THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transfer all your shares in SRE Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of SRE Group Limited.

SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1207)

MAJOR AND CONNECTED TRANSACTION FOR THE ACQUISITION OF QUALICO INVESTMENTS LIMITED MATERIAL DILUTION OF A MAJOR SUBSIDIARY AND DEEMED DISPOSAL

CONNECTED TRANSACTION CROSS INDEMNITY BETWEEN SHENYANG HUARUI SHIJI INVESTMENT DEVELOPMENT COMPANY LIMITED AND SHENYANG HUARUI SHIJI ASSET MANAGEMENT COMPANY LIMITED

INDEPENDENT FINANCIAL ADVISER TO THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT SHAREHOLDERS

VINCO 域高

Grand Vinco Capital Limited

A letter from the Board is set out on pages 6 to 20 of this circular. A notice convening the SGM of the Company to be held at Queensway and Victoria (Level 3), JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 18 February, 2008 at 10:00 a.m. are set out on pages VII-1 to VII-2 of this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible. The form of proxy should be returned to the Company's branch registrar and transfer office in Hong Kong, Tricor Tengis Limited, Share Registration at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the holding of the SGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM (or at any adjourned meeting thereof) should you so desire.

* *for identification purpose only*

31 January, 2008

CONTENTS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

"Acquisition"	the acquisition of the Sale Share and the taking of assignment of the Sale Loan by the Purchaser from the Vendor subject to and upon the terms and conditions of the Acquisition Agreement
"Acquisition Agreement"	the conditional sale and purchase agreement dated 29 November, 2007 entered into among the Vendor, the Purchaser and China Edifice pursuant to which the Vendor has agreed to sell the Sale Share and assign the Sale Loan to the Purchaser
"Applicable Percentage Ratios"	the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules
"Assets"	interest in the Properties and certain other assets of Huarui Investment as referred to in the Acquisition Agreement which will be segregated from Huarui Investment and allocated to Huarui Asset Management pursuant to the de-merger of Huarui Investment
"associate(s)"	has the meaning given to it by the Listing Rules
"Board"	the board of Directors
"China Edifice"	China Edifice Holdings Ltd., a company incorporated in the Cayman Islands with limited liability, which is currently an indirect wholly-owned subsidiary of the Company
"China Edifice Group"	China Edifice and its subsidiaries
"Company"	SRE Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
"Completion"	the completion of the Acquisition pursuant to the Acquisition Agreement
"Completion Date"	the third business day after all the Conditions have been satisfied or waived (as the case may be) or such other date as may be agreed in writing between the parties to the Acquisition Agreement

"Conditions"	the conditions precedent to Completion, as more particularly set out under the section headed "Conditions" of this circular
"Consideration Shares"	a total of 3,800 new shares of HK$1.00 each in the capital of China Edifice to be allotted and issued to Ng Chi Ming and Pinpoint China Fund at the direction of the Vendor at Completion, representing approximately 38% of the enlarged issued share capital of China Edifice (each of such shares is referred to in this circular as a "Consideration Share")
"connected person(s)"	has the meaning given to it by the Listing Rules
"Cross Indemnity"	the conditional cross indemnity agreement dated 29 January, 2008 entered into between Huarui Investment and Huarui Asset Management under which these two companies undertake to indemnify each other for claims of debts or liabilities which belong to itself after segregation of the liabilities under the De-merger
"De-merger"	the de-merger of Huarui Investment under which Huarui Asset Management was established by segregating a portion of the assets and liabilities of Huarui Investment and allocating the same to Huarui Asset Management
"Directors"	the directors of the Company
"Enlarged Group"	the Group as enlarged by the Acquisition
"Joint Liabilities"	the joint liabilities of Huarui Investment and Huarui Asset Management for all debts and liabilities of Huarui Investment that were in existence prior to the De-merger, except for those debts and liabilities for which written agreement has been reached between the creditors and Huarui Investment and/or Huarui Asset Management
"Grand Vinco"	Grand Vinco Capital Limited, a corporation licensed to carry on business in type 1 (dealing in securities) and type 6 (advising on corporation finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition and the Cross Indemnity
"Group"	the Company and its subsidiaries

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huarui Asset Management"	瀋陽華鋭世紀資產管理有限公司 (Shenyang Huarui Shiji Asset Management Company Limited), a limited liability company incorporated in the PRC and a 51% owned subsidiary of the Company
"Huarui Asset Management Group"	Huarui Asset Management and its subsidiary
"Huarui Investment"	瀋陽華鋭世紀投資發展有限公司 (Shenyang Huarui Shiji Investment Development Company Limited), a limited liability company incorporated in the PRC and a 51% owned subsidiary of the Company
"Independent Board Committee"	the committee of independent non-executive Directors, consisting of Mr. Yeung Kwok Wing, Mr. Geng Yu Xiu and Mr. E Hock Yap formed to advise the Independent Shareholders in respect of the terms of the Acquisition and the Cross Indemnity
"Independent Shareholders"	the Shareholders except for the Vendor and its associates (if they hold any Shares) and those who are materially interested in the Acquisition and/or the Cross Indemnity
"Independent Valuer"	Sallmanns (Far East) Limited, an independent professional property valuer
"Latest Practicable Date"	25 January, 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Liabilities"	certain liabilities of Huarui Investment as referred to in the Acquisition Agreement which will be segregated from Huarui Investment and allocated to Huarui Asset Management pursuant to the De-merger
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31 March, 2008 or such later date as may be agreed in writing between the parties to the Acquisition Agreement, being the last date for fulfillment of all the Conditions (or waiver in respect of certain Conditions)

"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Properties"	the properties known as Shenyang Richgate Shopping Mall and Shenyang Lexington Huafu Hotel located at the Western part of Huigong Plaza, Shenhe District, Shenyang, Liaoning Province, the PRC to be owned by Huarui Asset Management
"Purchaser"	China Edifice Ltd., a company incorporated in the Cayman Islands with limited liability, which is a direct wholly-owned subsidiary of China Edifice and an indirect wholly-owned subsidiary of the Company
"Qualico Investments"	Qualico Investments Limited, a company incorporated in Hong Kong with limited liability, the entire issued share capital of which is owned by the Vendor
"Remaining Group"	the Group other than the China Edifice Group
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Share"	1 share of HK$1 in the capital of Qualico Investments, representing the entire issued share capital of Qualico Investments
"Sale Loan"	the unsecured and non-interest bearing loan in the amount of US$4,900,000 owing by Qualico Investments to the Vendor as of the Completion Date
"Share(s)"	share(s) of HK$0.10 each in the capital of the Company
"Shareholders"	the holders of the Shares
"SFO"	The Securities and Futures Ordinance of Hong Kong
"SGM"	the special general meeting of the Company to be convened and held at 10:00 a.m. on Monday, 18 February, 2008 at Queensway and Victoria (Level 3), JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong to consider and, if thought fit, to approve the Acquisition Agreement and the transactions contemplated thereby and the Cross Indemnity

"Shuo Cheng"	上海碩誠置業有限公司 (Shanghai Shuo Cheng Real Estate Limited*), a limited liability company established under the laws of the PRC
"Shuo Cheng Group"	Shuo Cheng and its subsidiary
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Transfer Agreement"	the agreement dated 14 November, 2007 entered into between the Vendor and Qualico Investments relating to the transfer by the Vendor to Qualico Investments of 49% equity interest in Huarui Asset Management
"US$"	United States dollars, the lawful currency of the United States
"Vendor"	Elegant Parkview Limited, a company incorporated in the British Virgin Islands with limited liability and holding 49% equity interests in each of Huarui Asset Management and Huarui Investment, which is currently held by Ng Chi Ming as to 92% and by Pinpoint China Fund as to 8%
"%"	per cent.
"*"	for identification purpose only

Unless otherwise stated, amounts in RMB and US$ have been translated into HK$ at exchange rates of HK$1.0679 to RMB1.00 and HK$7.80 to US$1.00 for illustration purposes only. No representation is made that any amounts in RMB, US$ or HK$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

English names of the PRC established companies and the Properties in this circular are only translations of their official Chinese names solely for identification purpose. In case of inconsistency, the Chinese names prevail.

SRE GROUP LIMITED
上置集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 1207)

Executive Directors:
Mr. Shi Jian *(Chairman & President)*
Mr. Li Yao Min *(Vice-Chairman)*
Mr. Yu Hai Sheng *(Vice-Chairman)*
Mr. Jiang Xu Dong
Mr. Lee Wai Man

Non-executive Directors:
Mr. Cheung Wing Yui
Mr. Jin Bing Rong

Independent Non-executive Directors:
Mr. Yeung Kwok Wing
Mr. Geng Yu Xiu
Mr. E. Hock Yap

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong Office:
36th Floor, Times Tower
391-407 Jaffe Road
Wanchai, Hong Kong

Hong Kong Branch Registrar and Transfer Office:
Tricor Tengis Limited
Share Registration
26/F, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

31 January, 2008

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION FOR THE ACQUISITION OF QUALICO INVESTMENTS LIMITED
MATERIAL DILUTION OF A MAJOR SUBSIDIARY AND DEEMED DISPOSAL

CONNECTED TRANSACTION
CROSS INDEMNITY
BETWEEN
SHENYANG HUARUI SHIJI INVESTMENT DEVELOPMENT COMPANY LIMITED
AND
SHENYANG HUARUI SHIJI ASSET MANAGEMENT COMPANY LIMITED

INTRODUCTION

The Board announced on 29 November, 2007 that the Vendor, the Purchaser and China Edifice had entered into the Acquisition Agreement pursuant to which the Vendor agreed to sell and assign, and the Purchaser agreed to purchase and take assignment of, the Sale Share

* *for identification purpose only*

and the Sale Loan for the aggregate consideration of HK$1,987,000,000, which shall be satisfied at Completion by China Edifice issuing at the direction of the Vendor the Consideration Shares to the shareholders of the Vendor, credited as fully paid-up.

The Board also announced on 29 January, 2008 that Huarui Investment and Huarui Asset Management entered into the Cross Indemnity in respect of claims for debts or liabilities which belong to itself after segregation of the liabilities under the De-merger to deal with the Joint Liabilities.

As the Vendor is a substantial shareholder of Huarui Asset Management and Huarui Investment, both of which are subsidiaries of the Company, it is a connected person of the Company and the Acquisition Agreement constitutes a connected transaction for the Company under Chapter 14 A of the Listing Rules. The Acquisition also constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. In addition, China Edifice is regarded as a major subsidiary of the Company under the Listing Rules, and therefore the issue of the Consideration Shares by China Edifice pursuant to the Acquisition Agreement constitutes a material dilution of the Group's percentage interest in China Edifice under Rule 13.36(1)(a)(ii) of the Listing Rules. Furthermore, the issue of the Consideration Shares by China Edifice constitutes a deemed disposal by the Company of its percentage interest in China Edifice under Rule 14.29 of the Listing Rules.

Both Huarui Investment and Huarui Asset Management are non-wholly owned subsidiaries of the Group and at the same time are associates of the Vendor, a connected person of the Company. The Cross Indemnity between Huarui Investment and Huarui Asset Management amounts to financial assistance to each other which constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

The main purposes of this circular are:

(a) to provide you with the details of the Acquisition, the Acquisition Agreement and the Cross-Indemnity;

(b) to provide you with the letter of recommendation from the Independent Board Committee and the letter of advice from Grand Vinco, the independent financial advisor, in respect of the Acquisition and the Cross-Indemnity;

(c) to provide you with financial information on the Group and Huarui Asset Management and the property valuation by the Independent Valuer and other information required under the Listing Rules; and

(d) to give the Shareholders the notice of the SGM at which an ordinary resolution will be proposed to approve the Acquisition Agreement and the transactions contemplated thereunder and the Cross-Indemnity.

THE ACQUISITION AGREEMENT

Date

29 November, 2007

Parties

(1) Vendor: Elegant Parkview Limited, a connected person of the Company by virtue of it being a substantial shareholder of Huarui Asset Management and Huarui Investment, both of which are subsidiaries of the Company. To the best of the Directors' knowledge, the Vendor and its beneficial owners did not hold any Shares as at the Latest Practicable Date.

(2) Purchaser: China Edifice Ltd., a direct wholly-owned subsidiary of China Edifice and an indirect wholly-owned subsidiary of the Company

(3) China Edifice, an indirect wholly-owned subsidiary of the Company

Assets to be acquired

Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire from the Vendor and the Vendor has conditionally agreed to sell to the Purchaser the Sale Share representing the entire issued share capital of Qualico Investments and to assign the Sale Loan to the Purchaser.

Information on Qualico Investments

Qualico Investments is an investment holding company incorporated under the laws of Hong Kong on 19 September, 2007 wholly-owned by the Vendor.

For the period from its incorporation up to the Latest Practicable Date, Qualico Investments recorded nil revenue and an immaterial loss before and after tax after administrative expenses to maintain it as a duly registered company. As of 31 December, 2007, the net asset value of Qualico Investments was HK$1.00 representing its total issued share capital of HK$1.00 as of that date. Qualico Investments entered into the Transfer Agreement to acquire a 49% equity interest in Huarui Asset Management from the Vendor and such transfer was completed in December, 2007. As at the Latest Practicable Date, Qualico Investments held a 49% equity interest in Huarui Asset Management as its only asset, and had liability being the Sale Loan which was made by the Vendor to Qualico Investments to enable it to complete the Transfer Agreement.

According to the accounts of Qualico Investments, the original subscription costs of the entire issued share capital of Qualico Investments to the Vendor was HK$1.

Information on Huarui Asset Management

Huarui Asset Management was established under the laws of the PRC on 30 October, 2007 as a result of the De-merger pursuant to which Huarui Asset Management was split from Huarui Investment and became a new company with a registered capital of US$10,000,000 (approximately HK$78,000,000). Huarui Asset Management is owned as to 51% by the Group and as to 49% by Qualico Investments.

Based on the audited financial statements of Huarui Asset Management, the audited net asset value of Huarui Asset Management as at 31 December, 2005, 31 December, 2006 and 31 December, 2007 (on the basis that the Assets and Liabilities had been injected into Huarui Asset Management at the respective dates) was approximately RMB80,000,000 (approximately HK$85,432,000), RMB80,000,000 (approximately HK$85,432,000) and RMB75,565,000 (approximately HK$80,695,864), respectively. Huarui Asset Management recorded nil revenue and an operating loss of RMB4,449,000 (approximately HK$4,751,087) before tax since its date of establishment on 30 October, 2007 up to 31 December, 2007.

The principal assets of Huarui Asset Management will be the Properties and its principal activity is the leasing of self-owned properties.

Given Huarui Asset Management was established as a result of the De-merger pursuant to which Huarui Asset Management was split from Huarui Investment and became a new company, no actual extra cost was involved on the part of the Vendor in respect of its 49% equity interest in Huarui Asset Management.

However, since the Vendor purchased the 49% equity interest in Huarui Investment for a total consideration of RMB245,000,000 in June, 2007, and Huarui Asset Management was spilt from Huarui Investment (where Huarui Asset Management has a registered capital of US$10,000,000 which was segregated from the original paid up capital of US$62,500,000 of Huarui Investment), the effective acquisition cost in respect of the 49% equity interest in Huarui Asset Management to the Vendor amounted to RMB39,200,000, being the portion of the aforesaid consideration attributable to the Vendor's share of the paid up capital in Huarui Asset Management.

Information on the Properties

The Properties are located at the Western part of Huigong Plaza, Shenhe District, Shenyang, Liaoning Province, the PRC. The Properties comprise the 5-storey Shenyang Richgate Shopping Mall with a 2-level basement and Shenyang Lexington Huafu Hotel, a service apartment hotel, the construction of which was still not completed as of 31 December, 2007.

Shenyang Richgate Shopping Mall has a gross floor area of approximately 242,000 sq.m. and Shenyang Lexington Huafu Hotel has a gross floor area of approximately 54,900 sq.m.. The 1st to 5th floors of Shenyang Richgate Shopping Mall are occupied for commercial use and the remaining 2-level basement comprises 1,200 car parking spaces and several commercial and ancillary units.

The land use rights of the Properties were granted for a term of 40 years for commercial use and for a term of 50 years for apartment and hotel uses, respectively. As of the Latest Practicable Date, the land use rights of the Properties were owned by Huarui Investment, and Huarui Investment and Huarui Asset Management had made applications to the relevant PRC authorities for the transfer of the land use rights of the Properties. The Company understands that the formalities for the transfer of the land use rights of the Properties to Huarui Asset Management and the issue of land use rights certificates in respect of the Properties in the name of Huarui Asset Management are being processed, and anticipates that such land use rights certificates can be obtained by the end of March, 2008. The Directors are not aware of any legal impediments to the obtaining of such land use rights certificates by Huarui Asset Management.

The Properties are valued at RMB$6,211,000,000 as of 31 October, 2007 by the Independent Valuer.

Consideration

The aggregate consideration for the Sale Share and the Sale Loan is HK$1,987,000,000, which will be satisfied at Completion by China Edifice issuing 3,496 Consideration Shares to Ng Chi Ming and 304 Consideration Shares to Pinpoint China Fund at the issue price of HK$522,894.74 per Consideration Share, credited as fully paid-up, at the direction of the Vendor. Both Ng Chi Ming and Pinpoint China Fund are the existing shareholders of the Vendor. The Consideration Shares will represent 38% of the issued share capital of China Edifice as enlarged by the issue of the Consideration Shares.

The consideration for the Acquisition was arrived at after arm's length negotiations between the Purchaser and the Vendor with reference to the unaudited net asset value of Huarui Asset Management as at 31 October, 2007 and the valuation of the Properties as of 31 October, 2007 as valued by an independent valuer.

China Edifice is an investment holding company and is at present wholly-owned by the Company. China Edifice was incorporated on 28 September, 2007 and it does not have net asset value figures nor net profit or net loss figures for each of the two years ended 31 December, 2005 and 31 December, 2006. After Completion, the financial results of China Edifice and its subsidiaries will continue to be consolidated into the accounts of the Company.

Conditions

Completion is conditional upon the following conditions being satisfied or waived by the Purchaser (as the case may be) on or before the Long Stop Date or such later date as may be agreed in writing between the parties to the Acquisition Agreement:

(a) the passing of a resolution at the SGM by the Independent Shareholders by way of a poll to approve the Acquisition Agreement and the transactions contemplated thereunder;

(b) completion of all de-merger procedures of Huarui Investment, including but not limited to completion of the segregation of the Assets and Liabilities from Huarui Investment and allocation of the same to Huarui Asset Management and the receipt by or on behalf of the Purchaser of documentation to the satisfaction of the Purchaser evidencing the completion of the same;

(c) completion of the Transfer Agreement and the receipt by or on behalf of the Purchaser of documentation to the satisfaction of the Purchaser evidencing such completion;

(d) the Purchaser undertaking and completing a due diligence investigation in respect of Qualico Investments, Huarui Asset Management and the Properties (including but not limited to the affairs, business, assets, liabilities, operations, records, financial position, value of assets, accounts, results, legal and financial structure and shareholding structure of Qualico Investments and Huarui Asset Management) and the Purchaser being satisfied with the results of such due diligence investigation in all respects;

(e) the receipt by or on behalf of the Purchaser of a legal opinion issued by a firm of qualified lawyers in the PRC in such form and content as may be satisfactory to the Purchaser regarding, amongst other things, the legal status, ownership, shareholding structure and registered capital in Huarui Asset Management, the title to the Properties, completion of the de-merger procedures of Huarui Investment and the segregation of the Assets and Liabilities from Huarui Investment and allocation of the same to Huarui Asset Management, completion of the Transfer Agreement and any other matters which the Purchaser considers relevant in connection with the sale and purchase contemplated thereunder;

(f) there having been no breach of any of the warranties, representations and undertakings given by the Vendor in the Acquisition Agreement; and

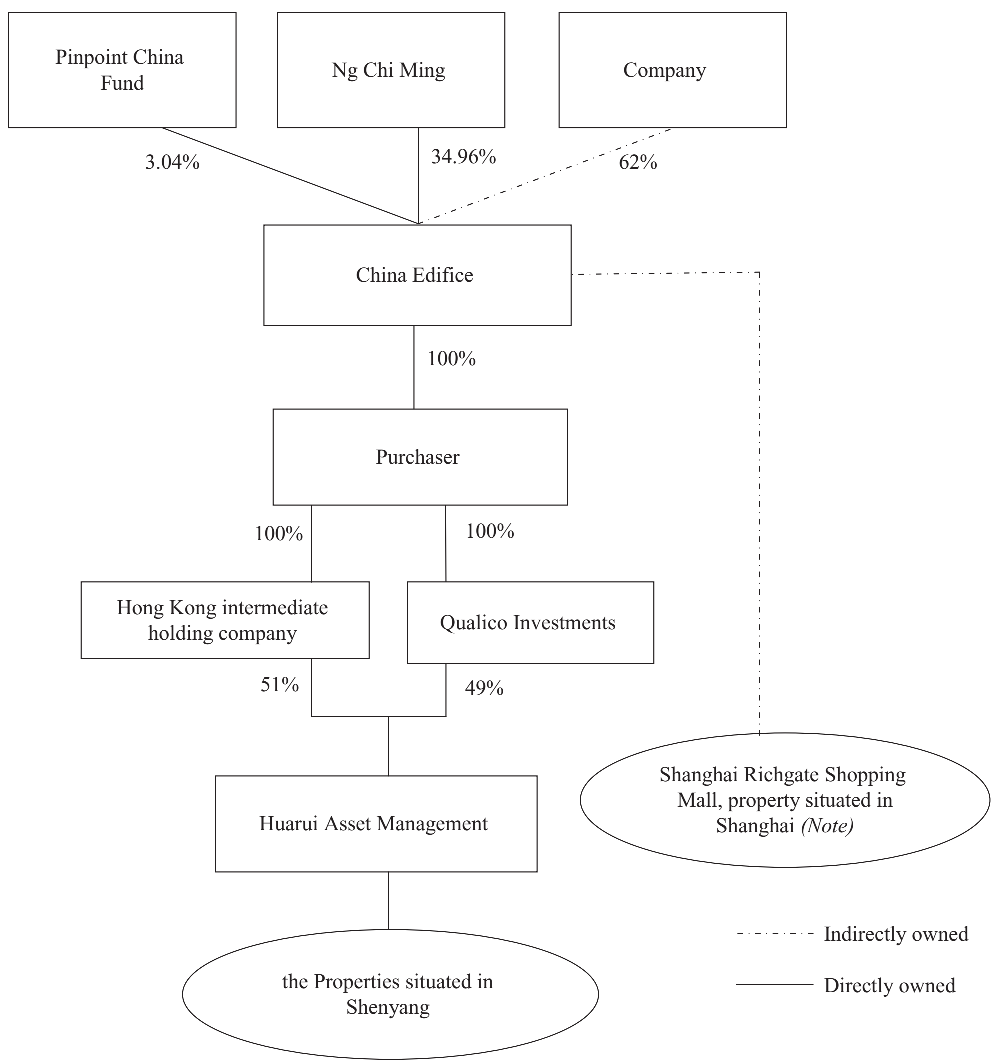
(g) the parties to the Acquisition Agreement having obtained any and all other consents, permits, approvals, authorisations and waivers necessary, desirable or appropriate for the entering into and consummation of the transactions contemplated by the Acquisition Agreement.

