements in the share capital of the Company during the year are set out in note 18 to the consolidated financial statements.

Details of the movements of the share options of the Company during the year are set out in Report of the Directors on page 47 of this annual report.

## **FINANCIAL HIGHLIGHTS**

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 4 of this annual report.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights over shares of the Company under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated.

## **DIRECTORS**

The Directors of the Company during the year and up to the date of this report are as follows:

### **Executive Directors**

Mr. Hui Wing Mau (*Chairman*)

Mr. Hui Sai Tan, Jason

Mr. Ip Wai Shing (appointed on 25 January 2006)

Mr. Tang Ping Fai (appointed on 25 January 2006)

Ms. Yao Li (appointed on 25 January 2006)

## Report of the Directors

### Independent Non-executive Directors

Ms. Kan Lai Kuen, Alice	(appointed on 16 March 2006)
Mr. Lu Hong Bing	
Mr. Gu Yunchang	(appointed on 13 April 2006)
Mr. Lam Ching Kam	(appointed on 1 June 2006)

### Directors

Mr. Yu Hon To, David	(resigned on 9 January 2006)
Mr. Cai Lai Xing	(resigned on 15 February 2006)
Mr. Chen Fan	(appointed on 24 February 2006 and resigned on 17 March 2006)
Ms. Hui Mei Mei, Carol	(resigned on 21 April 2006)

In accordance with article 87 of the Company's articles of association, Mr. Hui Wing Mau, Mr. Hui Sai Tan, Jason and Mr. Lu Hong Bing will retire by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

None of the Directors, including Directors being proposed for re-election at the forthcoming annual general meeting, has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

The Company has received, from each of the Independent Non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange. The Company considers all the Independent Non-executive Directors are independent.

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this report, no contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### INFORMATION ON SHARE OPTIONS

The Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme") on 9 June 2006.

## (1) Pre-IPO Share Option Scheme

- (a) Movement of share options ("Pre-IPO Option") granted under the Pre-IPO Share Option Scheme during the period from 1 January 2006 to 31 December 2006 were as follows:

Name	Date of grant	Exercise price per share	As at 1 January 2006	Number of share options			As at 31 December 2006
				Granted	Exercised	Lapsed	
Directors							
Mr. Hui Sai Tan, Jason	9 June 2006	HK\$5.625	—	2,640,000	—	—	2,640,000
Mr. Ip Wai Shing	9 June 2006	HK\$5.625	—	2,560,000	—	—	2,560,000
Mr. Tang Ping Fai	9 June 2006	HK\$5.625	—	2,640,000	—	—	2,640,000
Ms. Yao Li	9 June 2006	HK\$5.625	—	2,640,000	—	—	2,640,000
			—	10,480,000	—	—	10,480,000
Senior Management of the Company (in aggregate)							
	9 June 2006	HK\$5.625	—	6,450,000	—	—	6,450,000
Other employees and officers of the Group (in aggregate)							
	9 June 2006	HK\$5.625	—	46,990,000	—	—	46,990,000
			—	63,920,000	—	—	63,920,000

- (b) The purpose of the Pre-IPO Share Option Scheme is to give the participants an opportunity to have a personal stake in the Company and help motivate the participants to optimize their performance and efficiency, and also to retain the participants whose contributions are important to the long-term growth and profitability of the Group.
- (c) Pursuant to the shareholders' resolution passed on 9 June 2006 for approval of the Pre-IPO Share Option Scheme, options for a total of 63,920,000 ordinary shares of the Company have been conditionally granted to directors and selected employees.
- (d) Each option has a 6-year exercise period with 30% vesting on 31 March 2007, another 30% vesting on 31 March 2008 and the remaining 40% vesting on 31 March 2009.
- (e) The consideration paid by each grantee for each grant of options is HK\$1.00.

## Report of the Directors

- (f) Performance targets have been imposed as conditions for the grant under the Pre-IPO Share Option Scheme.
- (g) Upon listing of the Company on 5 July 2006, the Pre-IPO Share Option Scheme was terminated but the options granted but not yet exercised shall continue to be valid and exercisable in accordance with the terms of the Pre-IPO Share Option Scheme.
- (h) Save as disclosed above, no options were granted, cancelled or lapsed under the Pre-IPO Share Option Scheme as at 31 December 2006.
- (i) The fair value of the Pre-IPO Options granted is measured based on a binomial lattice model, details of which are set out in note 18 to the financial statements.

Other details of the Pre-IPO Share Option Scheme are set out in note 18 to the consolidated financial statements.

### **(2) Share Option Scheme**

- (a) The purpose of the Share Option Scheme is to provide the participants the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and the shares of the Company for the benefit of the Company and shareholders of the Company as a whole. The Share Option Scheme will provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to the participants.
- (b) The Directors may, at their discretion, invite any directors, employees and officers of any member of the Group and any advisors, consultants, distributors, contractors, contract manufacturers, agents, customers, business partners, joint venture business partners and service providers of any member of the Group to participate in the Share Option Scheme.
- (c) The total number of shares which may be issued upon exercise of all options (the "Share Options") granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company must not exceed 30% of the Company's shares in issue from time to time.
- (d) The total number of shares issued and to be issued upon exercise of the Share Options granted to each participant under the Share Option Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue and any further grant of Share Options which would result in the number of shares of the Company issued as aforesaid exceeding the said 1% limit must be approved by the shareholders of the Company.
- (e) The vesting periods, exercise periods and vesting conditions may be specified by the Company at the time of the grant, and the Share Options expire no later than 10 years from the relevant date of grant.



- (f) The exercise price of the Share Options shall be no less than the higher of (i) the closing price of the shares of the Company on the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant.
- (g) The amount payable by a grantee on acceptance of a grant of Share Options is HK1.00.
- (h) The Share Option Scheme will expire on 8 June 2016.
- (i) No options were granted, cancelled or lapsed under the Share Option Scheme as at 31 December 2006.

## DISCLOSURE OF INTERESTS IN SECURITIES

### Directors' and chief executive's interests and short positions in the share capital of the Company and the associated corporations

At 31 December 2006, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Listing Rules were as follows:

#### (1) Long positions in the shares of the Company

Name of Director	Capacity	Nature of interests	Number of ordinary shares held	Approximate percentage of issued share capital
Mr. Hui Wing Mau	—	(Note)	2,000,000,000	65.26%

Note: These 2,000,000,000 shares represents the interests in the Company held by Gemfair Investments Limited, a company which is directly wholly-owned by Mr. Hui Wing Mau.

#### (2) Long positions in the underlying shares of the Company

Share options were granted to Mr. Hui Sai Tan, Jason, Mr. Ip Wai Shing, Mr. Tang Ping Fai and Ms. Yao Yi pursuant to the pre-IPO share option scheme. Details in relation to the share options were stated in the section under the heading "Information on Share Options".

## Report of the Directors

### (3) Long positions in the shares of associated corporation — Shimao International Holdings Limited

Name of Director	Capacity	Personal interests	Corporate interests	Other interests	Total number of ordinary shares held
Mr. Hui Wing Mau	—	—	185,185,185 (Note 1)	618,571,397 (Note 2)	803,756,582
Mr. Hui Sai Tan, Jason	—	—	—	618,571,397 (Note 2)	618,571,397
Mr. Ip Wai Shing	Beneficial Owner	528,000	—	—	528,000
Mr. Tang Ping Fai	Beneficial owner	30,000	—	—	30,000

Notes:

- (1) These 185,185,185 shares are shares of Shimao International Holdings Limited ("Shimao International") issuable to Dynamic Keen Developments Limited ("Dynamic Keen") upon conversion of all the convertible note issued to Dynamic Keen. Since the entire issued share capital of Dynamic Keen is owned by Mr. Hui Wing Mau, Mr. Hui Wing Mau is taken to be interested in these 185,185,185 shares of Shimao International under the SFO.
- (2) These 618,571,397 shares in Shimao International represents the interests in Shimao International which is held by Perfect Zone International Limited, a company which is directly wholly-owned by Overseas Investment Group International Limited as trustee of The W.M. Hui Unit Trust, all the units of which are held by Trident Trust Company (B.V.I.) Limited (formerly known as Trident Corporate Services (B.V.I.) Limited) as trustee of The W.M. Hui Family Trust established by Mr. Hui Wing Mau for the benefit of his wife and children. Mr. Hui Sai Tan, Jason is the son of Mr. Hui Wing Mau and accordingly, Mr. Hui Wing Mau and Mr. Hui Sai Tan, Jason are deemed to be interested in the interests by virtue of the SFO.

Save as disclosed above, no other interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) were recorded in the Register.

### DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company, any of its subsidiaries, or its holding company a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS

At 31 December 2006, the interests and short positions of substantial shareholders in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

### Long/short positions in the shares of the Company

Name	Nature of interests	Number of ordinary shares held	Approximate percentage of issued share capital
<b>Long positions</b>			
Gemfair Investments Limited ("Gemfair")	(Note 1)	2,000,000,000	65.26%
Overseas Investment Group International Limited ("Overseas Investment")	(Note 2)	2,000,000,000	65.26%
GSS III Nimble Holdings Limited ("GSS III Nimble")	(Note 3)	238,049,466	7.77%
Global Special Situations Funding III, L.P.	(Note 3)	238,049,466	7.77%
GSS III Funding, Inc.	(Note 3)	238,049,466	7.77%
Morgan Stanley	(Note 3)	257,419,528	8.40%
<b>Short positions</b>			
Morgan Stanley	(Note 3)	14,700,000	0.48%

Notes:

- (1) The interests disclosed represents the interests in the Company which is held by Gemfair, a company which is directly wholly-owned by Mr. Hui Wing Mau.
- (2) The interests disclosed represents the right of Overseas Investment to vote on behalf of Gemfair as a shareholder at general meetings of the Company, pursuant to a deed dated 12 June 2006 between Gemfair and Overseas Investment, as long as Mr. Hui Wing Mau or his associates (directly or indirectly) hold not less than a 30% interest in the Company. Overseas Investments is the trustee of W.M. Hui Unit Trust, all the units of which are held by W.M. Hui Family Trust of which Mr. Hui Wing Mau and his immediate family are discretionary objects.
- (3) GSS III Nimble is owned by Global Special Situations Funding III, L.P., which is controlled and managed by its general partner, GSS III Funding, Inc.. GSS III Funding, Inc. is in turn wholly-owned by Morgan Stanley. Pursuant to the SFO, each of Global Special Situations Funding III, L.P., GSS III Funding, Inc. and Morgan Stanley is deemed to be interested in the 238,049,466 shares in which GSS III Nimble is interested.

Save as disclosed above, no other interest or short positions in the shares and underlying shares of the Company were recorded in the Register.

### **ENFORCEMENT OF THE NON-COMPETITION UNDERTAKING**

Pursuant to a non-competition undertaking (the “Undertaking”) dated 19 February 2005 entered into among the Company, Shanghai Shimao Co Ltd., Shanghai Shimao Enterprises Development Co. Ltd., Overseas Investment Group International Limited, Mr. Hui Wing Mau, Mr. Xu Shiyong and Shimao International Holdings Limited, whereby the parties thereto agree to delineate their respective property business on the terms and conditions set out therein.

In respect of the property business undertaking by all other parties to the Undertaking, Mr. Hui Wing Mau has provided a written confirmation to the Company based on the information available to him, that all parties have conducted their property business in compliance with the terms of the Undertaking during the year 2006 (the “Mr. Hui’s Confirmation”).