If any of the Conditions is not fulfilled or waived by the Purchaser (other than the Conditions in (a) to (c) above which cannot be waived) on or before the Long Stop Date, the Acquisition Agreement shall lapse and be of no further effect and no party to the Acquisition Agreement shall have any claim against or liability or obligation to the other party in respect of the Acquisition Agreement save and except for any antecedent breach.

As at the Latest Practicable Date, Condition (c) had been fulfilled.

Completion of the Acquisition

Subject to and conditional upon fulfillment of all the Conditions (or waiver in respect of certain Conditions) on or before the Long Stop Date, Completion shall take place on the Completion Date. After Completion, both Qualico Investments and Huarui Asset Management will become wholly-owned subsidiaries of China Edifice and China Edifice will become a 62% owned subsidiary of the Company with the remaining 38% being owned by the shareholders of the Vendor. Set out below is the simplified shareholding structure of Huarui Asset Management immediately after Completion:



Note: Held through a three tier structure comprising a BVI and a Hong Kong wholly-owned subsidiaries and a PRC company, all of which are wholly-owned subsidiaries of China Edifice.

THE CROSS INDEMNITY

Pursuant to the De-merger which established Huarui Asset Management on 30 October, 2007, a bank loan in the outstanding principal amount of RMB600 million plus accounts payables in the aggregate amount of approximately RMB374 million (out of the total aggregate liabilities of approximately RMB1,139.03 million of Huarui Investment prior to the De-merger) have been segregated from Huarui Investment to Huarui Asset Management. Under the relevant PRC laws, Huarui Asset Management is jointly liable with Huarui Investment for all debts and liabilities of Huarui Investment that were in existence prior to the De-merger, except for those debts and liabilities for which written agreement has been reached between the creditors and Huarui Investment and/or Huarui Asset Management. Accordingly, under the Joint Liabilities, Huarui Investment is liable for the aggregate liabilities of approximately RMB974 million segregated to Huarui Asset Management, while Huarui Asset Management is liable for the aggregate liabilities of approximately RMB165.03 million retained by Huarui Investment under the De-merger.

Huarui Investment and Huarui Asset Management are negotiating with the creditors to confirm the segregation of such debts and liabilities between Huarui Investment and Huarui Asset Management pursuant to the De-merger, such that each of Huarui Asset Management and Huarui Investment will only be liable for the debts and liabilities that are segregated to it or retained by it (as the case may be) pursuant to the De-merger.

The Joint Liabilities (i) will come to an end upon the relevant creditors entering into written agreement with Huarui Investment and/or Huarui Asset Management to confirm the segregation of liabilities under the De-merger such that each of Huarui Asset Management and Huarui Investment will only be liable to the relevant creditor for the debts and liabilities that are segregated to it or retained by it (as the case may be); or (ii) for those debts and liabilities in respect of which no such written agreement is entered into, will have no further effect on Huarui Investment and Huarui Asset Management when the relevant debts and liabilities are paid off or otherwise discharged.

To deal with the Joint Liabilities, Huarui Investment and Huarui Asset Management entered into the Cross Indemnity on 29 January, 2008 to, subject to approval by the Independent Shareholders being obtained, provide an indemnity to each other in respect of claims for debts or liabilities which belong to itself after segregation of the liabilities under the De-merger. Under the Cross Indemnity, if any creditor claims against Huarui Investment or Huarui Asset Management for debts or liabilities not in accordance with the allocation of liabilities under the De-merger, the party being claimed shall be reimbursed by the other party for payments of debts or liabilities which should belong to that other party after the segregation of liabilities under the De-merger. The Cross-Indemnity will have the effect of canceling out any extra liabilities which Huarui Investment or Huarui Asset Management may have to bear under the Joint Liabilities. After the Joint Liabilities ceasing to have effect as aforesaid, both Huarui Investment and Huarui Asset Management will effectively have no further liabilities under the Cross-Indemnity.

MANAGEMENT DISCUSSION AND ANALYSIS ON QUALICO INVESTMENTS AND HUARUI ASSET MANAGEMENT

Qualico Investments

Qualico Investments is an investment holding company incorporated under the laws of Hong Kong on 19 September, 2007 which holds a 49% equity interest in Huarui Asset Management.

For the period from its incorporation to the Latest Practicable Date, Qualico Investments recorded nil revenue and an immaterial loss before and after tax, after taking into account of administrative expenses incurred to maintain it as a duly registered company. As of 31 December, 2007, the net asset value of Qualico Investments was HK$1.00 representing its total issued share capital of HK$1.00 as of that date. As at the Latest Practicable Date, Qualico Investments held a 49% equity interest in Huarui Asset Management and had liability being the Sale Loan made by the Vendor to Qualico Investments to enable it to complete the Transfer Agreement.

Huarui Asset Management

Huarui Asset Management was established under the laws of the PRC on 30 October, 2007 as a result of the De-merger pursuant to which Huarui Asset Management was split from Huarui Investment and became a new company with a registered capital of US$10,000,000 (approximately HK$78,000,000). The principal assets of Huarui Asset Management will be the Properties and its principal activity is the leasing of self-owned properties. No material investments or capital assets are expected to be acquired in the coming year. Huarui Asset Management did not have any employee as at 31 December 2005, 2006 and 2007. The management and day to day administrative matters of Huarui Asset Management are temporarily handled by the employees of Huarui Investment. No remuneration policies bonus, share option schemes and training schemes are provided by Huarui Asset Management. Huarui Asset Management is currently owned as to 51% by the Group.

The total assets less current liabilities of Huarui Asset Management was approximately RMB80,000,000 (approximately HK$85,432,000) as at 31 December 2005; approximately RMB80,000,000 (approximately HK$85,432,000) as at 31 December 2006 and approximately RMB75,565,000 (approximately HK$80,695,864) as at 31 December, 2007.

As the Properties are still under development, Huarui Asset Management has not generated any profit since its establishment on 30 October, 2007. For each of the two years ended 31 December 2005 and 2006, Huarui Asset Management had not incurred any expenses. As for the year ended 31 December, 2007, Huarui Asset Management had incurred expenses relating to administration costs and selling and marketing expenses of the Properties, amounting to RMB4,449,000 (approximately HK$4,751,087).

Shenyang Richgate Shopping Mall and of Shenyang Lexington Huafu Hotel were still under construction as at 31 December 2007 and internal decorations and renovations are being carried out on these Properties. Completion of the construction of the Properties were only pending the issue of relevant construction completion and examination certificates as of the Latest Practicable Date. No revenue was recognized by Huarui Asset Management for the three years ended 31 December 2005, 2006 and 2007 as the Properties were still not yet under operation. Upon completion of the Properties, Huarui Asset Management will lease out the Properties to generate rental income. In view of the robust economic growth and large population in Shenyang, the business of Huarui Asset Management should see robust growth in coming years.

The total assets of Huarui Asset Management amounted to approximately RMB250,774,000 (approximately HK$267,801,555) as at 31 December, 2005; approximately RMB514,533,000 (approximately HK$549,469,791) as at 31 December, 2006; and approximately RMB1,339,604,000 (approximately HK$1,430,563,112) as at 31 December, 2007.

The paid-up registered capital of Huarui Asset Management for each of the three years ended 31 December, 2005, 2006 and 2007 was RMB80,000,000 (approximately HK$85,432,000).

As at 31 December, 2007, Huarui Asset Management had an amount due to a fellow subsidiary of RMB1,039,164,000 (approximately HK$1,109,723,236), which represented the costs of the properties under development for long term investment that was paid on behalf of Huarui Asset Management by Huarui Investment. The amount is interest free, unsecured and does not have a fixed term of repayment.

The properties under development for long term investment are pledged under a first charge to secure Huarui Investment's bank loan amounting to RMB600 million (approximately HK$641 million) obtained from the Agricultural Bank of China prior to the De-merger. The aforesaid bank borrowings represented one of the designated liabilities of Huarui Investment that is to be transferred to Huarui Asset Management according to the agreement for the De-merger. Such bank loan bears interest at a floating rate, based on the benchmark lending rate for a three-year term loan set forth by the People's Bank of China, adjusted annually. The loan is repayable in three unequal annual installments with its final maturity on 19 March 2010. As at 31 December 2007, Huarui Investment was in the process of transferring the aforesaid bank borrowings to Huarui Asset Management.

Huarui Asset Management had no other borrowing and no credit facilities obtained from financial institutions as at 31 December 2005, 31 December 2006, and 31 December 2007.

Under the relevant PRC Laws, Huarui Asset Management is jointly liable with Huarui Investment for all outstanding debts and amount payable to creditors of Huarui Investment that were in existence prior to the De-merger of Huarui Investment, except for those debts and liabilities for which written agreement has been reached between the creditors and Huarui Investment and/or Huarui Asset Management. Such amounts owed to creditors of Huarui Investment for which Huarui Asset Management was jointly liable as at 31 December 2007 was approximately RMB165.03 million (approximately HK$176.24 million). The Joint

Liabilities are recorded as contingent liabilities in the accountants report of Huarui Asset Management in Appendix II. Huarui Asset Management did not have any other significant contingent liabilities.

The gearing ratio (total debt/total asset) of Huarui Asset Management as at 31 December 2005, 31 December 2006 and 31 December 2007 were approximately 0.68, 0.84 and 0.94 respectively.

Since its establishment on 30 October, 2007, there was neither any material acquisition nor disposal of any subsidiaries or associated companies by Huarui Asset Management except for Shenyang Huarui Commercial Management Development Co. Ltd. (瀋陽華銳商業管理發展有限公司) which has been segregated from Huarui Investment to Huarui Asset Management under the De-merger.

The income and expenses of Huarui Asset Management are mainly denominated in RMB and exposure to fluctuation in exchange rates was considered to be minimal.

No segmental information for Huarui Asset Management is presented as all assets and liabilities of Huarui Asset Management are attributable to properties development activities/ leasing of self-owned properties which are carried out and originated principally in the PRC.

Details of the financial information relating to Huarui Asset Management for each of the three years ended 31 December, 2005 and 2006 and 2007 are set out in the Accountants' Report on Huarui Asset Management, the text of which is set out in Appendix II to this circular.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is an integrated property developer and is primarily engaged in the development and sale of residential and commercial properties in Shanghai and Shenyang with a specific focus on the middle to high-end residential properties, including Long Island Oasis Garden and Cedar Oasis Garden, Lakefront Oasis Garden, Rich-Gate Oasis Garden, Skyway Oasis Garden, International Villas and Skyway Landis Hotel and Shenyang Rich-Gate.

The Vendor is principally engaged in property development and investment.

The reorganisation to be undergone by the Group pursuant to, among other things, the Acquisition Agreement will effectively put the entire interest in the Properties under the China Edifice Group (as part of the Group) which is now holding another important piece of investment properties in Shanghai, namely Shanghai Richgate Shopping Mall. With a portfolio of quality investment properties in two prospering cities of the PRC, namely, Shanghai and Shenyang, the Company believes that the China Edifice Group will be able to focus on investment in properties of various natures including shopping malls and hotels. Concurrently, the Remaining Group will continue focusing on another principal business of the Group, namely the development and sale of residential and commercial properties. The Company also believes that the formation of the China Edifice Group, as part of the Group, will facilitate the China Edifice Group to finance its business activities independently in the future as and when necessary, either in the equity market, debt market or otherwise, and will enhance its future business development.

Although the land use rights of the Properties were still held by Huarui Investment as of the Latest Practicable Date, Huarui Investment and Huarui Asset Management had made applications to the relevant PRC authorities for the transfer of the land use rights of the Properties. The Completion is subject to, among other things, completion of all De-merger procedures of Huarui Investment which include the transfer of the land use rights of the Properties to Huarui Asset Management. Thus, the Acquisition will not be completed if the title to the Properties has not been transferred to Huarui Asset Management, and the Directors consider this aspect of the Acquisition to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF THE CROSS INDEMNITY

The Cross Indemnity has been entered into to counter the effects of the Joint Liabilities which arose by operation of relevant PRC laws. The Cross Indemnity aims to cancel out any extra liabilities which Huarui Investment or Huarui Asset Management may have to bear under the Joint Liabilities, so that Huarui Investment and Huarui Asset Management will effectively be liable only for those liabilities retained by it or allocated to it (as the case may be) under the De-merger.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Financial effects of the Acquisition

i. Earnings

As the net profit after tax of Huarui Asset Management and 瀋陽華建置業有限公司 (Shenyang Huajian Real Estate Co., Ltd.) (a subsidiary of China Edifice holding 100% interests of Shanghai Richgate Shopping Mall) ("Huajian") was consolidated into the Group's income statement prior to Completion and will remain to be consolidated upon Completion, there will be no impact on the consolidated net profit after tax.

Based on the foregoing, we are of the view that there will be no material adverse impact on the Group's earnings upon Completion.

ii. Net assets

With reference to Appendix III to the Circular, the pro forma net assets of the Enlarged Group should improve from approximately HK$3,719.3 million as at 30 June 2007 to approximately HK$7,888.3 million upon Completion. As the Acquisition does not involve issuing new Shares of the Company, the net asset value per Share should also increase.

iii. Working capital and gearing ratio (net borrowings/total equity plus net borrowings)

With reference to Appendix III to the Circular, the pro forma working capital of the Enlarged Group should decrease from approximately HK$4,331.6 million as at 30 June 2007 to approximately HK$4,327.6 million upon Completion. We noted that the net decrease of working capital of approximately HK$4 million represents approximately a decrease of 0.09% over the working capital of the Group as at 30 June 2007. We are of the view that such decrease in working capital should not pose material adverse impact of the Group's liquidity position.

With reference to Appendix III to the Circular, the pro forma gearing ratio of the Enlarged Group should decrease from approximately 61% as at 30 June 2007 to approximately 42% upon Completion. We noted that the Acquisition should improve the gearing ratio of the Group after Completion.

FINANCIAL EFFECTS OF THE CROSS INDEMNITY ON THE GROUP

As both Huarui Investment and Huarui Asset Management are subsidiaries of the Company, the Cross Indemnity will have no effect on the consolidated liabilities of the Group as a whole, and there will also not be any effect on the consolidated earnings and assets of the Group as a result of the Cross Indemnity.

SGM

A notice convening the SGM to be held at 10:00 a.m. on Monday, 18 February, 2008 at Queensway and Victoria (Level 3), JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong are set out on pages VII-1 to VII-2 of this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible. The proxy form should be returned to the Company's branch registrar and transfer office, Tricor Tengis Limited, Share Registration at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the SGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM (or at any adjournment thereof) should you so desire.

GENERAL

As the Vendor is a substantial shareholder of Huarui Asset Management and Huarui Investment, both of which are subsidiaries of the Company, it is a connected person of the Company and the Acquisition constitutes a connected transaction for the Company under the Listing Rules. Since the Applicable Percentage Ratios for the Acquisition exceed 2.5% and the consideration for the Acquisition is more than HK$10,000,000, the Acquisition is subject to the reporting, disclosure and independent shareholders' approval requirements under the Listing Rules.

As one of the Applicable Percentage Ratios for the Acquisition exceeds 25%, the Acquisition also constitutes a major transaction for the Company under the Listing Rules and is subject to the reporting, disclosure and shareholders' approval requirements under the Listing Rules.

In addition, China Edifice is regarded as a major subsidiary of the Company under the Listing Rules as the value of its total assets represents over 5% of the relevant percentage ratios in respect of the Group. The Applicable Percentage Ratios for the issue of the Consideration Shares by China Edifice pursuant to the Acquisition Agreement also exceed 5%, and therefore the issue of the Consideration Shares constitutes a material dilution of the Group's percentage interest in China Edifice and is subject to approval by the Shareholders under Rule 13.36(1) of the Listing Rules. Furthermore, the issue of the Consideration Shares by China Edifice constitutes a deemed disposal by the Company of its percentage interest in China Edifice under Rule 14.29 of the Listing Rules.

Both Huarui Investment and Huarui Asset Management are non-wholly owned subsidiaries of the Group owned by the Vendor as to 49% and at the same time are associates of the Vendor, a connected person of the Company. The Cross Indemnity between Huarui Investment and Huarui Asset Management amounts to financial assistance to each other which constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, any connected person and any shareholder and their associates with a material interest in the Acquisition and/or the Cross Indemnity are required to abstain from voting on the resolution at the special general meeting to be held to approve the same.

As at the Latest Practicable Date, to the best of the Directors' knowledge, none of the Shareholders were materially interested in the Acquisition or the Cross Indemnity.

RECOMMENDATIONS

Your attention is drawn to:

(a) the letter from the Independent Board Committee, the text of which is set out on pages 21 to 22 of this circular;

(b) the letter from Grand Vinco, the text of which is set out on pages 23 to 33 of this circular.

The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote at the SGM.

The Independent Board Committee, having taken into account the advice of Grand Vinco, considers that the Acquisition and the Acquisition Agreement are on normal commercial terms, are fair and reasonable and in the interest of the Company and the Shareholders as a whole, and that the Cross Indemnity is fair and reasonable and in the interest of the Company and its Shareholders as a whole. The Independent Board Committee therefore recommends the Independent Shareholders to vote in favour of the resolution to be proposed in the SGM.

Taking into account the letter from the Independent Board Committee and all other factors stated above as a whole, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM.

FURTHER INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

For and on behalf of the Board
SRE GROUP LIMITED
Shi Jian
Chairman

SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 1207)

31 January, 2008

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
FOR THE ACQUISITION OF QUALICO INVESTMENTS LIMITED
MATERIAL DILUTION OF A MAJOR SUBSIDIARY
AND DEEMED DISPOSAL**

**CONNECTED TRANSACTION
CROSS INDEMNITY
BETWEEN
SHENYANG HUARUI SHIJI INVESTMENT DEVELOPMENT COMPANY LIMITED
AND
SHENYANG HUARUI SHIJI ASSET MANAGEMENT COMPANY LIMITED**

We refer to the circular dated 31 January, 2008 issued by the Company (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider the Acquisition Agreement and the transactions contemplated thereunder and the Cross Indemnity and to advise the Independent Shareholders as to the fairness and reasonableness of the same. Grand Vinco, has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 6 to 20 of the Circular, and the letter from Grand Vinco which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder and the Cross Indemnity as set out on pages 23 to 33 of the Circular.

Having considered the terms of the Acquisition, the Acquisition Agreement and the Cross Indemnity and the advice of Grand Vinco in relation thereto as set out on pages 23 to 33 of the Circular, we are of the opinion that the Acquisition and the Acquisition Agreement are on normal commercial terms, are fair and reasonable and in the interest of the Company

* *for identification purpose only*

and the Shareholders as a whole and that the Cross Indemnity is fair and reasonable and in the interest of the Company and the Shareholders as a whole. We therefore recommend that the Independent Shareholders should vote in favour of the resolution to be proposed at the SGM to approve the Acquisition Agreement and the transactions contemplated thereunder, including the issue and allotment of the Consideration Shares pursuant to the terms of the Acquisition Agreement, and to approve the Cross Indemnity.

Yours faithfully,

Yeung Kwok Wing	**Geng Yu Xiu**	**E Hock Yap**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of a letter of advice from Grand Vinco to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition and the Cross Indemnity which has been prepared for the purpose of incorporation in this circular:

VINCO 城高

Grand Vinco Capital Limited
Unit 4909-4910, 49/F., The Center
99 Queen's Road Central, Hong Kong

31 January 2008

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**(1) MAJOR AND CONNECTED TRANSACTION
FOR THE ACQUISITION OF QUALICO INVESTMENTS LIMITED,
(2) CONNECTED TRANSACTION
CROSS INDEMNITY
BETWEEN
SHENYANG HUARUI SHIJI INVESTMENT DEVELOPMENT COMPANY LIMITED
AND
SHENYANG HUARUI SHIJI ASSET MANAGEMENT COMPANY LIMITED**

A. INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Acquisition and the Cross Indemnity, details of which are set out in the "Letter from the Board" in the circular (the "Circular") issued by the Company to the Shareholders dated 31 January 2008 of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 29 November 2007, the Vendor, the Purchaser and China Edifice entered into the Acquisition Agreement pursuant to which the Vendor agreed to sell and assign, and the Purchaser agreed to purchase and take assignment of, the Sale Share and the Sale Loan for the aggregate consideration of HK$1,987,000,000, which shall be satisfied at Completion by China Edifice issuing at the direction of the Vendor 3,496 Consideration Shares to Ng Chi Ming and 304 Consideration Shares to Pinpoint China Fund, both being the existing shareholders of the Vendor, credited as fully paid-up. The Sale Share represents the entire issued share capital of Qualico Investments, which has entered into the Transfer Agreement to acquire 49% equity interest in Huarui Asset Management from the Vendor and such transfer was completed in December 2007. As at the Latest Practicable Date, Qualico Investments held 49% equity interest in Huarui Asset Management as its only asset, and had liability being the Sale Loan which was made by the Vendor to Qualico Investments to enable it to complete the Transfer Agreement. After Completion, both Qualico Investments and Huarui Asset Management will become wholly-owned subsidiaries of China Edifice and China Edifice will become a 62% owned subsidiary of the Company with the remaining 38% being owned by the existing shareholders of the Vendor.

As the Vendor is a substantial shareholder of Huarui Asset Management and Huarui Investment, both of which are subsidiaries of the Company, it is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company under the Listing Rules. The Acquisition also constitutes a major transaction of the Company under the Listing Rules and is subject to the relevant reporting, disclosure and Shareholders' approval requirements. In addition, China Edifice is regarded as a major subsidiary of the Company, and the issue of the Consideration Shares by China Edifice pursuant to the Acquisition Agreement constitutes a material dilution of the Group's percentage interest in China Edifice. Furthermore, the issue of the Consideration Shares by China Edifice constitutes a deemed disposal by the Company of its percentage interest in China Edifice under the Listing Rules.

The Company announced on 29 January 2008 that Huarui Asset Management and Huarui Investment entered into the Cross Indemnity in respect of claims made by creditors against the other party for debts or liabilities which belong to itself after segregation of the liabilities under the De-merger of Huarui Asset Management to deal with the Joint Liabilities. As stated in the letter from the Board in the Circular, both Huarui Investment and Huarui Asset Management are non wholly-owned subsidiaries of the Group and are also associates of the Vendor, a connected person to the Company. The Cross Indemnity between Huarui Investment and Huarui Asset Management amounts to financial assistance to each other and such transaction constitutes a connected transaction under the Listing Rules.

The Independent Board Committee, comprising Mr. Yeung Kwok Wing, Mr. Geng Yu Xiu and Mr. E Hock Yap, all being independent non-executive Directors, has been formed to advise the Independent Shareholders on the terms of the Acquisition and the Cross Indemnity. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the Cross Indemnity. In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give you an independent opinion as to whether the terms of the Acquisition and the Cross Indemnity are on normal commercial terms, are fair and reasonable and in the interests of the Group and the Independent Shareholders as a whole and whether the Independent Shareholders should vote in favour of the resolution to be proposed at the SGM to approve the Acquisition and the Cross Indemnity.

B. BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have been provided with and reviewed, among other materials and documentations, the Acquisition Agreement, the accountants' report on Huarui Asset Management Group, the unaudited pro forma financial statements of the Enlarged Group and the property valuation report by the Independent Valuer, which we have discussed with the Independent Valuer in respect of the valuation basis which derived the valuation results of the Properties. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

We note that the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the abovementioned documents, business, financial conditions and affairs of the Group or its future prospect.