Certain information relating to the property projects undertaken by each of the parties to the Undertaking during the year ended 31 December 2006, which is relevant for determining whether the property projects fall within the permitted business scope of each party pursuant to the Undertaking, is summarised (the “Information”). Such information primarily comprises the location, project size in terms of total gross floor areas, and development purposes of each property project, which if it relates to property projects undertaken prior to the Company’s listing, those details are stated in the Company’s prospectus dated 22 June 2006. The Company has prepared the Information relating to the property projects undertaken by the Group and has secured the Information relating to property projects undertaken by all the other parties to the Undertaking. All the Information and Mr. Hui’s Confirmation have been passed to the independent non-executive directors of the Company for their review and strictly based on the Information provided by the Company, they have noted no incidence of non-compliance with the Undertaking by the Group or by any of the other relevant parties.

The Company has also engaged its auditors to perform certain agreed-upon procedures strictly based on the Information provided by the Company. The agreed-upon procedures primarily comprise the checking of the Information to the Undertaking to identify any incidence of non-compliance and no exception has been reported by our auditors. The work performed by our auditors in this respect did not constitute an assurance engagement in accordance with the Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by our auditors.

As regards to the accuracy and completeness of the Information relating to parties to the Undertaking other than the Company, Mr. Hui Wing Mau and his nephew Mr. Xu Shiyong, who provided such information to the Company, are solely responsible for each of himself and the relevant parties under each of their supervision.

### **DIRECTORS’ INTERESTS IN COMPETING BUSINESS**

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed below that during the period from 5 July 2006 (date of listing of the shares of the Company) to 31 December 2006, the following Directors were considered to have interests in the following businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group.



Mr. Hui Wing Mau, the Chairman and an Executive Director, currently owns property development interests in the PRC through (1) a group of companies owned by Shimao International Holdings Limited (collectively the "Shimao International Group") (2) a number of private companies either wholly-owned by Mr. Hui Wing Mau or owned jointly with his wife and/or Ms. Hui Mei Mei, Carol and Mr. Hui Sai Tan, Jason (an Executive Director of the Company) (collectively the "Private Group").

The Directors, including those interested in the businesses of the Shimao International Group and the Private Group, will, as and when required under the Company's Articles of Association, abstain from voting on any board resolution in respect of any contract, arrangement or proposal in which he / she or any of his / her associates has a material interest.

## **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Group are set out in note 37 to the consolidated financial statements.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained a sufficient public float since the listing of the shares of the Company on the Stock Exchange on 5 July 2006.

## **CORPORATE GOVERNANCE**

The Company is committed to achieving high standards of corporate governance which it believes is crucial to the development of the Group and safeguard the interests of the shareholders of the Company. Information on the Company's corporate governance principles and practices is set out in the Corporate Governance Report on page 35 to page 41 of this annual report.

## **AUDITORS**

The financial statements have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting.

On behalf of the Board

**Hui Wing Mau**

*Chairman*

Hong Kong, 27 March 2007

# Independent Auditor's Report

## TO THE SHAREHOLDERS OF SHIMAO PROPERTY HOLDINGS LIMITED

*(incorporated in the Cayman Islands with limited liability)*



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**

22/F, Prince's Building  
Central, Hong Kong

We have audited the consolidated financial statements of Shimaoproperty Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 56 to 120, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

## Independent Auditor's Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 27 March 2007

# Consolidated Balance Sheet

As at 31 December 2006

		As at 31 December	
		2006	2005
	Note	RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	4,609,870	3,254,452
Investment properties	7	4,000,000	1,883,000
Land use rights	8	1,349,192	1,695,939
Intangible assets	9	475,023	607,291
Associated companies	13	311,247	150,220
Jointly controlled entity	14	487	500
Deferred income tax assets	21	123,725	76,484
Other non-current assets	8	3,013,981	577,087
		<b>13,883,525</b>	8,244,973
<b>Current assets</b>			
Land use rights under development	8	3,007,728	2,300,593
Properties under development	10	2,384,511	3,403,545
Completed properties held for sale	11	1,785,438	302,640
Trade and other receivables and prepayments	15	576,468	482,575
Prepaid income taxes		34,766	96,737
Amounts due from related companies	16	601	111
Restricted cash	17	73,501	29,129
Cash and cash equivalents	17	5,949,589	704,680
		<b>13,812,602</b>	7,320,010
<b>Total assets</b>		<b>27,696,127</b>	15,564,983



## Consolidated Balance Sheet

As at 31 December 2006

		As at 31 December	
	Note	2006	2005
		RMB'000	RMB'000
<b>OWNERS' EQUITY</b>			
<b>Capital and reserves attributable to the equity holders of the Company</b>			
Share capital	18	317,521	185,787
Reserves			
— Proposed final dividend	19	615,859	—
— Others	19	10,594,989	2,324,431
<b>Total equity</b>		<b>11,528,369</b>	<b>2,510,218</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	20	6,470,680	1,913,404
Deferred income tax liabilities	21	1,216,802	967,982
		<b>7,687,482</b>	<b>2,881,386</b>
<b>Current liabilities</b>			
Trade and other payables	22	5,144,364	3,943,718
Advanced proceeds received from customers		1,065,310	4,132,430
Amounts due to related companies	23	249,850	1,266,965
Income tax payable		368,443	105,972
Borrowings	20	1,652,309	724,294
		<b>8,480,276</b>	<b>10,173,379</b>
<b>Total liabilities</b>		<b>16,167,758</b>	<b>13,054,765</b>
<b>Total equity and liabilities</b>		<b>27,696,127</b>	<b>15,564,983</b>
<b>Net current assets/(liabilities)</b>		<b>5,332,326</b>	<b>(2,853,369)</b>
<b>Total assets less current liabilities</b>		<b>19,215,851</b>	<b>5,391,604</b>

Hui Wing Mau  
Director

Hui Sai Tan, Jason  
Director

# Balance Sheet of The Company

As at 31 December 2006

		As at 31 December	
	Note	2006	2005
		RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	12	223,805	—
<b>Current assets</b>			
Amounts due from subsidiaries	12	7,846,913	—
Other receivables and prepayments	15	16,668	26
Cash and cash equivalents	17	4,100,786	—
		11,964,367	26
<b>Total assets</b>		<b>12,188,172</b>	<b>26</b>
<b>OWNERS' EQUITY</b>			
<b>Capital and reserves attributable to the equity holders of the Company</b>			
Share capital	18	317,521	—
Reserves			
— Proposed final dividend	19	615,859	—
— Others	19	6,629,342	(5)
<b>Total equity</b>		<b>7,562,722</b>	<b>(5)</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	20	4,572,995	—
<b>Current liabilities</b>			
Other payables and accruals	22	52,455	—
Amounts due to related companies	23	—	31
		52,455	31
<b>Total liabilities</b>		<b>4,625,450</b>	<b>31</b>
<b>Total equity and liabilities</b>		<b>12,188,172</b>	<b>26</b>
<b>Net current assets/(liabilities)</b>		<b>11,911,912</b>	<b>(5)</b>
<b>Total assets less current liabilities</b>		<b>12,135,717</b>	<b>(5)</b>

Hui Wing Mau  
Director

Hui Sai Tan, Jason  
Director

# Consolidated Income Statement

For the year ended 31 December 2006

	Note	Year ended 31 December	
		2006 RMB'000	2005 RMB'000
<b>Turnover</b>	5	<b>6,913,442</b>	2,500,430
Cost of sales	25	<b>(4,432,742)</b>	(1,903,392)
<b>Gross profit</b>		<b>2,480,700</b>	597,038
Fair value gains on investment properties	7	<b>1,000,831</b>	902,639
Other gains	24	<b>157,378</b>	106,447
Selling and marketing costs	25	<b>(207,576)</b>	(106,388)
Administrative expenses	25	<b>(460,008)</b>	(189,270)
Other operating expenses	25	<b>(143,853)</b>	(7,343)
<b>Operating profit</b>		<b>2,827,472</b>	1,303,123
Finance costs	26	<b>(44,719)</b>	(8,696)
Share of results of:			
— Associated companies	13	<b>201,027</b>	17,741
— Jointly controlled entity	14	<b>(13)</b>	—
<b>Profit before income tax</b>		<b>2,983,767</b>	1,312,168
Income tax expense	28	<b>(705,017)</b>	(325,860)
<b>Profit for the year</b>		<b>2,278,750</b>	986,308
<b>Attributable to:</b>			
Equity holders of the Company		<b>2,278,750</b>	907,993
Minority interests		<b>—</b>	78,315
		<b>2,278,750</b>	986,308
<b>Dividends</b>	29	<b>615,859</b>	312,090
<b>Earnings per share for profit attributable to the equity holders of the Company</b>			
— basic (RMB cents)	31	<b>85.5</b>	50.8
— diluted (RMB cents)	31	<b>85.1</b>	—

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Note	Attributable to the equity holders of the Company		Minority interests	Total
		Share capital	Reserves		
		RMB'000	RMB'000 (Note 19)	RMB'000	RMB'000
<b>Balance at 1 January 2006</b>					
— Issue of shares for the Reorganisation	18(ii)	185,787	(185,787)	—	—
— Others		—	2,510,218	—	2,510,218
		185,787	2,324,431	—	2,510,218
Profit for the year		—	2,278,750	—	2,278,750
Issue of shares for settlement of debts	18(iii)	22,093	892,578	—	914,671
Issue of shares to financial investors	18(iv)	39,429	1,592,922	—	1,632,351
Issue of shares in connection with the listing	18(v)	70,212	4,318,027	—	4,388,239
Share issuing expenses		—	(233,879)	—	(233,879)
Employee share option scheme — value of employee services		—	38,019	—	38,019
<b>Balance at 31 December 2006</b>		317,521	11,210,848	—	11,528,369
<b>Balance at 1 January 2005</b>					
— Issue of shares for the Reorganisation	18(ii)	185,787	(185,787)	—	—
— Others		—	1,914,315	535,154	2,449,469
		185,787	1,728,528	535,154	2,449,469
Acquisition of additional interests in subsidiaries		—	—	(478,969)	(478,969)
Profit for the year		—	907,993	78,315	986,308
Dividends	29	—	(312,090)	(134,500)	(446,590)
<b>Balance at 31 December 2005</b>		185,787	2,324,431	—	2,510,218

# Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	Year ended 31 December	
		2006 RMB'000	2005 RMB'000
<b>Operating activities</b>			
Net cash (used in)/generated from operations	30	(4,001,165)	1,062,352
Interest received		77,665	6,830
Interest paid		(222,500)	(116,279)
PRC income tax paid		(178,998)	(144,357)
Net cash (used in)/generated from operating activities		(4,324,998)	808,546
<b>Investing activities</b>			
Additions of property, plant and equipment and investment properties		(1,520,566)	(1,241,720)
Sales of property, plant and equipment		27,542	13,136
Additions of land use rights		(32,000)	(4,643)
Consideration paid for acquisition of a subsidiary in prior year		(82,236)	—
Dividend received from an associated company		40,000	—
Decrease in amounts due from related companies		—	76
Acquisitions of subsidiaries, net of cash acquired		—	(114,390)
Acquisition of additional interests in subsidiaries		—	(217,481)
Capital injection to associated companies		—	(41,944)
Net cash used in investing activities		(1,567,260)	(1,606,966)
<b>Financing activities</b>			
Proceeds from borrowings		1,745,486	2,682,217
Repayments of borrowings		(821,183)	(1,870,500)
Decrease in amounts due to related companies		(101,312)	(108,877)
Issue of senior notes		4,590,087	—
Issue of new shares		5,786,711	—
Decrease in amounts due to minority shareholders		—	(153,366)
Dividends paid to minority shareholders		—	(134,500)
Net cash generated from financing activities		11,199,789	414,974
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5,307,531</b>	<b>(383,446)</b>
Cash and cash equivalents at beginning of the year		704,680	1,088,126
Effect of foreign exchange rate changes		(62,622)	—
Cash and cash equivalents at end of the year	17	5,949,589	704,680