Unless otherwise stated, (i) amounts in RMB and US$ have been translated into HK$ at exchange rates of HK$1.0679 to RMB1.00 and HK$7.80 to US$1.00 for illustration purposes only and no representation has been made that any amounts in RMB, US$ or HK$ can be or could have been converted at the relevant dates at the above rates or any other rates at all; and (ii) English names of the PRC established companies and the Properties in this letter are only translations of their official Chinese names, where in case of inconsistency, the Chinese names shall prevail.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Acquisition and the Cross Indemnity and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and the Cross Indemnity, we have considered the principal factors and reasons set out below:

1. Information of the Group

The Group is an integrated property developer and is primarily engaged in the development and sale of residential and commercial properties in Shanghai and Shenyang with a specific focus on the middle to high-end residential properties, including Long Island Oasis Garden and Cedar Oasis Garden, Lakefront Oasis Garden, Rich-Gate Oasis Garden, Skyway Oasis Garden, International Villas and Skyway Landis Hotel and Shenyang Rich-Gate.

As disclosed in the 2006 annual report of the Company for the year ended 31 December 2006, the Group's revenue was approximately HK$2,621 million (2005: approximately HK$1,309 million), representing an increase of approximately 100.2% from previous year. Profits attributable to Shareholders was approximately HK$252 million (2005: approximately HK$301 million), representing a decrease of approximately 16.3% from previous year. The Group's segment resulting from property leasing was approximately HK$591 million (2005: approximately HK$863,000), representing an increase of approximately 684 times as compared with the previous year. For the year ended 31 December 2006, the property leasing segment contributed to approximately 49.6% of the Group's total segment results before unallocated corporate expenses, net finance costs and share of net profit or loss of associated companies. We noted that the operating and financial results in the property leasing segment of the Group for the period under our review were substantial to the Group's overall financial performance.

2. Background to and reasons for the Acquisition and the Cross Indemnity

i. Information on Qualico Investments

Qualico Investments is an investment holding company incorporated in Hong Kong on 19 September 2007 which holds equity interest in Huarui Asset Management.

Huarui Asset Management was established under the laws of the PRC on 30 October 2007, as a result of the De-merger and the Cross Indemnity to which Huarui Asset Management was split from Huarui Investment. It was owned as to 51% by the Group and as to 49% by Qualico Investments. The principal assets of Huarui Asset Management are the Properties and its principal activity is the leasing of self-owned properties.

As of 31 October, 2007, the net asset value of Qualico Investments was HK$1.00 representing its total issued share capital of HK$1.00 as of that date. Qualico Investments has entered into the Transfer Agreement to acquire 49%

equity interest in Huarui Asset Management from the Vendor and such transfer was completed in December 2007. As at the Latest Practicable Date, Qualico Investments held 49% equity interest in Huarui Asset Management as its only asset, and had liability being the Sale Loan which was made by the Vendor to Qualico Investments to enable it to complete the Transfer Agreement.

Set out below is a table of the financial summary of Huarui Asset Management Group with reference to Appendix II prepared in accordance with HKFRSs:

	Year ended		
	31 December 2005	**31 December 2006**	**31 December 2007**
	RMB	*RMB*	*RMB*
Net profit/(loss) before taxation	Nil	Nil	(4,628,000)
Net profit/(loss) after taxation	Nil	Nil	(4,624,000)
Net assets	80,000,000	80,000,000	75,376,000

With reference to Appendix II to the Circular, Huarui Asset Management and its subsidiaries recorded no income for the year ended 31 December 2005 and 31 December 2006. As there was no net profit or net loss before and after taxation recorded in respect of the Assets and the Liabilities for each of the two years ended 31 December 2005 and 31 December 2006. For the year ended 31 December 2007, Huarui Asset Management had recorded a loss before and after tax of RMB4,628,000 (equivalent to approximately HK$4,942,241) and RMB4,624,000 (equivalent to approximately HK$4,937,970) respectively. The net asset value of Huarui Asset Management remained at RMB80,000,000 (equivalent to approximately HK$85,432,000) for the two years ended 31 December 2006 on the basis that the Assets and Liabilities had been injected into Huarui Asset Management) and the net asset value decreased to RMB75,376,000 (equivalent to approximately HK$80,494,030) due to the loss incurred for the year ended 31 December 2007. Being a non wholly-owned subsidiary of the Group, the net loss of Huarui Asset Management will continue to be consolidated into the Group's accounts before and after the Completion.

The properties under development for long term investment are pledged under a first charge to secure Huarui Investment's bank loan amounting to RMB600 million (approximately HK$641 million) obtained from the Agricultural Bank of China prior to the De-merger. The aforesaid bank borrowings represented one of the designated liabilities of Huarui Investment that is to be transferred to Huarui Asset Management according to agreement for the De-merger. Such bank loan bears interest at a floating rate, based on the benchmark lending rate for a three-year term loan set forth by the People's Bank of China, adjusted annually. The loan is repayable in three unequal annual installments with its final maturity on 19 March 2010. As at 31 December 2007, Huarui Investment was in the process of transferring the aforesaid bank borrowings to Huarui Asset Management.

Under the relevant PRC laws, Huarui Asset Management is jointly liable with Huarui Investment for all outstanding debts and amount payable to creditors of Huarui Investment that were in existence prior to the De-merger of Huarui Investment, except for those debts and liabilities for which written agreement has been reached between the creditors and Huarui Investment and/or Huarui Asset Management. The aggregate amount owed to creditors of Huarui Investment for which Huarui Asset Management was jointly liable as at 31 December 2007 was RMB165.03 million (approximately HK$176.24 million).

On 29 January 2008, Huarui Investment and Huarui Asset Management entered into the Cross Indemnity in order to deal with the Joint Liabilities, pursuant to which each party agreed to provide a cross indemnity to the other in respect of any claims for debts and liabilities made by the creditors which Huarui Investment and Huarui Asset Management may have to bear under the Joint Liabilities made by the creditors.

ii. Information on the Properties

The Properties are located at the Western part of Huigong Plaza, Shenhe District, Shenyang, Liaoning Province, the PRC. The Properties comprise the 5-storey Shenyang Richgate Shopping Mall with a 2-level basement and Shenyang Lexington Huafu Hotel, a service apartment hotel, the construction of which was still not been completed as of 31 December 2007.

Shenyang Richgate Shopping Mall has a gross floor area of approximately 242,000 sq.m. and Shenyang Lexington Huafu Hotel has a gross floor area of approximately 54,900 sq.m.. The 1st to 5th floors of Shenyang Richgate Shopping Mall are occupied for commercial use and the remaining 2-level basement comprises 1,200 car parking spaces and several commercial and ancillary units.

The land use rights of the Properties were granted for a term of 40 years for commercial use and for a term of 50 years for apartment and hotel uses, respectively. Based on the valuation by the Independent Valuer, the Properties are valued at no commercial value because Huarui Asset Management has not obtained the land use rights certificates under its name after the De-merger. However, for reference purpose, the Independent Valuer is of the opinion that the capital value of the Shenyang Richgate Shopping Mall would be valued at RMB6,211,000,000 (approximately HK$6,632,726,900) assuming the land use rights certificates under the name of Huarui Asset Management had been obtained and the property could be freely transferred. As of the Latest Practicable Date, we noted that the land use rights of the Properties were owned by Huarui Investment, and Huarui Investment and Huarui Asset Management had made applications to the relevant PRC authorities for the transfer of the land use rights of the Properties. We understood that the formalities for the transfer of the land use rights of the Properties to Huarui Asset Management and the issue of land use rights certificates in respect of the Properties in the name of Huarui Asset Management are being processed as at the Latest Practicable Date, and it is anticipated that such land use rights certificates can be obtained by the end of

March, 2008. As advised by the Directors, they are not aware of any legal impediments to the obtaining of such land use rights certificates by Huarui Asset Management. Based on the foregoing, we are of the view that the lack of title certificate, which is incidental to the De-merger, will not affect our opinion in this letter.

iii. Information on Shenyang

According to statistics prepared by the Shenyang government, Shenyang had a population of approximately 7 million as of 31 December 2006 and the GDP of Shenyang for the year ended 31 December 2006 was approximately RMB248.3 billion (approximately HK$265.2 billion), representing an increase of approximately 16.5% over the previous year. Shenyang had an annual gross investment in real estates ("全年完成房地產開發投資") of approximately RMB53.8 billion (approximately HK$57.5 billion) in 2006, representing an increase of 30.2% over 2005.

In view of the robust economic growth in the property market in Shenyang and the business of Huarui Asset Management, we are of the view that the property market in the subject region is growing. Therefore, we are of the view that the Acquisition is in the interest of the Company and Independent Shareholders as a whole.

iv. Reasons for the Acquisition

As stated in the letter from the Board in the Circular, the reorganisation pursuant to, among other things, the Acquisition Agreement will put the entire interest in the Properties under the China Edifice Group (as part of the Group) which holds another important piece of investment properties in Shanghai, namely Shanghai Richgate Shopping Mall.

As confirmed by the Directors, the Company intends to re-allocate resources within the Group more effectively, and to become more clearly delineated. Upon the completion of the Acquisition, China Edifice Group (as part of the Group) will be interested in 100% of the Properties and Shanghai Richgate Shopping Mall. Accordingly, China Edifice Group will be able to focus on investment in properties of various natures including shopping malls and hotels. As a result, the Remaining Group will be able to focus on another principal business of the Group, namely the development and sale of residential and commercial properties. We are of the view that such arrangement is a way to facilitate the Group, including the China Edifice Group (as part of the Group) and the Remaining Group, to achieve more effective resources allocation. Each of China Edifice Group and the Remaining Group, with more focused principal businesses and asset base, should be able to finance its business independently in the future as and when necessary, either in the equity market and debt market, and will enhance its future business development.

Based on the foregoing, we consider that the Acquisition and the Acquisition Agreement are fair and reasonable and that the entering into of the Acquisition Agreement is in the interests of the Group and the Independent Shareholders as a whole.

v. The Cross Indemnity

As stated in the letter from the Board in the Circular, under the relevant PRC laws, Huarui Asset Management and Huarui Investment are jointly liable for all the debts and liabilities of Huarui Investment which were outstanding prior to the De-merger of Huarui Investment, amounting to approximately RMB1,139.03 million (equivalent to approximately HK$1,216.37 million), except for those debts and liabilities for which written agreement has been reached between the creditors and Huarui Investment and/or Huarui Asset Management. Accordingly, under the Joint Liabilities, Huarui Investment is liable for the aggregate liabilities of approximately RMB974 million (equivalent to approximately HK$1,040 million) segregated to Huarui Asset Management, while Huarui Asset Management is liable for the aggregate liabilities of approximately RMB 165.03 million (equivalent to approximately HK$176.24 million) retained by Huarui Investment under the De-merger.

On 29 January 2008, Huarui Investment and Huarui Asset Management entered into the Cross Indemnity, whereby each party agreed to provide a cross indemnity to the other in respect of claims against the other party for debts or liabilities which belong to itself after segregation of the liabilities under the De-merger of Huarui Investment. The Cross Indemnity will have the effect of canceling out any extra liabilities which Huarui Investment or Huarui Asset Management may have to bear under the Joint Liabilities. Both Huarui Investment and Huarui Asset Management will have in effect no further contingent liabilities under the Cross Indemnity (i) when the relevant creditors have entered into written agreement with Huarui Investment to confirm the segregation of liabilities under the De-merger such that each of Huarui Asset Management and Huarui Investment will only be liable to the relevant creditor for the debts and liabilities that are segregated to it or retained by it (as the case may be); or (ii) when the relevant debts and liabilities are paid off or otherwise discharged.

We noted that both Huarui Investment and Huarui Asset Management are non wholly-owned subsidiaries of the Company, and their respective accounts were consolidated into the Group's accounts before and after the De-merger. As such, there should be no financial impact on the Group's net asset position, liquidity position and gearing with respect to the Cross Indemnity. Moreover, we have considered the Cross Indemnity will effectively cancel out any extra possible liabilities to each other which Huarui Investment and Huarui Asset Management shall bear in the future. We are of the view that the Joint Liabilities and the Cross Indemnity will not pose material adverse impact on the Group's financial position.

Independent Shareholders should also note that the Joint Liabilities and the Cross Indemnity resulting from the De-merger of Huarui Investment was one of the pre-requisites for the Acquisition to take place. We have expressed our view that the Acquisition and the Acquisition Agreement are fair and reasonable and are in the interests of the Group and the Independent Shareholders as a whole. Based on the foregoing, we are also of the view that the Cross Indemnity as a result of the De-merger incidental to the Acquisition are also fair and reasonable to the Company and the Independent Shareholders as a whole.

3. Consideration and payment terms of the Acquisition

The consideration for the Acquisition of HK$1,987,000,000 was arrived at after arm's length negotiations and on normal commercial terms between the Vendor and the Purchaser with reference to (1) the unaudited net asset value of Huarui Asset Management as at 31 October 2007 (on the basis that the Assets and Liabilities had been injected into Huarui Asset Management at that date), which is approximately RMB80,000,000 (approximately HK$85,432,000); and (2) the valuation of the Properties as at 31 October 2007 as valued by the Independent Valuer.

According to the audited accounts of Huarui Asset Management as set out in Appendix II of the Circular, the net asset value of Huarui Asset Management as at 31 December 2007 was approximately RMB75,376,000 (equivalent to approximately HK$80,494,030). The aggregate consideration of HK$1,987,000,000 represents a premium over the 49% of net asset value being acquired of approximately 4,937.77%. According to the valuation report prepared by the Independent Valuer, the Properties were valued at RMB6,211,000,000 (approximately HK$6,632,726,900) as at 31 October 2007. The aggregate consideration of HK$1,987,000,000 represents a discount of approximately 38.86% to the 49% of Properties' value being acquired of approximately RMB3,043,390,000 (approximately HK$3,250,036,181). Having considered the prospects of the property market of the PRC in the above section, we are of the view that the basis of consideration is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. As the Consideration is substantially supported by the valuation, Shareholders should refer to the Appendix V for further information on the valuation basis, which is derived from the existing tenancies and the comparison to comparable sale transactions as available in the relevant market.

The consideration for the Acquisition will be satisfied at Completion by China Edifice issuing 3,496 Consideration Shares to Ng Chi Ming and 304 Consideration Shares to Pinpoint China Fund at the issue price of HK$522,894.74 per Consideration Share, credited as fully paid-up, at the direction of the Vendor. Both Ng Chi Ming and Pinpoint China Fund are the existing shareholders of the Vendor. The Consideration Shares will represent 38% of the issued share capital of China Edifice as enlarged by the issue of the Consideration Shares. As the major assets of China Edifice are the Properties and Shanghai Richgate Shopping Mall, both being wholly-owned by China Edifice upon Completion, the Consideration Shares thus represent 38% ownership over the mentioned assets, which are valued at RMB6,211,000,000 (approximately HK$6,632,726,900) and RMB1,691,000,000 (approximately HK$1,805,818,900) respectively. We noted that the underlying value of the Consideration Shares, being approximately RMB3,002,760,000 (approximately HK$3,206,647,404), represented a discount of approximately 1.34% to the 49% of Properties' value being acquired of approximately RMB3,043,390,000 (approximately HK$3,250,036,181).

In view of the above, we consider the consideration and payment terms of the Acquisition are on normal commercial terms and are the fair and reasonable to the Group and the Shareholders as a whole.

4. Financial effects of the Acquisition

i. Earnings

As the net profit after tax of Huarui Asset Management and 瀋陽華建置業有限公司 (Shenyang Huajian Real Estate Co., Ltd.) (a subsidiary of China Edifice holding 100% interests of Shanghai Richgate Shopping Mall) ("Huajian") were consolidated into the Group's income statement prior to Completion and will remain to be consolidated upon Completion, there will be no impact on the consolidated net profit after tax before minority interest.

After discussion with the Directors and the review of the respective audited and unaudited financial statements of Huarui Asset Management and Huajian, we noted that Huajian's contribution to the Group's net profit was not material and Huarui Asset Management did not record profit or loss for the year ended 31 December 2006. Accordingly, we are of view that there will be minor effect on the net profit attributable to the Shareholders upon Completion.

Based on the foregoing, we are of the view that there will be no material adverse impact on the Group's earnings upon Completion.

ii. Net assets

With reference to Appendix III to the Circular, the unaudited pro forma net assets of the Enlarged Group should improve from approximately HK$3,719.3 million as at 30 June 2007 to approximately HK$7,888.3 million upon Completion. As the Acquisition does not involve issuing new Shares of the Company, the net asset value per Share should also increase.

iii. Working capital and gearing ratio (net borrowings/total equity plus net borrowings)

With reference to Appendix III to the Circular, the unaudited pro forma working capital of the Enlarged Group should decrease from approximately HK$4,331.6 million as at 30 June 2007 to approximately HK$4,327.6 million upon Completion. We noted that the net decrease of working capital of approximately HK$4 million represents approximately a decrease of 0.09% over the working capital of the Group as at 30 June 2007. We are of the view that such decrease in working capital should not pose material adverse impact of the Group's liquidity position.

With reference to Appendix III to the Circular, the unaudited pro forma gearing ratio of the Enlarged Group should decrease from approximately 61% as at 30 June 2007 to approximately 42.13% upon Completion. We noted that the Acquisition should improve the gearing ratio of the Group after Completion. Independent Shareholders should however note that the improvement in the gearing ratio is substantially attributable to a gain from fair value adjustment and an increase in minority interest on the Group's accounts upon Completion.

D. CONCLUSION

Having taken into consideration of the following principal factors and reasons regarding the major terms of the Acquisition and the Cross Indemnity including:

a) background to and reasons for the Acquisition;

b) principal terms on the Acquisition Agreement;

c) the background and effect of the Cross Indemnity; and

d) financial impact of the Acquisition on the Group,

we are of the view that the terms of the Acquisition and the Cross Indemnity are on normal commercial terms, fair and reasonable so far as the Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders and the Independent Shareholders to vote for the resolution to be proposed at the SGM to approve the Acquisition Agreement, the Cross Indemnity and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

1. FINANCIAL SUMMARY

The following is a summary of the audited consolidated results and assets and liabilities of the Group for the three years ended 31 December, 2004, 2005 and 2006 as extracted from the audited consolidated financial statements of the Group:

	Year ended 31 December		
	2006	**2005**	**2004**
	HK$'M	*HK$'M*	*HK$'M*
		(Restated)	(Restated)
Turnover	2,621	1,309	601
Cost of sales	(1,474)	(849)	(464)
Gross profit	1,147	460	137
Other gains – net	478	40	13
Selling and marketing costs	(121)	(28)	(35)
Administrative expenses	(117)	(70)	(50)
Operating profit	1,387	402	65
Finance costs	(12)	(23)	(1)
Gain from dissolution of a subsidiary	–	–	–
Share of results of associates	(74)	162	52
Profit before income tax	1,301	541	116
Income tax expenses	(731)	(167)	(24)
Profit for the year	570	374	92
Dividends	44	69	47
Attributable to:			
Equity holders of the company	252	301	90
Minority interests	318	73	2
	570	374	92
Earnings per share			
– Basic	13.63 cents	20.24 cents	6.49 cents
– Diluted	12.27 cents	17.68 cents	5.95 cents

	Year ended 31 December		
	2006	**2005**	**2004**
	HK$'M	*HK$'M*	*HK$'M*
		(Restated)	(Restated)
Total assets	10,244	6,083	4,550
Total liabilities	7,223	4,457	3,421
Net assets	3,021	1,625	1,129
Cash reserves	1,026	1,396	984
Shareholders' funds	2,624	1,445	1,007

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2006 AND UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE, 2007

The following are the audited financial statements of the Group for the year ended 31 December, 2006 together with notes thereto as extracted from the annual report of the Company for the year ended 31 December, 2006 and the unaudited consolidated financial statements of the Group for the six months ended 30 June, 2007 as extracted from the interim report of the Company for the year ending 31 December 2007:

BALANCE SHEET
As at 31 December 2006
(Amounts expressed in Hong Kong dollars unless otherwise stated)

		Group		Company	
		2006	2005	2006	2005
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS					
Non-current assets					
Property, plant and equipment	*6*	1,142,028	485,048	2,158	2,441
Investment properties	*7*	765,328	48,927	–	–
Leasehold land	*8*	244,827	124,329	–	–
Properties under development for long-term investment	*9*	277,325	65,423	–	–
Intangible assets	*10*	75,512	–	–	–
Investments in subsidiaries	*11(a)*	–	–	2,027,472	510,902
Advances to subsidiaries	*11(b)*	–	–	1,576,330	608,948
Interests in associated companies	*12*	549,647	558,814	–	233,325
Financial assets at fair value through profit or loss	*13*	550,014	–	–	–
Amount due from a related company	*43(c)*	–	274,624	–	–
Deferred tax assets	*24*	8,122	19,085	–	–
		3,612,803	1,576,250	3,605,960	1,355,616

		Group		Company	
		2006	**2005**	**2006**	**2005**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current assets					
Leasehold land	*8*	2,588,791	836,348	–	–
Properties held or under development for sale	*14*	2,375,308	1,641,784	–	–
Contracts work-in-progress		8,200	8,784	–	–
Inventories, at cost		748	427	–	–
Dividends receivable from subsidiaries		–	–	493,131	194,071
Amount due from related companies	*43(c)*	266,194	23,597	3,605	3,067
Prepayments and other current assets	*15*	65,979	119,714	–	–
Other receivables	*16*	252,789	414,885	55,963	47,327
Accounts receivable, net	*17*	20,186	10,587	–	–
Prepaid income tax	*35*	26,718	54,512	–	–
Cash and bank balances	*18*	1,025,904	1,395,817	61,306	381,696
		6,630,817	4,506,455	614,005	626,161
Total assets		10,243,620	6,082,705	4,219,965	1,981,777
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital and premium	*19*	1,871,130	859,071	1,871,130	859,071
Other reserves	*20*	155,307	145,510	48,887	28,458
Retained earnings					
– Proposed final dividends		44,000	69,000	44,000	69,000
– Others		553,130	371,401	926	3,263
		2,623,567	1,444,982	1,964,943	959,792
Minority interest		396,981	180,228	–	–
Total equity		3,020,548	1,625,210	1,964,943	959,792

		Group		Company	
		2006	**2005**	**2006**	**2005**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
LIABILITIES					
Non-current liabilities					
Long-term borrowings	*21*	1,175,053	830,554	144,895	301,860
Guaranteed notes	*22*	1,535,167	–	1,535,167	–
Convertible bonds	*23*	–	333,746	–	333,746
Deferred tax liabilities	*24*	283,169	4,384	–	–
		2,993,389	1,168,684	1,680,062	635,606
Current liabilities					
Short-term borrowings	*21*	356,676	20,000	75,000	20,000
Convertible bonds, current portion	*23*	106,560	202,366	106,560	202,366
Derivative financial liabilities	*25*	243,638	28,186	243,638	28,186
Advances received from the pre-sale of properties under development	*26*	963,755	1,996,548	–	–
Accounts payable	*27*	860,701	361,027	–	–
Other payables and accruals	*28*	933,070	60,702	3,403	6,759
Current income tax liabilities	*35*	528,350	153,471	–	–
Amount due to related companies	*43(c)*	1,464	1,370	1,464	368
Long-term borrowings, current portion	*21*	235,469	465,141	144,895	128,700
		4,229,683	3,288,811	574,960	386,379
Total liabilities		7,223,072	4,457,495	2,255,022	1,021,985
Total equity and liabilities		10,243,620	6,082,705	4,219,965	1,981,777
Net current assets		2,401,134	1,217,644	39,045	239,782
Total assets less current liabilities		6,013,937	2,793,894	3,645,005	1,595,398