# Notes to the Consolidated Financial Statements

## 1 General information

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

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

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

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

## 2 Summary of significant accounting policies

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

### (a) Basis of preparation

The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the Reorganisation has been accounted for under the Accounting Guideline No. 5 “Merger Accounting for Common Control Combination”, using the principles of merger accounting, under which the consolidated financial statements have been prepared as if the Reorganisation had been completed on 1 January 2005, the beginning of the earliest period presented, and business of SPHL (BVI) and its then subsidiaries had always been carried out by the Group.

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

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

### 2 Summary of significant accounting policies *(continued)*

#### (a) Basis of preparation *(continued)*

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

- Amendments to HKAS 39 and HKFRS 4 "Financial Guarantee Contracts". The Group regards its financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers and financial guarantee contracts provided to its related parties as insurance contracts, and the Group has made the assertion prior to the implementation of the amendments. Consequently the adoption of the amendments does not have any significant impact on the Group's consolidated financial statements.
- HK(IFRIC) — Int 4 "Determining whether an Arrangement contains a Lease". The Group has reviewed its contracts. The adoption of this interpretation does not have any significant impact on classification of the leases of the Group and on the expenses recognised in respect of them.

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

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

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

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

## 2 Summary of significant accounting policies *(continued)*

### (a) Basis of preparation *(continued)*

- HK(IFRIC)-Int 8 “Scope of HKFRS 2” (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments — where the identifiable consideration received is less than the fair value of the equity instruments issued — to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any significant impact on the Group’s consolidated financial statements.
- HK(IFRIC)-Int 10 “Interim Financial Reporting and Impairment” (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any significant impact on the Group’s consolidated financial statements.
- HKFRS 8 “Operating Segments” (effective for annual periods beginning on or after 1 January 2009). HKFRS 8 supersedes HKAS 14, under which segments were identified and reported on risk and return analysis. Items were reported on the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity’s chief operating decision-maker. Items are reported based on the internal reporting.

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

- HK(IFRIC)-Int 7 “Applying the Restatement Approach under HKAS29, Financial Reporting in Hyperinflationary Economies” (effective for annual periods beginning on or after 1 March 2006).
- HK(IFRIC)-Int 9 “Reassessment of Embedded Derivatives” (effective for annual periods beginning on or after 1 June 2006).
- HK(IFRIC)-Int 12 “Service Concession Arrangement” (effective for annual periods beginning on or after 1 January 2008).

### (b) Consolidation

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

#### (i) *Subsidiaries*

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

### 2 Summary of significant accounting policies *(continued)*

#### (b) Consolidation *(continued)*

##### (i) *Subsidiaries (continued)*

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

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

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

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

##### (ii) *Transactions with minority interests*

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

#### (c) Segment reporting

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

## 2 Summary of significant accounting policies *(continued)*

### (d) Foreign currency translation

#### (i) *Functional and presentation currency*

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

#### (ii) *Transactions and balances*

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

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

#### (iii) *Group companies*

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

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

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

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



### 2 Summary of significant accounting policies *(continued)*

#### (e) Property, plant and equipment

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

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

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

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

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

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

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

#### (f) Assets under construction

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

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

### 2 Summary of significant accounting policies *(continued)*

#### (g) Investment property

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

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

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

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

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

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

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

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

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

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

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

### 2 Summary of significant accounting policies *(continued)*

#### (h) Impairment of non-financial assets

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

#### (i) Intangible assets — goodwill

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

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

#### (j) Associated companies

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

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

### 2 Summary of significant accounting policies *(continued)*

#### (j) Associated companies *(continued)*

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

#### (k) Jointly controlled entities

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

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

#### (l) Properties under development

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

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

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

#### (m) Completed properties held for sale

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

Cost comprises development costs attributable to the unsold properties.

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

### 2 Summary of significant accounting policies *(continued)*

#### **(n) Trade and other receivables**

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

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

#### **(o) Cash and cash equivalents**

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

#### **(p) Borrowings**

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

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

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

#### **(q) Deferred income tax**

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

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



### 2 Summary of significant accounting policies *(continued)*

#### **(q) Deferred income tax** *(continued)*

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

#### **(r) Employee benefits**

##### *(i) Employee leave entitlements*

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

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

##### *(ii) Retirement benefits*

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

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

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

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

### 2 Summary of significant accounting policies *(continued)*

#### **(r) Employee benefits** *(continued)*

##### *(iii) Share-based compensation*

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

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

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

#### **(s) Provisions and contingent liabilities**

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

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

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

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

### 2 Summary of significant accounting policies *(continued)*

#### (t) Revenue recognition

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

##### (i) *Sales of properties*

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

##### (ii) *Interest income*

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

##### (iii) *Rental income*

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

##### (iv) *Hotel operating income*

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

##### (v) *Dividend income*

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

#### (u) Government grants

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

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

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

### 2 Summary of significant accounting policies *(continued)*

#### (v) Leases

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

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

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

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

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

#### (w) Dividend distribution

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

#### (x) Insurance contracts

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

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

The Group regards its financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers and financial guarantee contracts provided to its related parties as insurance contracts.

### 3 Financial risk management

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

#### (a) Financial risk factors

##### (i) *Foreign exchange risk*

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

##### (ii) *Interest rate risk*

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

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

##### (iii) *Credit risk*

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

##### (iv) *Liquidity risk*

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



### 3 Financial risk management *(continued)*

#### (b) Fair value estimation

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

### 4 Critical accounting estimates and judgements

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

#### (a) Income taxes and deferred taxation

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

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

#### (b) Land appreciation tax

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

#### (c) Impairment of goodwill

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

## 4 Critical accounting estimates and judgements *(continued)*

### (d) Estimated fair value of investment properties

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

- (i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

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

## 5 Segment information

The Group is principally engaged in the property development, property investment and hotel operation. The property and hotel projects undertaken by the Group were all located in the PRC. As majority of the Group's consolidated turnover and results are attributable to the market in the PRC and most of the Group's consolidated assets are located in the PRC, no geographical segment information is presented.

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

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

## Notes to the Consolidated Financial Statements

### 5 Segment information (continued)

Segment information is as follows:

#### Primary reporting format — business segments

Year ended 31 December 2006

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

## Notes to the Consolidated Financial Statements

### 5 Segment information (continued)

#### Year ended 31 December 2005

	Property development RMB'000	Hotel RMB'000	Property investment RMB'000	Unallocated RMB'000	Total RMB'000
Segment turnover	2,462,796	9,738	27,896	—	2,500,430
Segment results	392,518	(6,196)	951,457	(34,656)	1,303,123
Finance costs	(2,162)	(24)	—	(6,510)	(8,696)
Share of results of associated companies	17,741	—	—	—	17,741
Profit/(loss) before income tax	408,097	(6,220)	951,457	(41,166)	1,312,168
Income tax expense					(325,860)
Profit for the year					986,308
Segment assets	8,552,881	4,160,709	2,438,283	185,906	15,337,779
Associated companies	150,220	—	—	—	150,220
Jointly controlled entity	—	—	—	500	500
	8,703,101	4,160,709	2,438,283	186,406	15,488,499
Deferred income tax assets					76,484
Total assets					15,564,983
Segment liabilities	9,351,518	1,253,744	34,246	1,447,275	12,086,783
Deferred income tax liabilities					967,982
Total liabilities					13,054,765
Capital and property development expenditure	2,676,354	832,622	251,548	2,078	3,762,602
Depreciation	5,799	2,754	304	420	9,277
Amortisation of land use rights as expenses	12	296	—	—	308
Bad debt recovered	—	—	25,000	—	25,000
Fair value gains on an investment property	—	—	902,639	—	902,639

**5 Segment information** *(continued)*

Unallocated costs mainly represent corporate expenses.

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

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

**6 Property, plant and equipment — Group**

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

## Notes to the Consolidated Financial Statements

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

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

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

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

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

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



## 7 Investment properties — Group

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

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

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

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

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

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

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

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

As at 31 December 2006, the Group had made prepayments of RMB3,013,981,000 (2005: RMB577,087,000) for certain land use rights, the ownership certificates of which have not been obtained. The amounts are included in other non-current assets.

## 9 Intangible assets — Group

Intangible assets comprise goodwill arising from acquisitions:

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

### Impairment tests for goodwill

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

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

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

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

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

**10 Properties under development — Group**

	<b>As at 31 December</b>	
	<b>2006</b>	<b>2005</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Properties under development comprises:		
Construction costs and capitalised expenditures	<b>2,312,188</b>	3,282,885
Interests capitalised	<b>72,323</b>	120,660
	<b>2,384,511</b>	3,403,545
	<b>Year ended 31 December</b>	
	<b>2006</b>	<b>2005</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Interest capitalised		
Opening balance	<b>120,660</b>	93,650
Additions	<b>109,532</b>	53,476
Transfer to cost of sales	<b>(103,440)</b>	(20,813)
Transfer to completed properties held for sale	<b>(54,429)</b>	(5,653)
Ending balance	<b>72,323</b>	120,660

The properties under development are all located in the PRC.

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

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

**11 Completed properties held for sale — Group**

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

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

**12 Investment in subsidiaries — Company**

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

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

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

**13 Associated companies — Group**

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

**13 Associated companies — Group** (continued)

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

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

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

**14 Jointly controlled entity — Group**

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

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



## 15 Trade and other receivables and prepayments

	<b>As at 31 December</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
<b>Group</b>		
Trade receivables (note)	<b>250,861</b>	3,046
Deposits for resettlement costs	<b>103,450</b>	146,650
Other receivables	<b>119,562</b>	27,253
Prepayments for construction costs	<b>45,226</b>	103,056
Prepaid business tax and land appreciation tax on pre-sale proceeds	<b>57,369</b>	202,570
	<b>576,468</b>	482,575
	<b>As at 31 December</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
<b>Company</b>		
Other receivables and prepayments	<b>16,668</b>	26

Note:

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

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

## 16 Amounts due from related companies — Group

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

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

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

**17 Cash and cash equivalents**

	<b>As at 31 December</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
<b>Group</b>		
Bank balances and cash	<b>6,023,090</b>	733,809
Less: Restricted cash	<b>(73,501)</b>	(29,129)
	<b>5,949,589</b>	704,680
	<b>As at 31 December</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
<b>Company</b>		
Bank balances and cash — unrestricted	<b>4,100,786</b>	—

As at 31 December 2006, the Group's cash of approximately RMB73,501,000 (2005: RMB29,129,000) was restricted and deposited in certain banks as guarantee deposits for the benefit of mortgage loan facilities granted by the banks to the purchasers of the Group's properties.