The notes on pages 75 to 142 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

(Amounts expressed in Hong Kong dollars unless otherwise stated)

	Note	2006 HK$'000	2005 HK$'000
Revenue	29	2,621,460	1,309,273
Cost of sales	32	(1,474,377)	(849,064)
Gross profit		1,147,083	460,209
Selling and marketing costs	32	(120,816)	(28,520)
Administrative expenses	32	(117,673)	(70,113)
Other income	30	10,818	30,118
Other gains-net	31	467,248	10,291
Operating profit	32	1,386,660	401,985
Finance income		115,674	10,536
Finance costs		(126,673)	(32,567)
Finance costs-net	34	(10,999)	(22,031)
Share of results of associated companies	12	(74,278)	161,515
Profit before income tax		1,301,383	541,469
Income tax expense	35	(730,965)	(167,372)
Profit for the year		570,418	374,097
Attributable to:			
Equity holders of the Company		252,371	301,173
Minority interest		318,047	72,924
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in Hong Kong Dollar per share)			
– Basic	37	13.63 cents	20.24 cents
– Diluted	37	12.27 cents	17.68 cents
Dividends	38	44,000	69,000

The notes on pages 75 to 142 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006
(Amounts expressed in Hong Kong dollars unless otherwise stated)

	Attributable to equity holders of the Company					
	Share capital and premium	**Other reserves**	**Retained earnings**	**Total**	**Minority interest**	**Total Equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 19)	*(Note 20)*				
Balance at 1 January 2005	**731,571**	**77,019**	**198,345**	**1,006,935**	**121,879**	**1,128,814**
Fair value gain, net of tax						
– Certain assets held by an associated company	–	35,946	–	35,946	–	35,946
Currency translation differences	–	24,783	–	24,783	4,521	29,304
Net income recognised directly in equity	–	60,729	–	60,729	4,521	65,250
Profit for the year	–	–	301,173	301,173	72,924	374,097
Total recognised income for 2005	**–**	**60,729**	**301,173**	**361,902**	**77,445**	**439,347**
Employee share option scheme:						
– value of employee services	–	248	–	248	–	248
– proceeds from shares issued	22,030	–	–	22,030	–	22,030
Issue of shares upon conversion of convertible bonds-equity component	74,571	(8,269)	–	66,302	–	66,302
Issue of convertible bonds-equity component, net of tax	–	3,852	–	3,852	–	3,852
Minority interest arising on capital contribution from minority shareholders of subsidiaries	–	–	–	–	2,411	2,411
Appropriations	–	11,931	(11,931)	–	–	–
Dividends relating to 2004						
– Cash dividends *(Note 38)*	–	–	(16,287)	(16,287)	–	(16,287)
– Share dividends *(Note 19)*	30,899	–	(30,899)	–	–	–
Dividends declared by subsidiaries	–	–	–	–	(21,507)	(21,507)
	127,500	7,762	(59,117)	76,145	(19,096)	57,049
Balance at 31 December 2005	**859,071**	**145,510**	**440,401**	**1,444,982**	**180,228**	**1,625,210**

	Attributable to equity holders of the Company					
	Share capital and premium *HK$'000* *(Note 19)*	**Other reserves** *HK$'000* *(Note 20)*	**Retained earnings** *HK$'000*	**Total** *HK$'000*	**Minority interest** *HK$'000*	**Total Equity** *HK$'000*
Balance at 1 January 2006	**859,071**	**145,510**	**440,401**	**1,444,982**	**180,228**	**1,625,210**
Fair value loss, net of tax – Certain assets held by an associated company	–	(18,300)	–	(18,300)	–	(18,300)
Revaluation reserve transfer arising from disposal of interest in an associated company	–	(3,626)	3,626	–	–	–
Depreciation transfer on certain assets held by an associated company	–	(2,008)	2,008	–	–	–
Currency translation differences	–	39,796	–	39,796	20,581	60,377
Net income recognised directly in equity	–	15,862	5,634	21,496	20,581	42,077
Profit for the year	–	–	252,371	252,371	318,047	570,418
Total recognised income for 2006	**–**	**15,862**	**258,005**	**273,867**	**338,628**	**612,495**
Employee share option scheme: – proceeds from shares issued	1,300	–	–	1,300	–	1,300
Issue of shares upon conversion of convertible bonds-equity component	471,356	(27,235)	–	444,121	–	444,121
Issuance of ordinary shares	502,218	–	–	502,218	–	502,218
Transaction with minority shareholder of a subsidiary *(Note 16 (b))*	–	–	–	–	(178,279)	(178,279)
Minority interest arising on business combination *(Note 42)*	–	–	–	–	211,672	211,672
Minority interest arising on step acquisition of an associated company *(Note 11(a)(i))*	–	–	–	–	1,523	1,523
Minority interest arising on capital contribution from minority shareholders of subsidiaries	–	–	–	–	57,421	57,421
Decrease of minority interest arising from dissolution of a subsidiary *(Note 11(a)(ii))*	–	–	–	–	(29,602)	(29,602)
Appropriations	–	21,170	(21,170)	–	–	–
Dividends relating to 2005 – Cash dividends *(Note 38)*	–	–	(42,921)	(42,921)	–	(42,921)
– Share dividends *(Note 19)*	37,185	–	(37,185)	–	–	–
Dividends declared by subsidiaries	–	–	–	–	(184,610)	(184,610)
	1,012,059	(6,065)	(101,276)	904,718	(121,875)	782,843
Balance at 31 December 2006	**1,871,130**	**155,307**	**597,130**	**2,623,567**	**396,981**	**3,020,548**

The notes on pages 75 to 142 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006
(Amounts expressed in Hong Kong dollars unless otherwise stated)

	Note	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Cash (used in) generated from operations	39	(970,283)	421,506
Interest paid		(184,905)	(67,677)
Income tax paid		(127,119)	(108,970)
Net cash (used in) generated from operating activities		(1,282,307)	244,859
Cash flows from investing activities			
Purchases of property, plant and equipment	6	(426,240)	(274,840)
Increase in properties under development for long-term investment		(133,476)	(23,479)
Proceeds from disposal of property, plant and equipment		429	47,249
Acquisition of subsidiaries, net of cash acquired	42	(432,241)	–
Dissolution of a subsidiary		(7,230)	–
Earnest money paid for acquisition of additional beneficial interest in a subsidiary	16	–	(288,378)
Increase in investments in associated companies	12(b)	(430,706)	(12,016)
Dispose interest in an associated company		6,288	–
Dividends received from an associated company		–	1,883
Loans (granted to)/received from third parties	16	(60,491)	12,597
Loans granted to associated companies	43(b)	(288,643)	(163,414)
Loans repayments received from associated companies	43(b)	348,363	152,539
Interest received		50,311	15,273
Net cash used in investing activities		(1,373,636)	(532,586)
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares upon exercise of share options	19	1,300	22,030
Net proceeds from placement of new shares	19	502,218	–
Net proceeds from issuance of guaranteed notes	22	1,549,828	–
Net proceeds from issuance of convertible bonds		–	366,189
Guarantee deposit for derivative financial liabilities	16	(53,272)	–
Periodical settlement of derivative financial liabilities held for trading	25	21,491	–
Decrease in pledged bank deposits	18	1,262	121,658
Net proceeds from/(repayments of) short-term borrowings		318,760	(65,808)
Proceeds from long-term borrowings		1,109,378	1,032,397
Repayments of long-term borrowings		(1,025,206)	(613,673)

	Note	2006 HK$'000	2005 HK$'000
Cash received from capital injection in subsidiaries by minority shareholders		57,421	2,411
Dividends paid to minority interests		(179,731)	(21,507)
Dividends paid to the Company's shareholders	38	(42,921)	(16,287)
Net cash generated from financing activities		2,260,528	827,410
Net (decrease)/increase in cash and cash equivalents		(395,415)	539,683
Effect of foreign exchange rate changes		30,372	(12,368)
Cash and cash equivalents, beginning of year	18	1,375,786	848,471
Cash and cash equivalents, end of year	18	1,010,743	1,375,786

The notes on pages 75 to 142 are an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION

Shanghai Real Estate Limited (the "Company") was incorporated in Bermuda with limited liability on 11 August 1999 as an exempted company under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation (the "Reorganisation") in connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "SEHK"), the Company became the ultimate holding company of the other companies comprising the Group on 12 November 1999. Further details of the Reorganisation are set out in the Company's prospectus dated 30 November 1999. The shares of the Company were listed on the SEHK on 10 December 1999. The address of the Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company and its subsidiaries (together the "Group") are mainly engaged in real estate development in the People's Republic of China (the "PRC").

These consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK$'000), unless otherwise stated. These consolidation financial statements have been approved for issue by the Board of Directors on 30 March 2007.

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 all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Shanghai Real Estate Limited have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments) and property, plant and equipment, as well as 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.

During the year ended 31 December 2006, the Group had a negative operating cash flow of approximately HK$1,282 million (2005: positive operating cash flow of approximately HK$245 million). As at 31 December 2006, the Group's liquidity ratio is 39% (2005: 61%), and the Group is expected to have significant operating cash outflows in the year ending 31 December 2007, as most of its development projects are still under development.

Subsequent to 31 December 2006, the Group has successfully renewed some of its banking facilities and obtained additional facilities of approximately HK$995 million. In addition, the directors are currently implementing a plan to raise additional funds through disposing certain of the Group's property assets. Having considered the above factors, the directors believe the Group has the ability to the meet its future working capital and other financing requirements, and have prepared these consolidated financial statements on a going concern basis accordingly.

(a) Amendments to published standards effective in 2006

HKAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. As the Group has no such employer plans, adoption of this amendment has no impact on the Group's consolidated financial statements.

(b) Standards early adopted by the Group

HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements-Capital Disclosures, were early adopted in 2006. HKFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

(c) Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

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

- 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 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 impact on the Group's consolidated financial statements.

(d) Interpretation to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- HK(IRFIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations;

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

(e) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 21 Amendment – New Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKAS 39 and HKFRS 4 Amendment – Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment.

2.2 Consolidation

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

(i) Subsidiaries

Subsidiaries are all entities (including special purpose 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.

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 purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. 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 Groups' share of the identifiable net assets acquired is recorded as goodwill (Note 2.7). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment 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 (Note 2.8). The results of subsidiaries are accounted 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 result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(iii) Associated companies

Associates 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 associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.7).

The Group's share of its associates' post-acquisition profits or losses is recognised in the 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 investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 2.8). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

2.3 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 providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company and its subsidiaries' functional currency is RMB Yuan, as the major revenues are derived from operation in mainland China. Considering the Company is listed in Hong Kong Stock Exchange, HK dollars is chosen as the presentation currency to present the consolidated financial statements.

(b) 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 income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as investments classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (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:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) 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 entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences 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.

2.5 Property, plant and equipment

Hotel properties and golf course are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the assets. All other property, plant and equipment, other than construction in progress, are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Increases in the carrying amount arising on revaluation of hotel properties and golf course are credited to "other reserves" in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are expensed in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the income statement and depreciation based on the asset's original cost is transferred from "other reserves" to retained earnings.

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

Hotel properties	Building 40 years, equipment 10 years, fixture and fitting 8 years
Golf course	Course 40 years, club building 40 years, club equipment 10 years, club fixture and fitting 8 years
Buildings	30 years
Leasehold improvements	Over the remaining period of the lease
Furniture, fixtures and office equipment	5–10 years
Motor vehicles	5 years

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

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 (Note 2.8).

Construction-in-progress represents buildings under construction and is stated at cost less accumulated impairment losses. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 Investment properties

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

Investment property comprises land held under operating leases and related buildings.

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 reviewed annually 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 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 income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement as part of the other gains/(expenses)-net.

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 properties under development for long-term investment and stated at cost until construction or development is complete, at which time it is reclassified and 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 income statement.

2.7 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/associate entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested 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.

2.8 Impairment of assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. 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 purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

If a contract contains one or more embedded derivatives, an entity may designate the entire hybrid contract as a financial assets through profit or loss upon initial recognition. Assets in this category are classified as current assets if they are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2.13).

(c) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

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

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement within other gains/(expenses)-net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, or other appropriate pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.10 Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged.

The Group's derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within other gains/(expenses)-net.

2.11 Properties held or under development

Properties held or under development for sale are included in current assets at the lower of cost and net realisable value. Properties under development for long-term investment are stated at cost less any accumulated impairment losses (Note 2.8).

The costs of properties held or under development consist of construction expenditures and borrowing costs directly attributable to the construction of such properties and other direct costs. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

No depreciation is provided on properties held or under development for sale.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

2.14 Cash and cash equivalent

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.16 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

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

The fair value of early redemption option of a convertible bond is determined using appropriate valuation technicals, and is recorded as a derivative financial instrument at fair value thought profit and loss (Note 2.10). The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. The conversion option is recognised and included in shareholders' equity, net of income tax effects.

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.

2.18 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 consolidated financial statements. However, if the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

2.19 Employee benefits

(a) Pension obligations (defined contribution plan)

Pursuant to PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff have been made monthly to a government agency based on 28.5% of the standard salary set by the provincial government, of which 22.5% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. In addition, the Company participates in the Mandatory Provident Fund Scheme, under which contributions of 5% of the Hong Kong employee's monthly salary are made by the employer and the Hong Kong employee. The provision and contributions have been included in the accompanying consolidated income statement upon incurrence. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

The Group provides no retirement or termination benefits other than those described above.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. 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 (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become vested. It recognises the impact of the revision of original estimates, if any, in the income statement, and 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.

2.20 Provisions

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

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.

2.21 Contingent liabilities and contingent assets

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 accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities, net of value-added tax, sales tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of properties

Revenue from sale of properties is recognised upon completion of sale agreement, which refers to the time when properties are completed and delivered to the buyers. Deposits and instalments received on properties sold prior to completion of the respective sale agreements are included as advance received from pre-sale of properties under development.

(b) Sale of goods

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(c) Construction of infrastructure for intelligent network

Revenue from the construction of infrastructure for intelligent network is recognised in accordance with accounting policies for construction contracts in progress.

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

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

(d) Operating rental income

Operating rental income is recognised on a straight-line basis.

(e) Property management revenue

Property management revenue is recognised in the accounting period in which the services are rendered.

(f) 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 flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(g) Dividend income

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

(h) Sale of land infrastructure

Shanghai Golden Luodian Development Co., Ltd. ("Golden Luodian"), a significant associate company of the Group, has been given the right to carry out construction and preparation works in respect of the infrastructure of land plots and public facilities within the district of Luodian New County owned by the local government. The completed land plots are sold by the government to land buyers through public auction, tender or listing procedures from time to time, upon which Golden Luodian is entitled to receive a proportion of revenue proceeds.

Golden Luodian provides land buyers certain construction works, including the infrastructure of land plots and surrounding public facilities. As public facilities are separately identifiable from the infrastructure of land plots, which must be completed when the plots are sold to land buyers by the government, certain public facilities may not be completed at the time of the sale. Total revenue proceeds are allocated between the completed and the outstanding construction works based on their fair value.

The revenue attributable to the completed infrastructure is recognised upon the transfer of risks and rewards in connection of land plots, which refers to the time when the land plots are sold to the buyers by the government through public land auction, tender or listing procedures. The deferred revenue of outstanding construction works are recognised when the related construction works are completed.

In prior years, Golden Luodian adopted HKAS 11 – construction contracts, to recognise revenue, costs and attributable profits arising from sales of land infrastructure using the percentage of completion method during land development process, regardless of whether the land plots were sold out or not by government to land buyers. In 2006, management of Golden Luodian reassessed the business model, and considered the risks and rewards of land infrastructure are transferred when the land plots are sold out by the government through public land auction procedures. Therefore management considers HKAS 18-revenue, rather than HKAS 11, could result in the financial statements providing more reliable and relevant information for such transaction.

The change of accounting policy is applied retrospectively by Golden Luodian and the previously disclosed revenue and cost of Golden Luodian is revised accordingly (see Note12). The change of accounting policy has no impact to Golden Luodian's net profit attributable to the Group.

2.23 Operating leases (as a lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

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. The amortisation during the period before the commencement and after the completion of the construction of the properties is expensed in 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 under development for long-term investment.

2.24 Borrowing cost

Borrowing costs that are directly attributable to the construction of any qualified assets that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

2.25 Dividend distribution

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

2.26 Comparatives

Certain comparative figures have been reclassified in accordance with the new presentation and disclosure requirements and also to conform with current year's presentation.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign currency risk

The functional currency of the Company and its subsidiaries is RMB Yuan. Foreign exchange risk arises when the future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the functional currency.

In April 2006, the Company issued United States Dollars ("US$") 200 million guaranteed notes due in April 2013 (Note 22). The Group is exposed to foreign exchange risk arising from the exposure of RMB against US$. To manage the foreign exchange risk arising from this recognised liability, the Company entered into fixed to fixed cross currency swaps, transacted with external bankers (Note 25).

(ii) Cash flow and fair value interest rate risk

Except for loans to associated companies (Note 43), short-term deposits (Note 18) and term-loan (Note 16) with fixed interest-rate, the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings, guaranteed notes and convertible bonds. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. The interest rate and terms of repayments of borrowings, guaranteed notes and convertible notes are disclosed in Note 21, Note 22 and Note 23.

(b) Credit risk

The Group's exposure to credit risk is represented by the carrying amount of each financial asset, including receivables and the guarantees provided for customers' purchase of property, prior to the submission of property title to the lender banks.

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics. For the sale of developed properties to retail customers, consideration would be settled in cash or customers' purchase would be financed by mortgage loans provided by banks. Any recognizable risks are accounted for by adequate allowances on receivables.

(c) Liquidity risk

The Group maintains sufficient liquidity at all times with a financial planning system which is used to recognise the Group's future state of liquidity as is evident from the results of the Group's strategic and planning process. A twelve-month forecast of fund requirements is updated monthly for the latest developments.

Other than properties developed for sale, the Group also develops and holds properties for long-term operation, such as hotel properties and investment properties. Such long-term assets are with an increasing proportion of total assets in recent years, which brings liquidity risk to the Group. In order to mitigate the liquidity risk, the Group adjusted its financing strategy to get more long-term borrowings and increase share capital, through issuance of long-term guaranteed notes, convertible bonds, as well as new shares.

The Group has developed strategic relationship with all the major state-owned banks that will normally provide financing to the Group when relevant approval from government authorities for the commencement of a project is obtained. The Group also seek financing from overseas market through close cooperation with several world-wide bankers.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is usually estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. If financial liabilities are traded in active market, the fair value for disclosure purpose is calculated based on quoted market prices.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

4.1 Critical accounting estimates and assumptions

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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimation of fair value of investment properties

The best evidence of fair value is current prices in an active market for 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.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

(b) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(c) Estimation of fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

(d) Estimated of income taxes (including land appreciation tax)

The Group is subject to taxation mainly in Mainland China. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. 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 periods in which such determination are made.

4.2 Critical judgements in applying the Company's accounting policies

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

5. BUSINESS SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary and only reporting format. Its operations are mainly organised under five principal business segments in the year ended 31 December 2006: property development, sale of land infrastructure, property leasing, sale of housing-tech products and services and golf course operation.

An analysis by business segment is as follows:

	2006						
	Property development	**Sale of land infrastructure**	**Property leasing**	**Housing technology**	**Golf course operation**	**Other operations**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment results							
External sales	2,571,936	–	14,159	29,608	–	5,757	2,621,460
Segment result	818,407	–	590,720	9,944	–	198	1,419,269
Unallocated corporate expense							(32,609)
Operating/Segment profit							1,386,660
Finance income							115,674
Finance costs							(126,673)
Finance costs – net							(10,999)
Share of net profit/(loss) of associated companies	(7,572)	42,636	(84,007)	1,375	(9,518)	(17,192)	(74,278)
Profit before income tax							1,301,383
Income tax expense							(730,965)
Profit for the year							570,418
Other segment terms included in the income statements							
Depreciation	5,003	–	–	516	–	55	5,574
Impairment of goodwill	–	–	–	2,468	–	–	2,468
Segment assets and liabilities							
Segment assets	7,967,709	398,747	901,891	254,916	21,132	16,443	9,560,838
Interests in associated companies	434,084	39,184	12,788	61,514	2,077	–	549,647
Deferred tax assets	8,122	–	–	–	–	–	8,122
Unallocated assets							125,013
Total assets							10,243,620
Segment liabilities	4,581,604	–	15,114	74,707	–	14,102	4,685,527
Deferred tax liabilities	86,590	–	196,579	–	–	–	283,169
Unallocated liabilities							2,254,376
Total liabilities							7,223,072
Capital expenditure	2,954,644	–	309,811	59	–	952	3,265,466

	2005						
	Property development *HK$'000*	Sale of land infrastructure *HK$'000*	Property leasing *HK$'000*	Housing technology *HK$'000*	Golf course operation *HK$'000*	Other operation *HK$'000*	Total *HK$'000*
Segment results							
Total gross segment sales	1,277,351	–	1,321	39,268	–	–	1,317,940
Inter-segment sales	–	–	–	(8,667)	–	–	(8,667)
External sales	1,277,351	–	1,321	30,601	–	–	1,309,273
Segment result	391,001	–	863	14,293	–	–	406,157
Unallocated corporate expense							(4,172)
Operating/Segment profit							401,985
Finance income							10,536
Finance costs							(32,567)
Finance costs – net							(22,031)
Share of net profit/(loss) of associated companies	(8,585)	(26,208)	193,470	5,467	(2,629)	–	161,515
Profit before income tax							541,469
Income tax expense							(167,372)
Profit for the year							374,097
Other segment terms included in the income statements							
Depreciation	4,649	–	–	1,051	–	–	5,700
Impairment of goodwill	–	–	–	2,729	–	–	2,729
Segment assets and liabilities							
Segment assets	4,931,944	–	48,927	87,091	–	–	5,067,962
Interests in associated companies	20,261	259,698	193,470	58,692	26,693	–	558,814
Deferred tax assets	19,085	–	–	–	–	–	19,085
Unallocated assets							436,844
Total assets							6,082,705
Segment liabilities	3,388,280	–	–	20,498	–	–	3,408,778
Deferred tax liabilities	–	–	4,384	–	–	–	4,384
Unallocated liabilities							1,044,333
Total liabilities							4,457,495
Capital expenditure	316,474	–	–	193	–	–	316,667

Unallocated costs represent corporate expenses. Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land, properties under development for long-term investment, intangible assets, financial assets at fair value through profit or loss, interests in associated companies, deferred tax assets, properties held or under development for sale, contracts work-in-progress, inventories, prepayments, operating receivables and operating cash. Unallocated assets comprises unallocated corporate receivables and cash. Segment liabilities comprise operating liabilities and deferred tax liabilities. Unallocated liabilities comprises items such as corporate borrowings, convertible bonds, guarantee notes and related derivative financial instruments. Capital expenditure comprised additions to property, plant and equipment, investment properties, leasehold land, properties under development for long-term investment and intangible assets, including additions resulting from acquisitions through business combination.