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

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

## Notes to the Consolidated Financial Statements

### 18 Share capital

Details of share capital of the Company are as follows:

	Note	Par value HK\$	Number of shares '000	Nominal value of of ordinary shares	
				HK\$'000	RMB'000
Authorised:					
At 1 January 2005 and 31 December 2005	(i)	0.1	3,800	380	
Increase in share capital on 26 January 2006	(i)	0.1	2,996,200	299,620	
Increase in share capital on 30 March 2006	(i)	0.1	2,000,000	200,000	
At 31 December 2006			5,000,000	500,000	
Issued and fully paid:					
At 1 January 2005 and 31 December 2005					
— Issue of shares for the Reorganisation	(ii)	0.1	1,787,440	178,744	185,787
Issue of shares for settlement of debts	(iii)	0.1	212,560	21,256	22,093
Issue of shares to financial investors	(iv)	0.1	380,495	38,050	39,429
New issues of shares	(v)	0.1	684,393	68,439	70,212
At 31 December 2006			3,064,888	306,489	317,521

Notes:

- (i) The Company was incorporated on 29 October 2004 with an authorised share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.1 each, with 1 share issued at HK\$0.1 to Gemfair, which is the holding company of the Company. Pursuant to special resolutions passed on 26 January 2006 and 30 March 2006, the authorised share capital of the Company was increased to 3,000,000,000 shares of HK\$0.1 each and 5,000,000,000 shares of HK\$0.1 each respectively.
- (ii) Pursuant to an agreement entered into between Gemfair and the Company on 26 January 2006, the Company issued 1,787,439,612 ordinary shares, credited as fully paid up, to Gemfair, in consideration for the acquisition of the entire share capital of SPHL (BVI). The shares issued for the Reorganisation were deemed to have been issued on 1 January 2005, see note (vi) below.
- (iii) On 26 January 2006, two novation agreements were entered by the Company and Gemfair with Peak Castle Assets Limited ("Peak Castle") and SPHL (BVI) respectively, in which the Company agreed to assume the debts of Peak Castle and SPHL (BVI) owing to Gemfair, totalling HK\$880,000,000 (equivalent to RMB914,671,000). The Company repaid the debt by issuing 212,560,387 ordinary issues to Gemfair.
- (iv) Pursuant to agreements entered by the Company with third party financial investors, an aggregate of 380,494,664 ordinary shares of the Company, representing about 16% of the then enlarged capital of the Company, were subscribed by these investors at a total consideration of approximately HK\$1,575,300,000 (equivalent to RMB1,632,351,000). These subscriptions were fully settled by 7 March 2006.
- (v) On 5 July 2006, the Company issued 595,124,000 ordinary shares of HK\$0.1 each at HK\$6.25 per share in connection with the listing, and raised gross proceeds of approximately HK\$3,719,525,000. In addition, on 12 July 2006, pursuant to the exercise of the over-allotment option of the listing, additional 89,268,500 ordinary shares of HK\$0.1 each were issued at HK\$6.25 per share and gross proceeds of HK\$557,928,000 were raised.

### 18 Share capital (continued)

Notes: (continued)

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

#### (a) Pre-IPO Share Option Scheme

Pursuant to the shareholders' resolution passed on 9 June 2006 for approval of the Pre-IPO Share Option Scheme, options for a total of 63,920,000 ordinary shares of the Company have been conditionally granted to directors and selected employees. The exercise price of HK\$5.625 per share under the Pre-IPO Share Option Scheme is determined at a 10% discount to the global offering price, which was HK\$6.25 per share, excluding brokerage, Securities and Futures Commission transaction levy and the Stock Exchange trading fee. Each option has 6-year exercise period from the date of grant, with 30% vesting on 31 March 2007, another 30% vesting on 31 March 2008 and the remaining 40% vesting on 31 March 2009. Options are conditional on the employee completing the services up to the respective vesting dates and evaluation of performance as specified in the scheme, and become exercisable immediately after each vesting date. The Group has no legal or constructive obligation to repurchase or settle the options in cash. These options will expire on 8 June 2012.

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

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

#### (b) Share Option Scheme

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

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

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

## Notes to the Consolidated Financial Statements

### 19 Reserves

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



## Notes to the Consolidated Financial Statements

### 19 Reserves (continued)

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

#### Notes:

- (i) Merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiary purchased pursuant to the Reorganisation and the nominal value of the shares of the Company issued in exchange as set out in Note 1.
- (ii) Share based compensation reserve represents value of employee services in respect of share options granted under the Pre-IPO Share Option Scheme (Note 18(a)).
- (iii) The distributable reserve of the Company as at 31 December 2006 amounted to RMB7,245,201,000 (2005: Nil).

**20 Borrowings**

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

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

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

**20 Borrowings** (continued)

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

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

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

## Notes to the Consolidated Financial Statements

### 20 Borrowings (continued)

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

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

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

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

## Notes to the Consolidated Financial Statements

### 20 Borrowings (continued)

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

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

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

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

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

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

**21 Deferred income tax — Group**

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

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

The net movement on the deferred taxation is as follows:

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



**21 Deferred income tax — Group** *(continued)*

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

**Deferred income tax assets**

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

**Deferred income tax liabilities**

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

**21 Deferred income tax — Group** *(continued)*

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

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

**22 Trade and other payables****Group**

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

**Company**

	<b>As at 31 December</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
Other payables and accruals	<b>52,455</b>	—

Notes:

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

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

**22 Trade and other payables (continued)**

Notes: (continued)

(b) Other payables comprise:

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

**23 Amounts due to related companies**

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

	<b>As at 31 December</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Company</b>		
Common directors:		
Perfect Zone International Limited	—	31

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

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

**24 Other gains**

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

Notes:

- (a) RMB10,000,000 (2005: RMB10,000,000) received during the year represents the subsidy from City of Harbin to encourage enterprises development in the local area.
- (b) According to the tax regulations of the PRC, income tax refund on reinvestment is available to foreign investors when they reinvest their profits from invested entities in the PRC to the same or other invested entities in the PRC, instead of remitting outside the PRC. The amount represented the income tax refund received by the Group for its reinvestment of profit from a PRC subsidiary into its other PRC subsidiaries.
- (c) Pursuant to a final court verdict on 13 January 2006, a third party is ordered to compensate the Group for its violation of selling contracts relating to a piece of land. The compensation was received in May 2006.