6. PROPERTY, PLANT AND EQUIPMENT

GROUP

	2006				
	Leasehold improvements	**Furniture, fixtures and office equipment**	**Motor vehicles**	**Construction-in-progress**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
Beginning of year	1,718	6,818	23,226	469,266	501,028
Acquisition of subsidiaries	–	1,131	3,062	–	4,193
Additions	–	1,204	8,544	633,448	643,196
Disposals	–	(768)	(2,662)	–	(3,430)
Exchange adjustment	61	242	823	16,629	17,755
End of year	1,779	8,627	32,993	1,119,343	1,162,742
Accumulated deprecation					
Beginning of year	1,425	3,847	10,708	–	15,980
Acquisition of subsidiaries	–	528	686	–	1,214
Depreciation charge for the year	173	1,261	4,140	–	5,574
Disposals	–	(592)	(2,030)	–	(2,622)
Exchange adjustment	53	186	329	–	568
End of year	1,651	5,230	13,833	–	20,714
Net book value					
Balance, end of year	128	3,397	19,160	1,119,343	1,142,028
Balance, beginning of year	293	2,971	12,518	469,266	485,048

	2005					
	Buildings	**Leasehold improvements**	**Furniture, fixtures and office equipment**	**Motor vehicles**	**Construction–in-progress**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
Beginning of year	47,185	1,701	6,824	22,571	180,379	258,660
Additions	1,375	–	575	1,826	285,108	288,884
Disposals	(50,133)	–	(721)	(1,604)	(278)	(52,736)
Exchange adjustment	1,573	17	140	433	4,057	6,220
End of year	–	1,718	6,818	23,226	469,266	501,028
Accumulated depreciation						
Beginning of year	6,846	1,239	3,008	7,897	–	18,990
Depreciation charge for the year	327	169	1,176	4,028	–	5,700
Disposals	(7,327)	–	(395)	(1,371)	–	(9,093)
Exchange adjustment	154	17	58	154	–	383
End of year	–	1,425	3,847	10,708	–	15,980
Net book value						
Balance, end of year	–	293	2,971	12,518	469,266	485,048
Balance, beginning of year	40,339	462	3,816	14,674	180,379	239,670

Depreciation expenses of approximately HK$1,523,000 (2005: approximately HK$1,351,000) had been expensed in cost of goods sold, approximately HK$168,000 (2005: approximately HK$365,000) in selling and marketing costs and approximately HK$3,883,000 (2005: approximately HK$3,984,000) in administrative expenses.

As of 31 December 2006 and 2005, certain of the Group's construction-in-progress had been pledged as collateral for the Group's bank loans and facilities, see Note 21 for details.

COMPANY

	2006			
	Leasehold improvements	**Furniture, fixtures and office equipment**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
Beginning of year	943	624	3,333	4,900
Additions	–	33	–	33
Disposals	–	(26)	–	(26)
Exchange adjustment	33	22	119	174
End of year	976	653	3,452	5,081
Accumulated depreciation				
Beginning of year	651	533	1,275	2,459
Depreciation charge for the year	173	41	182	396
Disposals	–	(23)	–	(23)
Exchange adjustment	24	19	48	91
End of year	848	570	1,505	2,923
Net book value				
Balance, end of year	128	83	1,947	2,158
Balance, beginning of year	292	91	2,058	2,441

	2005			
	Leasehold improvements	**Furniture, fixtures and office equipment**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
Beginning of year	943	589	3,333	4,865
Additions	–	35	–	35
End of year	943	624	3,333	4,900
Accumulated depreciation				
Beginning of year	481	423	1,041	1,945
Depreciation charge for the year	170	110	234	514
End of year	651	533	1,275	2,459
Net book value				
Balance, end of year	292	91	2,058	2,441
Balance, beginning of year	462	166	2,292	2,920

7. INVESTMENT PROPERTIES

GROUP

	2006	2005
	HK$'000	*HK$'000*
Beginning of year	48,927	48,245
Transfer from property under development for long-term investment *(Note 9)*	100,227	–
Transfer from leasehold land *(Note 8)*	36,550	–
Fair value gain/(loss) *(Note 31)*	579,540	(2,206)
Dissolution of a subsidiary	(13,994)	–
Exchange adjustment	14,078	2,888
End of year	765,328	48,927

The following amounts have been recognised in the consolidated income statement:

	2006	2005
	HK$'000	*HK$'000*
Rental income *(Note 29)*	14,886	1,321
Direct operating expenses arising from investment properties that generate rental income	3,802	–
Direct operating expenses arising from investment properties that did not generate rental income	–	–

The valuations of investment properties are performed by management at each reporting date and reviewed at least annually by external valuer. As at 31 December 2006, investment properties were revalued by BMI Appraisals Limited, an independent and professionally qualified valuer, using discounted cash flow projections.

The Group's interests in investment properties at their net book values are analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
In the PRC, held on:		
– Leases of over 50 years	750,398	37,051
– Leases of between 10 to 50 years	14,930	11,876
	765,328	48,927

The investment properties as at 31 December 2006 mainly represent a three-storey shopping mall at town area of Shanghai City with fair value of approximately HK$ 727 million. The period of leases of the shopping mall under operating leases is 3 to 10 years.

The future aggregate minimum rental receivables under non-cancellable operating leases of the shopping mall are as follows:

	2006	2005
	HK$'000	*HK$'000*
Not later than 1 year	45,808	–
Later than 1 year and no later than 5 years	163,306	–
Later than 5 years	156	–
	209,270	–

8. LEASEHOLD LAND

GROUP

	2006	2005
	HK$'000	*HK$'000*
In the PRC, held on:		
– Leases of over 50 years	2,426,967	893,755
– Leases of between 10 to 50 years	406,651	66,922
	2,833,618	960,677

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
Beginning of year	960,677	969,716
Additions	517,058	164,416
Acquisition of subsidiaries *(Note 42)*	1,716,910	–
Disposals with the sales of completed properties	(327,566)	(174,577)
Amortisation capitalised as properties under development	(25,148)	(20,690)
Transfer to investment properties *(Note 7)*	(36,550)	–
Exchange adjustment	28,237	21,812
End of year	2,833,618	960,677
Analysed as:		
Non-current: In relation to properties under development for long-term investment	244,827	124,329
Current: In relation to properties held or under development for sale	2,588,791	836,348
	2,833,618	960,677

As of 31 December 2006 and 2005, certain of the Group's leasehold land had been pledged as collateral for the Group's bank loans and facilities, see Note 21 for details.

9. PROPERTIES UNDER DEVELOPMENT FOR LONG-TERM INVESTMENT

	2006	2005
	HK$'000	*HK$'000*
Opening net book amount	65,423	36,812
Additions (including capitalization of interest and amortisation of leasehold land)	135,303	27,783
Acquisition of a subsidiary *(Note 42)*	174,508	–
Transfer to investment properties *(Note 7)*	(100,227)	–
Exchange adjustment	2,318	828
Closing net book amount	277,325	65,423

All properties under development for long-term investment are located in Shanghai City and Shenyang City, the PRC.

As of 31 December 2005, certain of the Group's properties under development for long-term investment had been pledged as collateral for the Group's bank loans and facilities, see Note 21 for details.

10. INTANGIBLE ASSETS

GROUP

Intangible assets comprise goodwill arising from acquisitions *(Note 42):*

	2006	2005
	HK$'000	*HK$'000*
Opening balance	–	–
Goodwill arising from acquisition of a subsidiary *(Note 42)*	75,512	–
Closing balance	75,512	–

11. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES

COMPANY

(a) Investments in subsidiaries

	2006	2005
	HK$'000	*HK$'000*
Unlisted equity interests, at cost	2,027,472	510,902

The following is a list of the principal subsidiaries as at 31 December 2006:

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2006	2005	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Xin Dong Industry Co., Ltd. ("Xin Dong")	PRC 28 May 1993	98%	98%	US$3,457,729	US$3,457,729	Property leasing and real estate agency
Shanghai Real Estate Property Management Co., Ltd. (formerly known as "Good Property Gain Property Management Co., Ltd.") ("Shangzhi Property Management") (i)	PRC 1 September 1995	64.2%	40.33%	RMB5,000,000	RMB5,000,000	Property management
Shanghai Cosco-Xin Dong Real Estate Development Co., Ltd. ("Cosco-Xin Dong") (ii)	PRC 16 September 1996	–	49%	RMB50,000,000	RMB50,000,000	Property development
Shanghai Oasis Garden Real Estate Co., Ltd. ("Oasis Garden")	PRC 29 September 1998	98.75%	98.75%	US$19,600,000	US$19,600,000	Property development
Shanghai Wingo Infrastructure Co., Ltd. ("Wingo Infrastructure")	PRC 4 August 1999	98.96%	97.96%	US$20,000,000	US$20,000,000	Development of technology for housing and provision of construction services
Shanghai Zhufu Property Development Co., Ltd. ("Zhufu")	PRC 11 August 2000	50.36%	50.36%	RMB10,000,000	RMB10,000,000	Property development
Anderson Land (Shanghai) Ltd. ("Anderson Shanghai")	British Virgin Islands ("BVI") 29 September 2001	52%	52%	US$100	US$100	Investment holding
Shanghai Anderson Fuxing Land Co., Ltd. ("Anderson Fuxing")	PRC 16 April 2002	51.48%	51.48%	US$20,000,000	US$20,000,000	Property development
Shanghai Hangtou Govern Real Estate Co., Ltd. ("Hangtou Govern")	PRC 14 June 2002	98%	98%	US$10,000,000	US$10,000,000	Property development
Shanghai Jinwu Real Estate Co., Ltd. ("Shanghai Jinwu")	PRC 12 August 2002	96.80%	96.52%	US$54,962,000	US$54,962,000	Property development
Shanghai Qinhai Real Estate Co., Ltd ("Qinhai") (iii)	PRC 28 October 2002	100%	–	RMB700,000,000	RMB700,000,000	Property development
Shanghai Skyway Oasis Garden Hotel and Condominium Co., Ltd. ("Skyway")	PRC 9 December 2002	56%	56%	RMB200,000,000	RMB200,000,000	Property development
Shenyang Huarui Shiji Investment Development Limited ("Huarui Shiji") (iii)	PRC 22 December 2004	51%	–	US$62,500,000	US$62,500,000	Property development
Shenyang Huajian Real Estate Co., Ltd ("Shenyang Huajian")	PRC 3 November 2006	100%	–	US$14,500,000	US$25,000,000	Property development

Other than disclosed above, the Company has several investment holding subsidiaries incorporated in BVI with nominal issued shares. All subsidiaries located in the PRC are limited liability entities.

(i) During the year ended 31 December 2006, the Group acquired additional equity interest in Shangzhi Property Management, which increased Group's interest from 40.33% to 64.2%.

(ii) During the year ended 31 December 2006, Cosco-Xin Dong was dissolved.

(iii) During the year ended 31 December 2006, the Group acquired 51% equity interest in Huarui Shiji and 100% equity interest in Qinhai. The details of the business combination are disclosed in Note 42.

(b) Advances to subsidiaries

Except for an unsecured advance amounting to approximately HK$71.5 million (2005: HK$74 million) to Anderson Shanghai which earns interest at 3% (2005: 3%) per annum and without fixed repayment terms, the advances to other subsidiaries were unsecured, interest free and without fixed repayment terms. Details of the advance to Anderson Shanghai are as follow:

As set out in the Company's announcement dated 29 May 2002, the Group acquired a 52% interest in Anderson Shanghai from a third party vendor. According to the shareholders' agreement, the Group and the vendor (who retained the remaining 48% interest) agreed to provide shareholders' loans to Anderson Shanghai on normal commercial terms in proportion to their respective shareholding in Anderson Shanghai, an investment holding company whose sole asset is its 99% equity interest in a property development project. As of 31 December 2006, all shareholders' loans of Anderson Shanghai amounting to approximately HK$71.5 million were provided by the Group.

12. INTERESTS IN ASSOCIATED COMPANIES

GROUP AND COMPANY

	Group		**Company**	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Beginning of the year	558,814	344,116	233,325	233,325
Share of results of associated companies	(74,278)	161,515	–	–
Elimination of unrealised profit arising from down-stream transaction with an associated company	(6,984)	–	–	–
Increase investment in an associated company *(note (b))*	436,582	12,016	–	–
Acquire an associated company *(note (a))*	54,448	–	–	–
Dispose interests in associated companies *(note (a) and (c))*	(415,958)	–	(233,325)	–
Transfer to subsidiary *(Note 11(a))*	(1,068)	–	–	–
Profit distribution	–	(1,883)	–	–
Movements in revaluation reserves *(Note 20)*	(18,300)	44,785	–	–
Impairment of goodwill	(2,468)	(2,729)	–	–
Exchange difference	18,859	994	–	–
End of the year	549,647	558,814	–	233,325

The Groups' interests in its principal associates as at 31 December 2006, all of which are unlisted, were as follows:

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group 2006	2005	Issued and paid-up capital	Authorised share capital	Principal activities
Shanghai Internet Information Technology Co., Ltd. ("Shanghai Internet") (c)	PRC 9 January 1995	–	48.98%	RMB20,000,000	RMB20,000,000	Development of information system for intelligent building
Shanghai Housing Industry New Technology Development Co., Ltd. ("New Technology")	PRC 6 May 1997	26%	26%	RMB100,000,000	RMB100,000,000	Research and development of housing technology
Shanghai Orda Opto-electronics Science and Technology Co., Ltd. ("Orda")	PRC 23 March 2000	23.52%	23.52%	RMB11,000,000	RMB11,000,000	Development and sales of photo electron products, computer hardware and software
Shanghai Telecom Broadband Networking Co., Ltd. ("Broadband")	PRC 24 October 2000	39.19%	39.19%	RMB50,000,000	RMB50,000,000	Development and sales of netware and construction of broad band fibre projects
Shanghai Golden Luodian Development Co., Ltd. (formerly known as "Shanghai Golden Luodian Real estate & Development Co., Ltd"). ("Golden Luodian") (a)	PRC 26 September 2002	35.59%	45.26%	RMB548,100,000	RMB548,100,000	Land infrastructure development for sale, investment property leasing, hotel operation and golf course operation
Shanghai Shuo Cheng Real Estate Co., Ltd. ("Shuo Cheng") (b)	PRC 29 January 2003	44.53%	44.08%	RMB450,000,000	RMB450,000,000	Property development
China New Town Development Co., Ltd. ("CNTD") (a)	BVI 4 January 2006	49%	–	US$50,935,231	US$50,935,231	Investment Holding

(a) During the year ended 31 December 2006, the Group entered into an agreement with another foreign investor of Golden Luodian ("Foreign Investor") and China New Town Development Co., Ltd. ("CNTD") (the "Agreement"). Pursuant to the Agreement, the Group and the Foreign Investor disposed of their respective 45.26% and 27.37% equity interest in Golden Loudian for 4,900 CNTD shares and convertible notes of CNTD with a principal amount of HK$94,712,428.98 and a conversion price of HK$26,792.76 per CNTD share (the "Convertible Notes"), and 5,100 CNTD shares respectively. Unless converted on the earlier of (a) the date when dealings in CNTD shares first commence on a recognised exchange, as defined in the Agreement, and (b) the second anniversary of the date of issue of the Convertible Notes (the "maturity date"), the convertible notes will be redeemed at 100 percent of their principal amount on the maturity date.

Upon completion of the Agreement but prior to conversion of the Convertible Notes, the Group's attributable interest in Golden Luodian decreased from 45.26% to 35.59%.

A gain on disposal of approximately HK$189,098,000 was recorded as "other gains/(expenses)-net" in the consolidated income statement (Note 31). The Convertible Notes were recorded as "financial assets at fair value through profit or loss" in the consolidated balance sheet (Note 13).

(b) On 3 November 2006, the Group entered into a sales and purchase agreement (the "S&P Agreement") with three joint venture partners of Shuo Cheng to purchase their 55% equity interest in Shuo Cheng at total consideration of approximately HK$32.82 million. The acquisition consideration, together the Group's further capital contribution of approximately HK$398 million, were paid to Shuo Cheng by 31 December 2006. The renewed business licence of Shuo Cheng was obtained in January 2007, and approval from the Company's special shareholders' meeting was obtained in January 2007 also. Thereafter Shuo Cheng becomes a subsidiary of the Group.

(c) During the year ended 31 December 2006, the Group disposed its equity interest in Shanghai Internet. A gain on disposal of approximately HK$2,344,000 was recorded as "other gains/(expenses)-net" in the consolidated income statement (Note 31).

Breakdown of interests in associated companies were as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Investments (unlisted), at cost				
– CNTD	54,448	–	–	–
– Golden Luodian	–	233,325	–	233,325
– New Technology	25,878	24,397	–	–
– Shuo Cheng	458,977	21,628	–	–
– Broadband	19,906	19,225	–	–
– Shanghai Internet	–	9,613	–	–
– Orda	7,825	7,756	–	–
– Shangzhi Property Management	–	1,163	–	–
	567,034	317,107	–	233,325
Representing:				
– Share of net assets at time of acquisition	560,107	310,417	–	233,325
– Goodwill on acquisition	6,927	6,690	–	–
	567,034	317,107	–	233,325
Accumulated impairment for goodwill	(5,197)	(2,729)	–	–
Accumulated share of reserves and post acquisition results less distributions	(12,190)	244,436	–	–
	549,647	558,814	–	233,325

The Group's interests in its principal associated companies, all of which are unlisted, were as follows:

(a) Golden Luodian

(i) Summarised consolidated profit and loss account of Golden Luodian

	2006	**2005**
	HK$'000	*HK$'000*
		(restated)
Turnover	750,092	231,500
(Loss)/profit before taxation	(14,744)	553,976
Taxation	4,958	(183,513)
(Loss)/profit after taxation	(9,786)	370,463
Minority interests	60	102
Net (loss)/profit attributable to owners	(9,726)	370,565
Net (loss)/profit attributable to the Group	(4,402)	167,718

(ii) Summarised consolidated assets and liabilities of Golden Luodian

	2006	**2005**
	HK$'000	*HK$'000*
		(restated)
Assets		
Non-current assets	2,394,864	1,386,839
Current assets	2,230,393	2,917,345
	4,625,257	4,304,184
Equity and liabilities		
Capital and reserves	1,081,119	1,092,030
Minority interests	–	(60)
Non-current liabilities	2,743,293	2,370,929
Current liabilities	800,845	841,285
	4,625,257	4,304,184

The principal activities of Golden Luodian are development and sales of land infrastructure, the holding of investment properties, the operation of hotel and conference facilities and the operation of a golf course.

As stated in Note 2.22 (h), Golden Luodian changed its revenue recognition policy for sales of land infrastructure in year 2006. This change in accounting policy has been accounted for retrospectively, and the comparative summarised financial information of year 2005 has been restated.

(b) Shuo Cheng

(i) Summarised consolidated profit and loss account of Shuo Cheng

	2006	2005
	HK$'000	*HK$'000*
Turnover	–	–
Loss before taxation	(11,098)	(4,040)
Taxation	(7,016)	1,333
Loss after taxation	(18,114)	(2,707)
Minority interests	65	20
Net loss attributable to owners	(18,049)	(2,687)
Net loss attributable to the Group	(8,122)	(1,209)

(ii) Summarised consolidated assets and liabilities of Shuo Cheng

	2006	2005
	HK$'000	*HK$'000*
Assets		
Non-current assets	64,712	3,281
Current assets	3,033,515	1,754,215
	3,098,227	1,757,496
Equity and liabilities		
Capital and reserves	424,990	43,701
Minority interests	112	172
Non-current liabilities	547,593	951,552
Current liabilities	2,125,532	762,071
	3,098,227	1,757,496

The principal activity of Shuo Cheng is the development of a significant residential property project for sale in the town area of Shanghai City.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

GROUP

Financial assets at fair value through profit or loss represent the Convertible Notes issued by CNTD to the Group (see Note 12(a)).

The Convertible Notes contain one embedded derivative – conversion option. The Group has designated the entire hybrid Convertible Notes as "financial assets at fair value through profit or loss", rather than separating the conversion option from the host contract.

Financial assets at fair value through profit or loss are initially recognised at fair value. As the Convertible Notes are not traded in active market, the Company engaged BMI Appraisals Limited, an independent and professionally qualified valuer, to establish fair value by using valuation techniques.

14. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

GROUP

	2006	2005
	HK$'000	*HK$'000*
At cost		
– In Shanghai City, the PRC	2,115,706	1,641,784
– In Shenyang City, the PRC	259,602	–
	2,375,308	1,641,784

As of 31 December 2006 and 2005, certain of the Group's properties held or under development for sale had been pledged as collateral for the Group's bank loans and facilities, see Note 21 for details.

15. PREPAYMENT AND OTHER CURRENT ASSETS

	Group		Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepaid business tax *(Note 26)*	39,816	82,105	–	–
Prepayments of sales commission to real estate agency	12,116	29,110	–	–
Prepayment for equipment purchase	10,320	4,794	–	–
Others	3,727	3,705	–	–
	65,979	119,714	–	–

16. OTHER RECEIVABLES

	Group		Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantee deposit for derivative liabilities (a)	53,272	–	53,272	–
Earnest money to minority shareholder of a subsidiary (b)	–	288,378	–	–
Term-loan (c)	–	44,031	–	44,031
Amounts due from minority shareholders of subsidiaries (d)	168,631	64,110	–	–
Others	30,886	18,366	2,691	3,296
	252,789	414,885	55,963	47,327

(a) A credit support agreement was subscribed by the Group as annex to the derivative financial instruments made with external bankers (Note 25). Under the credit support agreement, the Group was required to pay a guarantee deposit for future settlement of the derivative liabilities, if any, arising from a drop in value of the derivative. As at 31 December 2006, the Group paid guarantee deposit of US$ 6.8 million (equivalent to approximately HK$53.2 million) to bankers pursuant to this credit support annex.

(b) The Group and Lucky Charming Enterprises Limited ("LCE") respectively hold 52% and 48% equity interest in Anderson Shanghai, which in turn owns 99% equity interest in Anderson Fuxing, a property development company responsible for the development of a luxury residential property with shopping mall properties at town area of Shanghai City.

On 10 October 2005, the Group signed a letter of intent with LCE to acquire the latter's 47.52% indirect beneficial interest in the shopping mall of the property development company for a consideration of RMB 300 million (equivalent to approximately HK$288 million). In connection with this acquisition, the Group paid earnest money amounting to RMB300 million on 26 October 2005 to a domestic entity designated by LCE. The earnest money is interest free and upon completion, it will be used for the settlement of acquisition consideration. The acquisition was completed on 10 July 2006 upon getting approval from a special general meeting of the Company. On the acquisition date, LCE's indirect beneficial interest in the shopping mall was approximately HK$178.3 million. After the acquisition, LCE is no longer entitled to any profits, income and dividend and rights upon distribution of assets by Anderson Shanghai and/or Anderson Fuxing of the shopping mall properties.