## Notes to the Consolidated Financial Statements

### 25 Expenses by nature

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

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

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

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

(b) Business tax

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

**25 Expenses by nature** *(continued)***(c) Land appreciation tax**

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land use rights, borrowing costs, business taxes and all property development expenditures. The tax is incurred upon transfer of property ownership.

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

**26 Finance costs**

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



## 27 Emoluments for directors and five highest paid individuals

### (a) Directors' emoluments

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

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

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

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

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

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

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

The emoluments fell within the following bands:

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

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

**28 Income tax expense**

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

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

## Notes to the Consolidated Financial Statements

### 28 Income tax expense (continued)

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

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

Notes:

- (a) For the year ended 31 December 2006, expenses not deductible for income tax purposes mainly resulted from the impairment of goodwill of RMB132,268,000, exchange loss of RMB46,099,000, employee share options of RMB38,019,000 and expenses incurred in the Company and its subsidiaries established in the British Virgin Islands, and certain donation expenses which are not deductible for tax purposes.
- (b) For the year ended 31 December 2006, income not subject to tax arose mainly from interest income of RMB74,310,000 from the Company and its subsidiaries established in the British Virgin Islands, and income tax refund on reinvestment of RMB20,428,000; whereas the amount for the year ended 31 December 2005 arose mainly from exchange gains of RMB46,072,000 and income tax refund on reinvestment of RMB23,225,000.

#### Hong Kong profits tax

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

#### PRC enterprise income tax

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

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

## Notes to the Consolidated Financial Statements

### 29 Dividends

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

Notes:

- (a) On 31 December 2005, a special dividend of HK\$300,000,000 (equivalent to RMB312,090,000) per share was declared by SPHL (BVI). The amount was included in amounts due to Gemfair, a related company, as at 31 December 2005 (Note 23).
- (b) At a meeting held on 27 March 2007, the directors proposed a final dividend of HK20 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

### 30 Notes to the consolidated cash flow statement

#### Net cash (used in)/generated from operations:

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

### 31 Earnings per share

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

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

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue for the potential dilutive effect caused by the share options granted under the Pre-IPO Share Option Scheme (Note 18(a)) assuming they were exercised.

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

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

### 32 Pensions — defined contribution plans

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

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

**32 Pensions — defined contribution plans** *(continued)*

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

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

**33 Subsidiaries, associated companies and a jointly controlled entity**

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

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

## Notes to the Consolidated Financial Statements

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

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



## Notes to the Consolidated Financial Statements

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

Company name	Date of incorporation/ establishment	Legal status	Issued/ registered capital	Effective interest held as at 31 December 2006	Principal activities
沈陽世茂新發展置業有限公司 (Shenyang Shimao New Development Co., Ltd.	5 December 2006	Foreign investment enterprise	Registered capital USD99,900,000	100%	Property development
杭州世茂置業有限公司 (Hangzhou Shimao Real Estate Co., Ltd.	13 December 2006	Foreign investment enterprise	Registered capital USD35,000,000	100%	Property development

#### Subsidiaries — incorporated and operation conducted in the British Virgin Islands

Shimao Property Holdings (BVI) Limited	23 August 2002	Limited liability company	1 ordinary share of USD1	100% (note)	Investment holding
Advance Assets Holdings Limited	22 June 2001	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Best Empire Investments Limited	2 July 2002	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Best Whole Investments Limited	8 September 2006	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Double Achieve Assets Limited	31 January 2002	Limited liability company	1 ordinary share of USD1	100%	Investment holding
East Light Group Limited	12 May 2006	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Everactive Properties Limited	2 May 2001	Limited liability company	1 ordinary share of USD1	100%	Investment holding
Keen View Limited	10 May 2006	Limited liability company	1 ordinary share of USD1	100%	Dormant
Keenrich Holdings Limited	18 December 2002	Limited liability company	1 ordinary share of USD1	100%	Holding of trademarks
Mega Universe Limited	10 July 2001	Limited liability company	1 ordinary share of USD1	100%	Investment holding

## Notes to the Consolidated Financial Statements

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

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

## Notes to the Consolidated Financial Statements

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

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

Note: Directly held by the Company.

**34 Financial guarantees — Group**

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

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

The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the Group obtained the "property title certificate" for the mortgagees, or when the Group obtained the "master property title certificate" upon completion of construction. The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

**35 Commitments — Group****(a) Commitments for capital and property development expenditure**

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

**35 Commitments — Group** *(continued)***(b) Operating lease commitments**

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

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

**(c) Operating lease rentals receivable**

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

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

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

**36 Related party transactions**

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

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

Notes:

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

**36 Related party transactions** *(continued)***(b) Key management compensation**

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

**37 Subsequent events**

- (a) The Group has successfully acquired certain land use rights in Suzhou, Xuzhou and Hangzhou on 17 January 2007, 4 February 2007 and 6 February 2007, at a total consideration of RMB1,704,000,000, RMB1,200,000,000 and RMB816,000,000, respectively.
- (b) The Group entered into a management agreement with Brilliance to replace the former long-term rental agreement in respect of a shopping mall of the Group. According to the management agreement, Brilliance will cease to be the head tenant from 1 May 2007, and will act as the operation manager for the shopping mall for a period of 10 years starting from 1 May 2007 with remuneration calculated based on the rentals received in respect of the shopping mall. Following the termination of the rental agreement with Brilliance, the Group is entitled to and is in the process of identifying and negotiating the terms of tenancy agreements with individual tenants directly.
- (c) The National People's Congress of the PRC has approved the new PRC enterprise income tax law on 16 March 2007. The tax rate will be unified for both domestic and foreign investment enterprises at 25% and the previous preferential tax treatments will be changed, with certain grandfathering provisions with effect from 1 January 2008. The Company's management is in the process of assessing its impact to the Group.

**38 Approval of the consolidated financial statements**

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