(c) In May 2004, the Company granted a loan of US$7.26 million (equivalent to approximately HK$56.6 million) to a company for a period of 18 months. The sole director of this company is also the beneficial owner and director of LCE. The loan earns interest at a rate of 10% per annum; the repayment date for the loan balance was extended to 30 June 2006 when it became due for repayment. As at 31 December 2006, the loan principal together with interest charges was fully settled.

(d) Amounts due from minority shareholders of subsidiaries were interests free and without fixed repayment terms. As at 31 December 2006, RMB169 million (equivalent to approximately HK$169 million) was due from LCE.

The amounts due from minority shareholders of subsidiaries were estimated to be settled within one year. The carrying amounts of other receivables approximated their fair value.

17. ACCOUNTS RECEIVABLE

GROUP

	2006	**2005**
	HK$'000	*HK$'000*
Accounts receivable	22,163	10,587
Less: Provision for doubtful accounts	(1,977)	–
	20,186	10,587

An aging analysis of accounts receivable is set out below:

	2006	**2005**
	HK$'000	*HK$'000*
Within 1 year	10,067	10,587
1-2 years	10,119	–
Over 2 years	1,977	–
	22,163	10,587

The carrying amounts of the Group's accounts receivable were denominated in RMB, and approximated their fair value.

There is no concentration of credit risk with respect to accounts receivables, as the Group has a large base of customers. The maximum exposure to credit risk at reporting date is the fair value of trade receivable.

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash in hand	417	138	217	22
Demand deposits	1,010,326	1,025,648	61,089	19,344
Short-term deposits	–	350,000	–	350,000
Cash and cash equivalents	1,010,743	1,375,786	61,306	369,366
Pledged bank deposits (a)	11,068	12,330	–	12,330
Restricted bank deposits	4,093	7,701	–	–
Cash and bank balances	1,025,904	1,395,817	61,306	381,696

(a) As at 31 December 2006, bank deposits of approximately HK$11 million were restricted in connection with the issue of bank notes (2005: approximately HK$12.3 million was pledged for short-term bank borrowings, see Note 21).

For the year ended 31 December 2006, the effective interest rates on demand deposits were 0.72% to 2.75% per annum (2005: 0.72% to 3% per annum). For the year ended 31 December 2005, the effective interest rate on short-term deposits was 4.07% per annum. The short-term deposits are with original maturity periods of one to two months.

The carrying amounts of cash and bank balances are denominated in the following currencies:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	45,330	381,061	45,218	380,971
US$	71,083	79,527	16,088	725
RMB	909,491	935,229	–	–
	1,025,904	1,395,817	61,306	381,696

19. SHARE CAPITAL

GROUP AND COMPANY

	Number of shares *(thousands)*	Amount: Ordinary shares *HK$'000*	Amount: Share premium *HK$'000*	Total *HK$'000*
At 1 January 2005	1,354,800	135,480	596,091	731,571
Allotment of shares upon exercise of share options (a)	51,000	5,100	16,930	22,030
Issue of scrip dividends (b)	35,930	3,593	27,306	30,899
Issue of shares upon conversion of convertible bonds	68,100	6,810	67,761	74,571
At 31 December 2005	1,509,830	150,983	708,088	859,071
Allotment of shares upon exercise of share options (a)	1,500	150	1,150	1,300
Issue of scrip dividends (b)	22,925	2,293	34,892	37,185
Issue of shares upon conversion of convertible bonds (c)	398,805	39,880	431,476	471,356
Issue of shares – placement (d)	212,000	21,200	481,018	502,218
At 31 December 2006	2,145,060	214,506	1,656,624	1,871,130

The total authorised number of ordinary shares is 4,000 million shares (2005: 4,000 million shares) with a par value of HK$0.10 per share (2005: HK$0.10 per share). All issued shares are fully paid.

(a) Share options

The share option scheme was approved at a special general meeting held on 23 May 2002. According to this share option scheme, the directors may, at their discretion at any time during the ten years from the date of approval of the scheme, invite any executive and/or employee of the Group to take up share options of the Company. The subscription price is determined by the directors and will be determined according to the higher of (i) the average official closing price of the shares on the SEHK for the five trading days immediately preceding the relevant offer date and (ii) the official closing price of the shares on the SEHK on the relevant offer date. Options granted becomes vested immediately and are not conditional on employees' service period. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee and unless the Board shall otherwise resolve in relation to any option at the time of grant, such period of time should not exceed 3 years commencing from the expiry of six months after the date on which the option is accepted and expiring on the last day of such period or 11 November 2009, whichever is the earlier.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2006		2005	
	Average exercise price in HK$ per share	Options	Average exercise price in HK$ per share	Options
Beginning of year	0.87	1,500,000	0.43	51,000,000
Granted during the year		–	0.87	1,500,000
Exercised during the year (i)	0.87	(1,500,000)	0.43	(51,000,000)
End of year		–	0.87	1,500,000

(i) Share options exercised in 2006 resulted in the issuance of 500,000 shares and 1,000,000 shares (2005: 50,000,000 shares and 1,000,000 shares) at HK$0.94 and HK$0.83 per share respectively (2005: HK$0.43 per share and HK$0.53 per share respectively).

Share options outstanding at the end of year have the following terms:

Expiry date	Exercise price HK$ per share	Number of options 2006	Number of options 2005	Vested percentage 2006	Vested percentage 2005
4 March 2008	0.94	–	500,000	–	100%
27 June 2008	0.83	–	1,000,000	–	100%
		–	1,500,000		

(b) Pursuant to a resolution passed at the general meeting on 11 May 2006, the Company offered its shareholders scrip dividend as an alternative to cash dividend; under which the shareholders could elect to receive ordinary shares of par value of HK$0.1 each in lieu of cash dividend (see Note 38). As a result, the following additional shares were issued during the year.

	Number of new ordinary shares issued	Issue price per ordinary share	Issue date
Final dividends for the year ended 31 December 2005	22,925,145	HK$1.622	12 June 2006

(c) During the year ended 31 December 2006, the following convertible bonds issued by the Company have been converted by the bondholders at respective conversion prices and following ordinary shares have been issued:

	CB 1 at conversion price of HK$ 1.116 per ordinary share		CB 2 at conversion price of HK$ 1.35 per ordinary share	
Issue date of ordinary shares	**Face value of convertible bonds**	**Number of new ordinary shares issued**	**Face value of convertible bonds**	**Number of new ordinary shares issued**
January 2006	11,000,000	9,856,630	–	–
February 2006	62,000,000	55,555,551	–	–
March 2006	102,000,000	91,397,842	–	–
April 2006	43,000,000	38,530,464	181,000,000	134,074,071
May 2006	–	–	8,000,000	5,925,925
July 2006	8,000,000	7,168,458	–	–
September 2006	–	–	8,000,000	5,925,925
November 2006	–	–	31,000,000	22,962,961
December 2006	–	–	37,000,000	27,407,406
Total	226,000,000	202,508,945	265,000,000	196,296,288

(d) On 5 December 2006, Good Times Resources Limited, Mr. Shi Jian and the Company entered into the Placing Agreement with the Citigroup Global Markets Hong Kong Futures and Securities Limited (the "Placing Agreement"). Under the Placing Agreement, Good Times Resources Limited has conditionally agreed to subscribe for 212,000,000 new shares, representing approximately 11.12% of the existing issued share capital of the Company and approximately 10.01% of the issued share capital of the Company as enlarged by the subscription. The subscription price for the new shares was HK$2.42 per Share. The issuance cost is approximately HK$10,822,000.

20. OTHER RESERVES

GROUP

	Convertible bonds HK$'000	Options HK$'000	Golf course and hotel properties revaluation HK$'000	Statutory reserve HK$'000 (a)	Exchange translation reserve HK$'000	Total HK$'000
Balance at 31 December 2004	32,860	–	–	44,793	(634)	77,019
Fair value gain (net of tax) from certain assets held by an associated company	–	–	35,946	–	–	35,946
Appropriations	–	–	–	11,931	–	11,931
Currency translation differences	–	–	–	–	24,783	24,783
Granting of options	–	248	–	–	–	248
Issue of shares upon conversion of convertible bonds-equity components *(Note 23)*	(8,269)	–	–	–	–	(8,269)
Issue convertible bonds-equity component *(Note 23)*	3,852	–	–	–	–	3,852
Balance at 31 December 2005	28,443	248	35,946	56,724	24,149	145,510
Balance at 31 December 2005	28,443	248	35,946	56,724	24,149	145,510
Fair value loss (net of tax) from certain assets held by an associated company	–	–	(18,300)	–	–	(18,300)
Revaluation reserve transfer arising from disposal of interest in an associated company	–	–	(3,626)	–	–	(3,626)
Depreciation transfer on certain assets held by an associated company	–	–	(2,008)	–	–	(2,008)
Appropriations	–	–	–	21,170	–	21,170
Currency translation differences	–	–	–	–	39,796	39,796
Issue of shares upon conversion of convertible bonds-equity components *(Note 23)*	(27,235)	–	–	–	–	(27,235)
Balance at 31 December 2006	1,208	248	12,012	77,894	63,945	155,307

(a) The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory accounts. All statutory reserves are created for specific purposes.

Companies within the Group, which are registered in the PRC as foreign invested entities, are required to make appropriations from statutory net profits to the reserve fund and the enterprise expansion fund, upon distribution of their post-tax profits of the current year. The percentages to be appropriated to the reserve fund and the enterprise expansion fund are determined by the board of directors of these companies.

Companies within the Group, which are registered in the PRC as domestic invested entities, are required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. Upon contribution to the statutory surplus reserve using its post-tax profits, a company may make further contribution to the surplus reserve using its post-tax profits in accordance with a resolution of the board of directors.

COMPANY

	Convertible bonds	**Options**	**Exchange translation reserve**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2005	32,860	–	–	(233)	32,627
Granting of options *(Note 19)*	–	248	–	–	248
Issue of shares upon conversion of convertible bonds-equity components *(Note 23)*	(8,269)	–	–	–	(8,269)
Issue convertible bonds-equity component *(Note23)*	3,852	–	–	–	3,852
Balance at 31 December 2005	28,443	248	–	(233)	28,458
Currency translation differences	–	–	47,664	–	47,664
Issue of shares upon conversion of convertible bonds-equity components *(Note 23)*	(27,235)	–	–	–	(27,235)
Balance at 31 December 2006	1,208	248	47,664	(233)	48,887

21. BORROWINGS

GROUP AND COMPANY

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Short-term bank borrowings				
– Secured	263,760	20,000	–	20,000
– Unsecured	75,000	–	75,000	–
Other short-term borrowings				
– Unsecured	17,916	–	–	–
Total short-term borrowings	356,676	20,000	75,000	20,000
Long-term bank borrowings				
– Secured	1,410,522	1,295,695	289,790	430,560
The long-term bank borrowings are repayable as follows:				
– Within 1 year	235,469	465,141	144,895	128,700
– Between 1 and 2 years	229,497	554,797	144,895	160,680
– Between 2 and 3 years	945,556	275,757	–	141,180
	1,410,522	1,295,695	289,790	430,560
Less: long-term borrowings, current portion	(235,469)	(465,141)	(144,895)	(128,700)
Long-term borrowings	1,175,053	830,554	144,895	301,860

Short-term bank borrowings-secured

As at 31 December 2006, approximately HK$40 million of short-term bank loan (2005: nil) was secured by pledge of the Group's leasehold land.

As at 31 December 2006, approximately HK$224 million of short-term bank loan (2005: nil) was secured by joint guarantee provided by the Company and one subsidiary.

As at 31 December 2005, approximately HK$20 million of short-term bank loan was secured by a standby letter of credit arranged by the Company via the pledge of a fixed deposit of approximately HK$12 million (Note 18).

Other short-term borrowings-unsecured

As at 31 December 2006, approximately HK$18 million of unsecured short-term borrowings were borrowed from an stated-owned assets management company.

Long-term bank borrowings-secured

As at 31 December 2006, long-term bank borrowings of approximately HK$1,120 million (2005: approximately HK$472 million) were secured by pledge of the Group's leasehold land, together with properties held or under development for sale and construction-in-progress.

As at 31 December 2005, long-term bank borrowings of approximately HK$382 million were borrowed by 21 newly established BVI subsidiaries for the purchase of 21 residential apartment units developed by Anderson Fuxing. The mortgage loans were secured by a joint guarantee given by the Company, the 21 BVI subsidiaries and Mr. Shi Jian, the Chairman of the Company; by pledge of ordinary shares in the 22 BVI subsidiaries (including these 21 BVI subsidiaries) held by the Group, representing approximately HK$303 million of net assets attributable to the Group; and by mortgage of the 21 residential units purchased by the 21 BVI subsidiaries. The interest rate under these loan agreements is 1.85% above the London Inter-bank Offered Rate. During the year ended 31 December 2006, the Group repaid certain guaranteed borrowings, and also disposed one BVI subsidiary and repaid the related mortgaged borrowings. As at 31 December 2006, the balance of such long-term bank borrowings decreased to approximately HK$290 million.

As at 31 December 2005, included in long-term bank borrowings is a loan of approximately HK$394 million borrowed from Shanghai Enterprise Annuity Development Centre, arranged via a bank (entrusted loan). The loan is secured by pledge of the Group's leasehold land, together with certain properties under development for long-term investment. The interest rate under this loan agreement is 6.92% per annum. The Group fully repaid this long-term bank borrowing in year 2006.

As at 31 December 2005, long-term bank borrowings of approximately HK$48 million were borrowed under a syndicate loan facility agreement dated 23 May 2003 and the total loan facility granted was approximately HK$121 million for a period of 3 years from the date of the agreement. The rate of interest under this facility agreement is 1.5% above the Hong Kong Inter-bank Offered Rate. The syndicated loan was secured by pledge of ordinary shares in Super-power.com Ltd. held by the Group, representing approximately HK$178 million of net assets attributable to the Group. The Group fully repaid this long-term bank borrowing in year 2006.

Overall collateral arrangements for bank borrowings

As at 31 December 2006, leasehold land of approximately HK$430 million (2005: approximately HK$504 million) (Note 8), properties under development for long-term investment nil (2005: approximately HK$65 million) (Note 9), and properties held or under development for sale of approximately HK$990 million (2005: approximately HK$460 million) (Note 14), together with construction-in-progress of approximately HK$1,119 million (2005: approximately HK$460 million) (Note 6), were mortgaged as collateral for the Group's short-term bank borrowings, long-term bank borrowings and banking facilities disclosed in the preceding paragraphs.

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

	2006			2005		
	HK$	*US$*	*RMB*	*HK$*	*US$*	*RMB*
Short-term bank borrowings	5.5000%	–	6.1227%	5.5960%	–	–
Other short-term borrowings	–	–	5.5200%	–	–	–
Long-term bank borrowings	–	7.2500%	6.5552%	–	6.2175%	6.3339%

As bank loans are all borrowed at prevailing market interest rate, which would be adjusted in line with the market. The carrying amounts of the bank loans approximate their fair value.

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

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
HK$	75,000	20,000	75,000	20,000
US$	289,789	430,560	289,790	430,560
RMB	1,402,409	865,135	–	–
	1,767,198	1,315,695	364,790	450,560

The Group has the following undrawn borrowing facilities as of the balance sheet date:

	2006	**2005**
	HK$'000	*HK$'000*
Floating rate facilities		
– expiring within 1 year	25,000	67,676
– expiring beyond 1 year	179,158	19,500
	204,158	87,176

22. GUARANTEED NOTES

GROUP AND COMPANY

	2006	
		HK$ equivalent
	US$'000	*HK$'000*
Face value of guaranteed notes	200,000	1,604,718
Less: issuing expenses	(6,841)	(54,890)
Fair value on initial recognition	193,159	1,549,828
Accumulated foreign exchange gain	–	(43,188)
Add: accumulated interest expenses *(Note 34)*	12,282	95,802
Less: accumulated payment of interest expenses	(8,625)	(67,275)
	196,816	1,535,167

On 24 April 2006, the Company issued guaranteed notes maturing on 24 April 2013 (the "Maturity Date"), in the aggregate principal amount of US$200 million with fixed interest rate of 8.625% per annum (the "Guaranteed Notes"). The Guaranteed Notes are guaranteed by all of investment holding subsidiaries of the Company which are not incorporated in the PRC (except Anderson Land (Shanghai) Limited).

Interests of the Guaranteed Notes are payable semi-annually in arrear on 24 April and 24 October in each year commencing on 24 October 2006. Regarding to the principal, the Company has the redemption options of:

a) prior to 24 April 2009, redeem on one or more occasions up to 35% of the aggregate principal amount of the Guaranteed Notes originally issued at a redemption price of 108.625% of principal amount, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of certain equity offerings; or

b) at any time or from time to time prior to the Maturity Date, redeem all or part of the Guaranteed Notes at a redemption price equal to 100% of the principal amount thereof plus an applicable premium plus accrued and unpaid interest to such redemption date

As the fair value of the redemption options is no significant, it is not accounted for separately.

On 25 April 2006, the Guaranteed Notes were listed on The Stock Exchange of Hong Kong Limited for dealing.

As at 31 December 2006, the fair value of the Guaranteed Notes was approximately HK$1,524 million which was calculated based on market bid prices. Interest expenses on Guaranteed Notes are calculated using the effective interest method by applying the effective interest rate of 9.30% per annum.

23. CONVERTIBLE BONDS

GROUP AND COMPANY

On 3 May 2004, the Company issued zero coupon convertible bonds maturing on 3 May 2009 (the "Maturity Date"), in the aggregate principal amount of HK$302 million with a conversion price of HK$1.116 per ordinary share of the Company. Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 111.63 percent of their principal amount on the Maturity Date ("CB 1").

On 9 November 2005, the Company issued convertible bonds maturing on 9 November 2010 (the "Maturity Date"), in the aggregate principal amount of HK$386 million with an initial conversion price of HK$1.35 per ordinary share of the Company (subject to future one time adjustment on 9 November 2006). The interest rate of this bond is 3.5% per annum, which is paid in advance at the beginning of each anniversary year. In the event of conversion or early redemption, there would be no claw back of such prepayment of interest. Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 110 percent of their principal amount on the Maturity Date ("CB 2").

The fair value of the written put option (bondholders' early redemption option) and purchased call option (bond issuer's early redemption option), as well as the liability component and the equity conversion component, were determined at issuance of the bonds.

The fair value of the liability component as included in liabilities, was initially calculated using a market interest rate for an equivalent non-convertible bond and subsequently measured at amortisation cost. The fair value of the put option, recorded as derivative financial liability, was revalued annually with the revaluation gain or loss charged to the income statement. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves (Note 20), net of deferred income taxes.

The convertible bonds recognised in the balance sheet are calculated as follows:

	2006		
	CB 1	**CB 2**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Face value of convertible bonds issued	302,000	386,000	688,000
Issuing expenses	(11,160)	(19,811)	(30,971)
Written put option liabilities	(15,845)	(17,416)	(33,261)
Equity components *(Note 20)*	(32,860)	(3,852)	(36,712)
Liability component on initial recognition upon issuance	242,135	344,921	587,056
Accumulated foreign exchange gain	(874)	(5,929)	(6,803)
Accumulated interest expenses *(Note 34)*	30,732	26,124	56,856
Accumulated prepayment of interest expense	–	(20,125)	(20,125)
Accumulated amount converted to ordinary shares of the Company *(Note 19, 20)*	(271,993)	(238,431)	(510,424)
Liability component at 31 December	–	106,560	106,560
Less: amount included under current liabilities	–	(106,560)	(106,560)
Amount included under non-current liabilities	–	–	–

	2005		
	CB 1	**CB 2**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Face value of convertible bonds issued	302,000	386,000	688,000
Issuing expenses	(11,160)	(19,811)	(30,971)
Written put option liabilities	(15,845)	(17,416)	(33,261)
Equity components *(Note 20)*	(32,860)	(3,852)	(36,712)
Liability component on initial recognition upon issuance	242,135	344,921	587,056
Accumulated interest expenses *(Note 34)*	26,532	2,335	28,867
Prepayment of interest expense	–	(13,510)	(13,510)
Amount converted to ordinary shares of the Company *(Note 19, 20)*	(66,301)	–	(66,301)
Liability component at 31 December	202,366	333,746	536,112
Less: amount included under current liabilities	(202,366)	–	(202,366)
Amount included under non-current liabilities	–	333,746	333,746

For CB 1, the face value of the outstanding bonds at 31 December 2006 was nil (2005: HK$226,000,000). The fair value of the liability component of CB 1 at 31 December 2006 was nil (2005: approximately HK$209,000,000 calculated using cash flows discounted at a rate based on the borrowings rate of 6.045%). Interest expense on CB 1 is calculated using the effective interest method by applying the effective interest rate of 6.822% to the liability component.

For CB 2, the face value of the outstanding bonds at 31 December 2006 amounted to HK$121,000,000 (2005: HK$386,000,000). The fair value of the liability component of CB 2 at 31 December 2006 amounted to approximately HK$106,140,000 calculated using cash flows discounted at rates based on the borrowings rates from 8.891% to 9.045% (2005: approximately HK$367,000,000 with discount rate of 6.045%). Interest expense on CB 2 is calculated using the effective interest method by applying the effective interest rate of 8.125% to the liability component.

Derivative financial instrument – written put option liability

	2006	**2005**
	HK$'000	*HK$'000*
Beginning of year	28,186	15,466
Initial recognition upon issuance of bonds	–	17,417
Fair value gain *(Note 31)*	(17,400)	(4,697)
End of year	10,786	28,186

As the fair value of the purchased call option asset is no significant, it is not accounted for separately.

As at 31 December 2006, the derivative financial instrument was revalued by BMI Appraisals Limited. The fair value of the derivative financial instrument was determined using the Binomial Option Pricing Model.

During the year ended 31 December 2006, CB 1 with a face value HK$226,000,000 (2005: HK$76,000,000) were converted into 202,508,945 ordinary shares (2005: 68,100,354 ordinary shares) of the Company (Note 19).

As at 31 December 2006, CB 2 with a face value HK$265,000,000 (2005: nil) were converted into 196,296,288 ordinary shares (2005: nil) of the Company (Note 19).

As at 31 December 2006, the carrying amount of liability component of CB 2 was recorded under current liabilities, as CB 2 may be redeemed at the option of the relevant holders starting 9 November 2007.

24. DEFERRED INCOME TAX

GROUP

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

	2006	**2005**
	HK$'000	*HK$'000*
Deferred tax assets:		
– Deferred tax assets to be recovered after 1 year	–	1,322
– Deferred tax assets to be recovered within 1 year	8,122	17,763
	8,122	19,085

	2006	2005
	HK$'000	*HK$'000*
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 1 year	(268,243)	(4,384)
– Deferred tax liabilities to be settled within 1 year	(14,926)	–
	(283,169)	(4,384)

The gross movement on the deferred income tax account is as follows:

	2006	2005
	HK$'000	*HK$'000*
Balance, beginning of year	14,701	14,573
Recognised in the income statements *(Note 35)*	(214,594)	(197)
Acquisition of subsidiaries *(Note 42)*	(74,596)	–
Dissolution of a subsidiary	2,813	–
Exchange differences	(3,371)	325
Balance, end of year	(275,047)	14,701

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

Deferred tax assets:

	Tax losses carried forward	Fair value losses	Tax losses carried forward arising from business combination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	18,113	1,293	–	19,406
Recognised in the income statement	(749)	–	–	(749)
Exchange differences	399	29	–	428
At 31 December 2005	17,763	1,322	–	19,085
Recognised in the income statement	(7,210)	(1,345)	–	(8,555)
Acquisition of subsidiaries *(Note 42)*	–	–	4,476	4,476
Exchange differences	502	23	–	525
At 31 December 2006	11,055	–	4,476	15,531

Deferred tax liabilities:

	Fair value gains	Others	Fair value gains arising from business combination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	3,670	1,163	–	4,833
Recognised in the income statement	(728)	177	–	(551)
Exchange differences	81	21	–	102
At 31 December 2005	3,023	1,361	–	4,384
Recognised in the income statement	191,248	14,791	–	206,039
Acquisition of subsidiaries *(Note 42)*	–	–	79,072	79,072
Dissolution of a subsidiary	(2,813)	–	–	(2,813)
Exchange differences	3,586	310	–	3,896
At 31 December 2006	195,044	16,462	79,072	290,578

Deferred tax assets mainly represent the tax effect of temporary differences arising from tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

Deferred tax liabilities mainly represent the tax effect of temporary differences arising from revaluation gain of investment properties and business combination.

There was no material unprovided deferred tax as at 31 December 2006.

25. DERIVATIVE FINANCIAL LIABILITIES

GROUP AND COMPANY

	2006	2005
	HK$'000	*HK$'000*
Written put option liability embedded in convertible bonds *(Note 23)*	10,786	28,186
Fixed to fixed cross currency swaps (a)	232,852	–
	243,638	28,186

(a) Fixed to fixed cross currency swaps

	2006	2005
	HK$'000	*HK$'000*
Beginning of year	–	–
Initial recognition	–	–
Periodical settlement of the swaps	21,491	–
Fair value loss *(Note 31)*	211,361	–
End of year	232,852	–

As at 31 December 2006, the fair value of swap contracts was revalued by the bankers using cash flow discount model.

26. ADVANCES RECEIVED FROM THE PRE-SALE OF PROPERTIES UNDER DEVELOPMENT

GROUP

	2006	**2005**
	HK$'000	*HK$'000*
Advances received from pre-sale of properties under development	963,755	1,996,548

The Group conducts the pre-sale of properties when they are still under development. As contracted with customers, advances amounting to a substantial portion of sales consideration are paid to the Group shortly from the signing of the pre-sales contract. Such amounts held by the Group are non-interest bearing. Business tax, generally calculated at a rate of 5% on advances received, are imposed by the tax authorities and had been recorded in "prepayments and other current assets" (Note 15).

27. ACCOUNTS PAYABLE

GROUP

	2006	**2005**
	HK$'000	*HK$'000*
Accounts payable	860,701	361,027

Accounts payable represents payables arising from property constructions.

An aging analysis of accounts payable is set out below:

	2006	**2005**
	HK$'000	*HK$'000*
Within 1 year	854,779	357,238
1-2 years	5,175	3,789
Over 2 years	747	–
	860,701	361,027

Accounts payable with aging of more than one year generally represent retention moneys held by the Group in connection with various property projects.

The carrying amounts of accounts payable approximated their fair value.

28. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Land premium payable	719,135	–	–	–
Advance from related parties of a minority shareholder	111,092	–	–	–
Deposits received	36,575	16,358	–	–
Business tax and surtaxes payable *(Note 29(a))*	15,880	4,293	–	–
Dividends payable to minority shareholders of subsidiaries	13,186	6,426	–	–
Sales commission payable	1,204	9,921	–	–
Others	35,998	23,704	3,403	6,759
	993,070	60,702	3,403	6,759

The carrying amounts of other payables and accruals approximated their fair value.

29. REVENUE

Revenue recognised during the year are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Sales of properties held or under development	2,723,347	1,345,903
Revenue from construction of infrastructure for intelligent network	12,107	8,684
Sales of network hardware and installation of intelligent home equipment	18,674	23,565
Revenue from property leasing *(Note 7)*	14,886	1,321
Others	6,081	–
	2,775,095	1,379,473
Less: sales taxes (a)	(153,635)	(70,200)
	2,621,460	1,309,273

(a) Sales taxes

Sales taxes represent business tax ("BT") and surtaxes.

The Group is subject to business tax ("BT") at 5% on the revenue from the sale/pre-sale of properties, installation of intelligent home equipment and property leasing. In addition, the Group is also subject to BT at 3% on the revenue less payments to subcontractors from the construction of infrastructure for intelligent network. On top of BT, some subsidiaries are subject to the following surtaxes:

– City development tax, a tax levied at 5% to 7% of BT or Value-Added Tax ("VAT");

– Education supplementary tax, a tax levied at 3% of BT or VAT.

30. OTHER INCOME-NET

	2006	2005
	HK$'000	*HK$'000*
Government grant	–	7,057
Interest income on term-loan *(Note 16 (c))*	1,958	6,244
Interest income on loans to associated companies *(Note 43(b))*	8,860	16,817
	10,818	30,118

31. OTHER GAINS/(EXPENSES)-NET

	2006	2005
	HK$'000	*HK$'000*
Fair value gain/(loss) on investment properties *(Note 7)*	579,540	(2,206)
Derivative financial instruments at fair value through profit or loss:		
– fair value (loss)/gain (realised and unrealised) *(Note 23, 25)*	(193,961)	4,697
(Loss)/gain on disposal of property, plant and equipment, net	(379)	6,490
Gain from disposal of interests in associated companies *(Note 12(a) and (c))*	191,442	–
Loss on dissolution of a subsidiary *(Note 11(a))*	(5,538)	–
Loss on transaction with minority interest *(Note 16(b))*	(118,224)	–
Gain from business combination *(Note 42(a))*	17,266	–
Others	(2,898)	1,310
	467,248	10,291

32. EXPENSES BY NATURE

	2006	2005
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment *(Note 6)*	5,574	5,700
Employee benefit expense – excluding directors' emoluments *(Note 33)*	49,208	30,648
Cost of inventories		
– Cost of properties held or under development for sale	1,442,016	821,270
– Cost of lease of investment properties	377	260
– Cost of construction of infrastructure of intelligent network	12,156	7,520
– Cost of inventory	16,310	20,015
– Others	3,518	–
Operating lease expenses for offices	6,944	6,896
Commission for sale of properties	85,295	1,261
Advertising costs	18,603	15,500
Auditors' remuneration	2,966	2,200
Provisions for maintenance fund	7,926	5,014
Provision for doubtful accounts	1,977	–
Impairment of goodwill *(Note 12)*	2,468	2,729
Net foreign exchange losses	16,752	411
Other expenses	40,776	28,273
Total cost of sales, selling and marketing costs and administrative expenses	1,712,866	947,697

33. EMPLOYEE BENEFIT EXPENSE

	2006	2005
	HK$'000	*HK$'000*
Salaries and wages	38,887	27,038
Pension and other social welfare	10,321	3,362
Share options granted to key management *(Note 43(b))*	–	248
	49,208	30,648
Average number of employee	1,154	813

(a) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2006 and 2005 is set out below:

	2006			
Name of Director	Salary	Fees	Other Benefits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
– Mr. Shi Jian	1,700	–	–	1,700
– Mr. Li Yao Min	1,600	–	–	1,600
– Mr. Yu Hai Sheng	1,500	–	–	1,500
– Mr. Qian Reng Hui	1,500	–	–	1,500
– Mr. Jiang Xu Dong	240	–	–	240
Non-executive directors				
– Mr. Cheung Wing Yui	–	300	–	300
– Mr. Wang Ru Li	–	–	–	–
Independent non-executive directors				
– Mr. Sang Rong Lin	–	–	–	–
– Mr. Yeung Kwok Wing	–	150	–	150
– The Lord Killearn	–	200	–	200
– Mr. Geng Yu Xiu	–	120	–	120
– Mr. E Hock Yap	–	200	–	200

	2005			
Name of Director	**Salary**	**Fees**	**Other Benefits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
– Mr. Shi Jian	2,000	–	–	2,000
– Mr. Li Yao Min	1,558	–	1,100	2,658
– Mr. Yu Hai Sheng	1,500	–	–	1,500
– Mr. Qian Reng Hui	1,000	–	–	1,000
– Mr. Jiang Xu Dong	970	–	–	970
Non-executive directors				
– Mr. Cheung Wing Yui	–	300	–	300
– Mr. Wang Ru Li	–	–	–	–
Independent non-executive directors				
– Mr. Sang Rong Lin	–	58	–	58
– Mr. Yeung Kwok Wing	–	150	–	150
– The Lord Killearn	–	200	–	200
– Mr. Geng Yu Xiu	–	120	–	120
– Mr. E Hock Yap	–	200	–	200

A car was given to Mr. Li Yao Min during the year ended 31 December 2005 and has been included under the "other benefits" column.

No discretionary bonuses, inducement fees, employer's contribution to pension scheme or compensation for loss of office as directors were given to any of the directors during the year ended 31 December 2006 and 2005.

During the year of 2006, Mr. Wang Ru Li, non-executive director and Mr. Sang Rong Lin, independent non-executive directors, waived to receive emoluments (2005: Mr. Wang Ru Li waived to receive emolument).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005:four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2005:one) individual during the year are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Basic salaries, housing allowances, share options, other allowances and benefits in kind	1,755	1,548
Pension scheme	12	60
	1,767	1,608

The emoluments fell within the following bands:

	Number of individuals 2006	2005
Emoluments bands		
Nil – HK$1,000,000	–	–
HK$1,000,001 – HK$1,500,000	–	–
HK$1,500,001 – HK$2,000,000	1	1

34. FINANCE COSTS

	2006 *HK$'000*	2005 *HK$'000*
Interest expense:		
Interest on bank borrowings and other borrowings-wholly repayable within five years	111,015	52,702
Interest on the Guaranteed Notes-wholly repayable beyond five years *(Note 22)*	95,802	–
Interest on CB 1-wholly repayable within five years *(Note 23)*	4,200	15,519
Interest on CB 2-wholly repayable within five years *(Note 23)*	23,789	2,335
Arrangement fee for borrowings	1,025	1,467
Finance income – net foreign exchange gains on financing activities	(67,321)	(3,407)
Finance costs	168,510	68,616
Finance income – interest income on short-term bank deposit	(48,353)	(7,129)
Net finance costs	120,157	61,487
Less: Amount capitalised in properties under development, property under development for long term investment and construction-in-progress	(109,158)	(39,456)
Net finance costs charged into the income statements	10,999	22,031

During the year ended 31 December 2006, the weighted average interest capitalisation rate was 5.92% (2005: 5.27%).

35. INCOME TAXATION

	2006	2005
	HK$'000	*HK$'000*
Current taxation		
– Mainland China enterprise income taxation	227,691	130,787
– Mainland China land appreciation taxation	288,680	36,388
	516,371	167,175
Transfer from/to deferred taxation *(Note 24)*		
– Mainland China enterprise income taxation	214,594	197
– Mainland China land appreciation taxation	–	–
	214,594	197
Taxation charge	730,965	167,372

(a) Mainland China enterprise income tax

The Group conducts a significant portion of its business in the PRC and the applicable enterprise income tax ("EIT") rate of its subsidiaries operating in the PRC is generally 33% other than Wingo Infrastructure, a Sino-foreign equity joint venture, which is established within the technological economic development zone of an old urban district of a city, where applicable EIT rate for year 2006 is 27%.

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of transaction and revenue recognition, based on certain estimations. Prepaid income tax amounted to approximately HK$23 million as of 31 December 2006 (2005: approximately HK$47 million).

(b) Other income tax

The Company is exempted from taxation in Bermuda until 2016.

(c) Mainland China land appreciation tax ("LAT")

LAT 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 costs, borrowing costs, business taxes and all property development expenditures. The tax is incurred upon transfer of property ownership.

For the pre-sale of properties under development, the tax authorities may impose LAT ahead of the completion of transaction and revenue recognition, generally based on 1% to 2% on advances received. Prepaid LAT had been recorded in "prepaid income tax" with amount of approximately HK$4 million as of 31 December 2006 (2005: approximately HK$8 million).

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the Group's general taxation rate of 33% as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation	1,301,383	541,469
Adjust: Losses/(profits) of associated companies	74,278	(161,515)
	1,375,661	379,954
Calculated at a taxation rate of 33% (2005: 33%)	453,968	125,385
Profit not subject to profit tax	(83,557)	–
Effect of losses and expenses not deductible	167,672	10,059
Land appreciation tax deductible for calculation of income tax purpose	(95,264)	(12,008)
Tax losses for which no deferred tax assets recognised	–	9,087
Effect of different taxation rate of a subsidiary	(534)	(1,539)
Mainland China enterprise income tax	442,285	130,984
Mainland China land appreciation taxation	288,680	36,388
Taxation charge	730,965	167,372

36. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2006 is dealt with in the accounts of the Company to the extent of approximately HK$52.8 million (2005: approximately HK$76.1 million).

37. EARNINGS PER SHARE

Basic

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.

	2006	2005
	HK$'000	*HK$'000*
Profit attributable to equity holder of the Company	252,371	301,173
Weighted average number of ordinary shares in issue (thousands)	1,851,898	1,487,900
Basic earnings per share (HK$ per share)	13.63 cents	20.24 cents

Diluted

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense and fair value gain less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at market price (determined as average annual share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options to determine the ordinary shares deemed to be issued at no consideration ("bonus share"). The "bonus shares" are added to the ordinary shares outstanding but no adjustment is made to net profit.

	2006	**2005**
	HK$'000	*HK$'000*
Net profit attributable to equity holders of the Company	252,371	301,173
Written put option at fair value through profit or loss, net of tax *(Note 23)*	(17,400)	(4,697)
Interest expense on convertible bonds, net of tax	19,554	16,801
Profit used to determine diluted earnings per share	254,525	313,277
Weighted average number of ordinary shares in issue (thousands)	1,851,898	1,487,900
Adjustments for:		
– assumed conversion of convertible bonds (thousands)	221,453	279,346
– share options (thousands)	198	4,437
Weighted average number of ordinary shares for diluted earnings per share (thousands)	2,073,549	1,771,683
Diluted earnings per share (HK$ per share)	12.27 cents	17.68 cents

38. DIVIDENDS

The dividends paid during the year ended 2006 and 2005 were approximately HK$42,921,000 (HK$0.043 per share) and approximately HK$16,287,000 (HK$0.033 per share) respectively. A dividend in respect of 2006 of HK$0.020 per share was declared to shareholders whose names appear on the Register of Members of the Company on 27 April 2007, as proposed at the meeting of Board of Directors on 30 March 2007. According to total issued ordinary shares on 30 March 2007 of 2,154,689,921 shares, the dividends declared are approximate HK$44,000,000. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2007.

	2006	**2005**
	HK$'000	*HK$'000*
Proposed final dividend of HK$0.020 (2005: HK$0.043) per ordinary share	44,000	69,000

Pursuant to a resolution passed at the general meeting on 11 May 2006, the Company offered to its shareholders scrip dividends as an alternative to cash dividends; under which the shareholders could elect to receive ordinary shares of par value of HK$0.1 each in lieu of a cash dividend of HK$0.043 per share. As of 5 June 2006 (date shareholders are required to elect alternatives), shareholders holding a total of 981,912,571 shares elected for cash dividend and cash dividends of approximately HK$42,921,000 were paid, while shareholders holding a total of 864,757,827 shares elected for scrip dividend resulting in 22,925,145 shares being allotted at the price of HK$1.622 (Note 19 (b)).

39. CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit for the year to net cash inflow generated from operations:

	2006	2005
	HK$'000	*HK$'000*
Profit for the year	570,418	374,097
Adjustments for:		
Tax	730,965	167,372
Depreciation and impairment of property, plant and equipment *(Note 6)*	5,574	5,700
Goodwill impairment expenses *(Note 12)*	2,468	2,729
Provision for doubtful debts *(Note 17)*	1,977	–
Gain arising from business combination *(Note 31)*	(17,266)	–
Gains on disposal of property, plant and equipment	379	(6,490)
Loss from transaction with minority interest *(Note 31)*	118,224	–
Fair value loss on swap contracts *(Note 25)*	211,361	–
Fair value gain on derivative financial liabilities *(Note 23)*	(17,400)	(4,697)
Loss on dissolution of a subsidiary *(Note 31)*	5,538	–
Gain on disposal of interests in associated companies *(Note 31)*	(191,442)	–
Share of results of associated companies	74,278	(161,515)
Fair value (gain)/loss on investment properties *(Note 31)*	(579,540)	2,206
Interest income *(Note 30)*	(10,818)	(23,061)
Net finance costs charged into profit and loss *(Note 34)*	10,999	22,031
Operating profit before working capital changes	915,715	378,372
Decrease/(Increase) in restricted bank deposits *(Note 18)*	3,608	(6,261)
Decrease in leasehold land	51,375	10,161
Increase in properties held or under development for sale	(587,848)	(203,197)
Decrease/(Increase) in contracts in work-in-progress	583	(9,446)
Increase in inventories	(201)	(67)
(Increase)/decrease in amount due from related companies	(2,118)	39,871
Decrease/(increase) in prepayments and other current assets	53,760	(72,333)
Decrease/(increase) in other receivables	4,250	(13,663)
Increase in accounts receivable	(11,577)	(3,143)
Increase in accounts payable	279,842	46,621
Decrease in other payables and accruals	(590,655)	(29,959)
Increase in amount due to related companies	94	390
(Decrease)/increase in advance received from pre-sale of properties under development	(1,087,111)	284,160
Net cash (outflow)/inflow generated from operations	(970,283)	421,506

40. CONTINGENCIES

In connection with the sale of the Group's properties, Oasis Garden, Hangtou Govern and Huarui Shiji provided guarantees to banks prior to the buyers providing title documents to their banks for mortgage purpose. As at 31 December 2006, such outstanding guarantees amounted to approximately HK$58 million (2005: approximately HK$33 million). Part of the Group's bank deposits amounting to approximately HK$3,655,000 (2005: approximately HK$990,000) were restricted in connection with such guarantees.

As of 31 December 2006, the Group provided guarantee for Golden Luodian's bank borrowings proportionally according to its equity interest in Golden Luodian with amount of approximately HK$35 million (Note 43(b)).

41. COMMITMENTS

(a) Capital commitment

Capital expenditures at the balance sheet date but not yet incurred is as follows:

	2006	2005
	HK$'000	*HK$'000*
Properties under development for long-term investment		
– Contracted but not provided for	62,627	110,693
– Authorised but not contracted for	448,505	26,641
	511,132	137,334
Properties held or under development for sale		
– Contracted but not provided for	293,743	526,788
– Authorised but not contracted for	954,488	393,868
	1,248,231	920,656
	1,759,363	1,057,990

(b) Operating leases commitment – where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2006	2005
	HK$'000	*HK$'000*
Within 1 year	6,424	3,794
Later than 1 year and not later than 5 years	9,538	6,747
	15,962	10,541

42. BUSINESS COMBINATIONS

(a) On 1 August 2006, the Group completed its acquisition of 51% equity interest in Huarui Shiji, a property development company operating in Shenyang City, the PRC. From acquisition date to 31 December 2006, Huarui Shiji was in property development stage without revenue.

Details of net assets acquired and gain arising from the acquisition of Huarui Shiji were as follows:

	HK$'000
Purchase consideration:	
– Cash paid	203,045
Fair value of net assets of acquiree	
– shown as below	(220,311)
Gain from business combination *(Note 31)*	(17,266)

The assets and liabilities on acquisition date of Huarui Shiji were as follows:

	Fair value	Acquiree's carrying amount
	HK$'000	*HK$'000*
Property, plant and equipment	621	621
Property under development for sale	161,084	161,084
Property under development for long-term investment	174,508	174,508
Leasehold land	914,551	743,214
Deferred tax assets	–	2,404
Other receivables	3,836	3,836
Cash and cash equivalents	3,261	3,261
Trade and other payables	700,013	700,013
Advances received from the pre-sale of properties under development	53,812	53,812
Borrowings	17,916	17,916
Deferred tax liabilities	54,137	–
Net assets	431,983	317,187
Minority interests (49%)	(211,672)	
Net assets acquired	220,311	
Purchase consideration settled in cash	203,045	
Cash and cash equivalents in subsidiary acquired	(3,261)	
Cash outflow on acquisition	199,784	

(b) In December 2006, the Group completed its acquisition of 100% equity interest in Qinhai, a property development company located in Shanghai City, the PRC. Till 31 December 2006, Qinhai was engaged in land demolition and relocation without revenue.

Details of net assets acquired and goodwill arising from the acquisition of Qinhai were as follows:

	HK$'000
Purchase consideration:	
– Cash paid	233,901
Fair value of net assets of acquiree – shown as below	(158,389)
Goodwill *(Note 10)*	75,512

The assets and liabilities on acquisition date of Qinhai were as follows:

	Fair value HK$'000	Acquiree's carrying amount HK$'000
Property, plant and equipment	1,428	1,428
Property under development for sale	61,131	61,131
Leasehold land	802,359	734,084
Deferred tax assets	–	2,072
Other receivables	29,783	29,783
Cash and cash equivalents	1,444	1,444
Trade and other payables	717,297	717,297
Deferred tax liabilities	20,459	–
Net assets acquired	158,389	112,645
Purchase consideration settled in cash	233,901	
Cash and cash equivalents in subsidiary acquired	(1,444)	
Cash outflow on acquisition	232,457	

43. RELATED PARTY TRANSACTIONS

The Group is controlled by Good Time Resources Limited, which owns 31.30% of the Company's shares as at 31 December 2006. The remaining 68.70% of the shares are widely held.

(a) Name of related party and nature of relationship:

Name	Relationship with the Company
Mr. Shi Jian	The major beneficial shareholder and chairman of the Company
CNTD	Associated company
Golden Luodian	Associated company
Shuo Cheng	Associated company
Broadband	Associated company
Shanghai Internet	Associated company
Shangzhi Property Management	Associated company in 2005 and becomes a subsidiary of the Group in 2006 *(Note 11)*

(b) Related party transactions carried out during the year:

i) Sales and purchases

	2006 HK$'000	2005 HK$'000
Purchase of land plot form Golden Luodian	437,941	–
Construction of infrastructure for intelligent network for Golden Luodian	11,544	17,592
Sales of goods to Broadband	6,750	14,276
Sales to Shuo Cheng	3,912	–

During the year ended 31 December 2006, the Group purchased a piece of land from Golden Luodian through public bidding procedure of which the government is in charge, at a total consideration amounting to approximately HK$438 million, for the purpose of property development. As at 31 December 2006, the Group has paid approximately HK$197 million pursuant to the bidding contract.

ii) Loan guarantee

	2006	**2005**
	HK$'000	*HK$'000*
Guarantee provided for loans borrowed by Golden Luodian	35,424	43,450
The Group's bank borrowings guaranteed by Mr. Shi Jian *(Note 21)*	289,790	382,200

During the year ended 31 December 2006 and as of 31 December 2006, the Group and other investors of Golden Luodian provided guarantee for Golden Luodian's bank borrowings with an aggregate amount of approximately HK$99 million (2005: HK$96 million), proportionally according to their equity interests in Golden Luodian.

iii) Key management compensation

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	8,307	9,428
Share-based payments	–	248
	8,307	9,676

iv) ***Loans to related parties***

	2006	**2005**
	HK$'000	*HK$'000*
Loans to Golden Luodian (*)		
Beginning of the year	–	56,413
Loans advanced during year	69,673	96,126
Loans repayments	(69,673)	(152,539)
Interest income recognised	523	1,901
Interest received	–	(1,901)
End of the year	523	–
Loans and advances to Shuo Cheng (**)		
Beginning of the year	274,624	188,023
Loans advanced during year	218,971	67,288
Loans repayments	(278,690)	–
Interest income recognised	16,124	14,916
Exchange difference	9,731	4,397
End of the year	240,760	274,624
Total loans to related parties		
Beginning of the year	274,624	244,436
Loans advanced during year	288,644	163,414
Loans repayments	(348,363)	(152,539)
Interest income recognised *(Note 30)*	16,647	16,817
Interest received	–	(1,901)
Exchange difference	9,731	4,397
End of the year	241,283	274,624

(*) During the year ended 31 December 2006, the Group provided unsecured loans of approximately HK$70 million to Golden Luodian at interest of 6% per annum (2005: approximately HK$96 million, unsecured and with interest of 6% per annum). Loans to Golden Luodian were fully recovered before year-end of 2006.

(**) On 4 July 2005, the Group entered into a shareholder's loan agreement with Shuo Cheng, pursuant to which the Group advanced shareholder's loan to Shuo Cheng of approximately HK$188 million. This shareholder's loan was for a period of three years and interest would be charged at 6% per annum. On 14 December 2005, the Group entered into another shareholder's loan agreement with Shuo Cheng, pursuant to which the Group advanced additional shareholder's loan to Shuo Cheng with a principal of approximately HK$67 million. This shareholder's loan was for a period of three years and is interest-free.

During the year ended 31 December 2006, the Group provided additional short-term financing to Shuo Cheng with maximum amount of approximately HK$219 million. These short-term financing were free of charge and were fully recovered before year-end of 2006.

(c) The Group had the following material balances with related parties:

	2006	2005
	HK$'000	*HK$'000*
Due from associated companies		
– Shuo Cheng *(Note 43(b))*	240,760	274,624
– Golden Luodian	13,378	13,605
– Broadband	12,056	5,541
– Shangzhi Property Management	–	4,451
	266,194	298,221
Less: non-current receivables	–	(274,624)
Current receivables	266,194	23,597
Due to associated companies		
– Shanghai Internet	–	1,002
– Golden Luodian	–	368
– CNTD	1,464	–
	1,464	1,370

As at 31 December 2006, balances with related parties are unsecured and mainly arose from the above related party transactions. Other than the amount due from Shuo Cheng, details of which are described in Note 43(b), the remaining balances are interest free and are without fixed settlement period. The carrying amount of balances with related parties approximated their fair value.

44. EVENTS AFTER THE BALANCE SHEET DATE

(a) Business combination

On 8 January 2007, the Group completed its acquisition of additional 55% equity interests in Shuo Cheng by an approval of the Company's general meeting, thereafter Shuo Cheng becomes a subsidiary of the Group (Note 12(b)).

Details of the acquisition were stated in the Company's circular dated on 22 December 2006.

(b) Transactions with related party

In March 2007, the Group purchased another land plot from Golden Luodian at total consideration of approximately HK$350 million.

(c) Restructure of Golden Luodian/CNTD

On 8 February 2007, the Company and other controlling shareholders of CNTD entered into a subscription agreement with several investors, pursuant to which the investors agreed to subscribe for convertible bonds due in February 2010 of an aggregate principal amount of RMB1,239.6 million settled in US$ (the "Bonds"). The Bonds are at the interest rate at 5% per annum, payable semi-annually. The Bonds are convertible on and from the listing date of CNTD shares in a Recognised Exchange until the redemption date or the maturity date at conversion price determined according to a predetermined formula. The details of the Bonds were stated in the announcement made by the Company on 9 February 2007.

The subscription was successfully closed on 13 February 2007.

(d) Change of mainland China enterprise income tax law

On 16 March 2007, the Enterprise Income Tax Law (the "new EIT law") was passed at the Fifth Session of the Tenth National People's Congress of the People's Republic of China. The new EIT law will be effective as of 1 January 2008, and the "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" and "Provisional Regulations of the People's Republic of China on Enterprise Income Tax" both of which the Group was originally subjected to will be abrogated simultaneously. The Group has already commenced an assessment of the impact of the new EIT law but is not yet in a position to state the accurate impact on the Group's results of operations and financial position in the future.

45. DATE OF APPROVAL

The accounts were approved by the board of directors on 30 March 2007.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

(Amounts expressed in HK$'000, expect for earnings per share)

	Note	2007 (Unaudited)	2006 (Unaudited)
Turnover	4	834,407	2,197,420
Cost of sales		(489,020)	(1,195,257)
Gross profit		345,387	1,002,163
Selling and marketing costs		(34,882)	(85,340)
Administrative expenses		(64,762)	(43,577)
Other gains – net	5	627,572	–
Operating profit		873,315	873,246
Finance costs		(50,986)	(24,006)
Share of results of associates		18,897	(22,077)
Profit before income tax		841,226	827,163
Income tax expense	6	(276,348)	(300,882)
Profit for the period		564,878	526,281
Attributable to:			
Equity holders of the Company		522,304	302,443
Minority interests		42,574	223,838
		564,878	526,281
Earnings per share for profit attributable to the equity holders of the Company during the period			
– Basic	7	24.1 cents	16.8 cents
– Diluted	7	23.3 cents	16.8 cents
Interim Dividends	8	–	–

The accompanying notes are an integral part of this condensed consolidated financial statement.

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2007
(Amounts expressed in HK$'000 unless otherwise stated)

		Group	
	Note	**30 Jun 2007** *(Unaudited)*	**31 Dec 2006** *(Audited)*
ASSETS			
Non-current assets			
Property, plant and equipment		1,166,529	1,142,028
Investment properties		1,429,517	765,328
Leasehold land		254,935	244,827
Properties under development for long-term investment		584,904	277,325
Intangible assets		77,542	75,512
Interests in associated companies	*9*	109,819	549,647
Financial assets at fair value through profit or loss	*10*	564,683	550,014
Deferred tax assets		9,896	8,122
		4,197,825	3,612,803
Current assets			
Leasehold land		2,695,669	2,588,791
Properties held or under development for sale		5,009,746	2,375,308
Contracts work-in-progress		–	8,200
Inventories, at cost		3,650	748
Amount due from related companies	*11*	102,054	266,194
Prepayments and other current assets		76,917	65,979
Other receivables		345,000	252,789
Accounts receivable, net	*12*	118,115	20,186
Prepaid income tax		81,051	26,718
Cash and bank balances		1,213,355	1,025,904
		9,645,557	6,630,817
Total assets		13,843,382	10,243,620
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital and premium	*13*	1,962,279	1,871,130
Other reserves		228,568	155,307
Retained earnings		1,076,340	597,130
		3,267,187	2,623,567
Minority interest		452,098	396,981
Total equity		3,719,285	3,020,548

		Group	
	Note	30 Jun 2007 (Unaudited)	31 Dec 2006 (Audited)
LIABILITIES			
Non-current liabilities			
Long-term borrowings	14	2,747,594	1,175,053
Guaranteed notes	15	1,535,167	1,535,167
Deferred tax liabilities		527,347	283,169
		4,810,108	2,993,389
Current liabilities			
Short-term borrowings	14	2,003	356,676
Convertible bonds, current portion	16	42,361	106,560
Advances received from the pre-sale of properties under development		2,248,190	963,755
Accounts payable	17	577,240	860,701
Other payables, accruals and derivative financial instruments		1,263,723	1,176,708
Current income tax liabilities		396,699	528,350
Amount due to related companies		–	1,464
Long-term borrowings, current portion	14	783,773	235,469
		5,313,989	4,229,683
Total liabilities		10,124,097	7,223,072
Total equity and liabilities		13,843,382	10,243,620
Net current assets		4,331,568	2,401,134
Total assets less current liabilities		8,529,393	6,013,937

The accompanying notes are an integral part of this condensed consolidated financial statement.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts expressed in HK$'000)
(Unaudited)

	From 1 January 2007 to 30 June 2007			
	Share capital and premium	Other	Retained earnings	Total
Beginning of period (Audited)	1,871,130	155,307	597,130	2,623,567
Shares issued	91,149	–	–	91,149
Profit Attributable to shareholders	–	–	522,304	522,304
Appropriations	–	–	–	–
Dividends	–	–	(43,094)	(43,094)
Others	–	73,261	–	73,261
End of period (Unaudited)	1,962,279	228,568	1,076,340	3,267,187

	From 1 January 2006 to 30 June 2006			
	Share capital and premium	Other	Retained earnings	Total
Beginning of period (Audited)	859,071	145,510	440,400	1,444,981
Shares issued	495,485	–		495,485
Profit Attributable to shareholders	–	–	302,443	302,443
Appropriations	–	8,659	(8,659)	–
Dividends	–	–	(79,408)	(79,408)
Others	–	(1,256)	–	(1,256)
End of period (Unaudited)	1,354,556	152,913	654,776	2,162,245

The accompanying notes are an integral part of this condensed consolidated financial statement.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
As at 30 June 2007
(Amounts expressed in HK$'000)

		For the six months ended 30 June	
		2007	2006
	Note	*(Unaudited)*	*(Unaudited)*
Operating activities			
Net cash outflow from operating activities	*18*	(1,303,457)	(113,162)
Interest paid		(57,408)	(74,221)
PRC taxation paid		(218,980)	(253,559)
Net cash outflow from operating activities		(1,579,845)	(440,942)
Investing activities			
Purchases of fixed assets		(28,065)	(64,997)
Increase in properties under development for long-term investment		(307,579)	(246,072)
Interest received		6,422	17,626
Increase in investments in subsidiary		(1,805)	–
Increase in investments in associated companies		–	(318,561)
Acquisition of subsidiary, net cash inflow		232,367	–
		(98,660)	(612,004)
Net cash outflow before financing		(1,678,505)	(1,052,946)
Financing activities			
Proceeds from issuance of ordinary shares		67,500	1,300
Decrease in minority interests		(1,805)	(12,464)
Increase in borrowings		1,766,171	1,883,869
Dividends paid to shareholders		(19,446)	(42,222)
		1,812,420	1,830,483
Increase in cash and cash equivalents		133,915	777,537
Effect of foreign exchange rate changes		53,536	48,743
Cash and cash equivalents, beginning of period		1,025,904	1,395,817
Cash and cash equivalents, end of period		1,213,355	2,222,097

The accompanying notes are an integral part of this condensed consolidated financial statement.

NOTE TO THE FINANCIAL STATEMENTS

(Amounts expressed in HK$'000 unless otherwise stated)

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Financial Reporting Standards.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The Hong Kong Institute of Certified Public Accountants has issued a number of new or revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2006.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2006.

3. BUSINESS SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that the business segments be presented as the primary and only reporting format. The Group conducts the majority of its business activities in the PRC. Its operations are organized under three principal business segments: property development, property leasing and sales of hi-tech product and services.

	For the six months ended 30 June 2007				
	Property development	**Property leasing**	**Housing Technology**	**Other Operations**	**Total**
Segment Results					
External sales	787,359	12,646	25,919	8,483	834,407
Segment profit	281,086	605,659	226	132	887,103
Unallocated costs					(13,788)
Operating profit					873,315
Finance cost – net					(50,986)
Share of net profit in associated companies	15,320	–	3,577	–	18.897
Taxation					(276,348)
Profit for the period					564,878

	For the six months ended 30 June 2006				
	Property development	Property Leasing	Housing Technology	Other Operation	Total
Segment Results					
External sales	2,189,568	243	7,609	–	2,197,420
Segment profit	919,411	243	(2,831)	–	916,823
Unallocated costs					(43,577)
Operating profit					873,246
Finance cost – net					(24,006)
Share of net loss in associated companies	(22,077)	–	–		(22,077)
Taxation					(300,882)
Profit for the period					526,281

4. **TURNOVER**

Turnover recognized during the period are as follows:

	For the six months ended 30 June	
	2007	2006
Sales and pre-sale of properties held or under development	825,248	2,354,855
Revenue from construction of infrastructure for intelligent network and sale of network hardware and installation of intelligent home equipment	25,935	7,688
Revenue from property leasing	13,782	243
Others	8,981	–
	873,946	2,362,786
Less: Business tax and surtaxes	(39,539)	(165,366)
Net	834,407	2,197,420

Note: The Group is subject to business tax ("BT") at 5% on the revenue from the sale/pre-sale of properties and the installation of intelligent home network equipment and rental, and at 3% on the revenue from building of intelligent network infrastructure facilities (after deduction of appropriated amounts). Some subsidiaries are subject to the following surtaxes:

– City development tax, a tax levied at 5% to 7% of BT or Value-Added Tax ("VAT");

– Education supplementary tax, a tax levied at 3% of BT or VAT.

5. OTHER GAINS – NET

	For the six months ended 30 June 2007	2006
Fair value gain on investment properties	635,273	–
Gain from business combination	32,337	–
Loss on swap contracts	(87,851)	–
Exchange gain	47,755	–
Others	58	–
	627,572	–

6. TAXATION

	For the six months ended 30 June 2007	2006
Current taxation in the PRC		
– Enterprise income taxation	5,480	36,372
– Land appreciation taxation	38,320	–
	43,800	36,372
Deferred taxation in the PRC		
– Enterprise income taxation	232,548	264,510
– Land appreciation taxation	–	–
	232,548	264,510
Taxation charge	276,348	300,882

(a) Income tax expense

The Group conducts a significant portion of its business in the PRC and the applicable enterprise income tax ("EIT") rate of its subsidiaries operating in the PRC is generally 33% other than Wingo Infrastructure, a Sino-foreign equity joint venture, which is established within the technological economic development zone of an old urban district of a city, where applicable EIT rate for the period is 27%.

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of transaction and revenue recognition, based on certain estimations.

The Company is exempted from taxation in Bermuda until 2016. There were also no Hong Kong profits tax liabilities, as the Group did not have any assessable profit in Hong Kong.

(b) Land appreciation tax ("LAT")

LAT 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 costs, borrowing costs, business taxes and all property development expenditure. The tax is incurred upon transfer of property ownership.

For the pre-sale of properties under development, the tax authorities may impose LAT ahead of the completion of transaction and revenue recognition, generally based on 1% to 2% on advances received.

(c) Business tax ("BT") and surtaxes

The Group is subject to business tax ("BT") at 5% on the revenue from the sale/pre-sale of properties, installation of intelligent home equipment and property leasing, and at 3% on the revenue less payments to subcontractors from the construction of infrastructure for intelligent network. On top of BT, some subsidiaries are subject to the following surtaxes:

– City development tax, a tax levied at 5% to 7% of BT or Value-Added Tax ("VAT");

– Education supplementary tax, a tax levied at 3% of BT or VAT.

(d) Value-added Tax ("VAT")

The Group is subject to VAT, which is levied at a general rate of 17% on the gross turnover upon sale or purchase of goods. An input credit is available whereby VAT previously paid on purchases of raw materials, semi-finished products, etc., may be used to offset the VAT payable on sales to determine the net VAT payable. Sales and purchases are stated net of VAT in the consolidated profit and loss account.

7. EARNINGS PER SHARE

The calculation of earnings per share was based on the consolidated net profit of HK$522,304,406 (2006: HK$302,443,000) and the weighted average number of 2,168,042,993 shares (2006: 1,795,879,387 shares) in issue during the period. The calculation of diluted earnings per share was based on the consolidated net profit of HK$523,256,725 (2006: HK$302,443,000) and the diluted weighted average number of 2,249,421,989 shares (2006: 1,803,047,846 shares) in issue during the period.

8. DIVIDEND

The Board had resolved not to declare an interim dividend for the six months ended 30 June 2007 (2006: Nil).

9. INTERESTS IN ASSOCIATED COMPANIES

The interests in associated companies represents investments at cost and share of reserves of China New Town Development Company Limited ("CNTD"), Shanghai Housing Industry New Technology Development Company Limited, Shanghai Orda Opto-electronics Science and Technology Company Limited and Shanghai Telecom Broadband Networking Company Limited.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss represents the convertible notes issued by CNTD to the Group. The convertible notes contain one embedded derivative – conversion option. The Group has designated the entire hybrid convertible notes as "financial assets at fair value through profit or loss", rather than separating the conversion option from the host contract.

11. AMOUNT DUE FROM RELATED COMPANY

As at 30 June 2007, balances with related companies are unsecured and mainly represents current balances from associated companies which are interest free and are without fixed settlement period. The carrying amount of balances with related companies approximated their fair value.

12. ACCOUNTS RECEIVABLE, NET

Aging analyses of accounts receivable are:

	Group	
	30 June 2007	**31 December 2006**
Accounts receivable	118,115	22,163
Less: Provision for doubtful accounts	–	(1,977)
	118,115	20,186

An aging analysis of accounts receivable is set out below:

	30 June 2007	**31 December 2006**
Within 1 year	118,115	10,067
1 – 2 years	–	10,119
Over 2 years	–	1,977
	118,115	22,163

The carrying amounts of the Group's accounts receivables were denominated in RMB, and approximated their fair value. There is no concentration of credit-risk with respect to accounts receivables, as the Group has a large base of customers.

13. SHARE CAPITAL

In the first half of 2007, the Group has issued a total of 59,060,632 ordinary shares.

	For the six months ended 30 June	
	2007	**2006**
	shares '000	*shares '000*
Exercise of Share Option	–	1,500
Exercise of Convertible Bond	50,000	335,340
Scrip Dividend	9,061	22,925
	59,061	359,765

All the above-mentioned shares issued rank pari passu in all respects with the existing ordinary shares in issue. The total authorized number of ordinary shares is 4,000 million shares (2006: 4,000 million shares) with a par value of HK$0.10 per share (2006: HK$0.10 per share). All issued shares are fully paid.

14. BANK BORROWINGS

As at 30 June 2007, the aggregate bank borrowings of the Group amounted to approximately HK$3,533 million (31 December 2006: approximately HK$1,767 million). Of which, approximately HK$3,372 million (31 December 2006: approximately HK$1,674 million) were secured by pledge of the Group's leasehold land, together with properties held under development for sale and construction-in-progress.

As at 30 June 2007, the Group's bank borrowings were secured by (a) pledges of certain leasehold land with an aggregate net book value of approximately HK$2,670 million; (b) pledges of certain properties held or under development for sale with an aggregate net book value of approximately HK$2,145 million; (c) pledges of cash in bank with an aggregate net book value of approximately HK$31 million; and (d) pledges of investment properties with an aggregate net book value of approximately HK$730 million.

Other than pledges of properties held for sale, certain short term and long term bank loans of the Group were secured by a joint guarantee given by the Company, 18 BVI incorporated subsidiaries of the Company and Mr. Shi Jian, the Chairman of the Company, as well as by pledges of ordinary shares in 18 BVI subsidiaries of the Group.

15. GUARANTEED NOTES

On 24 April 2006, the Company issued guaranteed notes maturing on 24 April 2013 (the "Maturity Date"), in the aggregate principal amount of US$200 million with fixed interest rate of 8.625% per annum (the "Guaranteed Notes"). The Guaranteed Notes are guaranteed by all of the investment holding subsidiaries of the Company which are not incorporated in the PRC except Anderson Land (Shanghai) Limited.

16. CONVERTIBLE BONDS

On 3 May 2004, the Company issued zero coupon convertible bonds maturing on 3 May 2009 (the "Maturity Date"), in the aggregate principal amount of HK$302 million with a conversion price of HK$1.116 per ordinary share of the Company. Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 111.63 percent of their principal amount on the Maturity Date.

On 9 November 2005, the Company issued convertible bonds maturing on 9 November 2010 (the "Maturity Date"), in the aggregate principal amount of HK$386 million with an initial conversion price of HK$1.35 per ordinary share of the Company (subject to future one time adjustment on 9 November 2006). The interest rate of this bond is 3.5% per annum, which is paid in advance at the beginning of each anniversary year. In the event of conversion or early redemption, there would be no claw back of such prepayment of interest. Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 110 percent of their principal amount on the Maturity Date.

The fair value of the written put option (bondholders' early redemption option) and purchased call option (bond issuer's early redemption option), as well as the liability component and the equity conversion component, were determined at issuance of the bonds.

The fair value of the liability component as included in liabilities was initially calculated using a market interest rate for an equivalent non-convertible bond and subsequently measured at amortization cost. The fair value of the put option, recorded as derivative financial liability, was revalued annually with the revaluation gain or loss charged to the income statement. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves, net of deferred income taxes.

17. ACCOUNTS PAYABLE

	Group	
	30 June 2007	**31 December 2006**
Accounts payable	577,240	860,701

An aging analysis of accounts payable is set out below:

	30 June 2007	31 December 2006
Within 1 year	574,889	854,779
1 – 2 years	2,351	5,175
Over 2 years	–	747
	577,240	860,701

Accounts payable with aging of more than one year generally represent retention monies held by the Group in connection with various property projects. The carrying amounts of accounts payable approximated their fair value.

18. CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to net cash outflow from operating activities:

	For the six months ended 30 June 2007	2006
Profit before taxation	841,226	827,163
Adjustments for:		
Depreciation of fixed assets and amortisation of deferred expenses	3,564	24,321
Gain arising from business combination	(32,337)	–
Loss on swap contracts	87,851	–
Fair value gain on investment properties	(635,273)	–
Share of net(profit)/loss in investment of associated companies	(18,897)	22,077
Taxation	39,542	–
Interest income	(6,422)	(21,752)
Interest expense	57,408	45,758
Operating profit before working capital changes	336,662	897,567
Increase in accounts receivable	(97,929)	(17,181)
(Increase)/decrease in other receivables, prepayments and other current assets	(103,149)	223,516
Decrease/(increase) in amounts due to/from related companies	162,676	(12,611)
Increase/(decrease) in properties held or under development for sale	(2,634,438)	646,388
Increase/(decrease) in advances received from pre-sale of Properties under development	1,284,435	(1,590,219)
Decrease in contracts in work-in-progress	8,200	–
Increase in inventories	(2,902)	–
Increase in leasehold land	(116,986)	–
Decrease in accounts payable	(283,461)	(243,576)
Increase/(decrease) in other payables, accruals and derivatives financial liabilities	87,015	(50,038)
Increase in taxation payable	56,420	32,992
Net cash outflow from operating activities	(1,303,457)	(113,162)

19. POST BALANCE SHEET EVENT

On 17 August 2007, Good Time Resources Limited ("Good Time"), a controlling shareholder of the Company, Goldfull Enterprises Limited ("Goldfull"), a wholly-owned subsidiary of the Company, and the Company entered into an acquisition agreement (the "Acquisition Agreement") pursuant to which Good Time agreed to sell, and Goldfull agreed to purchase, the entire issued share capital of Konmen Investment Limited, a wholly-owned subsidiary of Good Time as at the date of the Acquisition Agreement, for the consideration of HK$1,600 million, which will be satisfied at completion by the Company issuing 526,315,789 new shares of the Company as consideration (the "Acquisition"). The resolutions for approving the Acquisition and the whitewash waiver were duly passed by the shareholders of the Company at the special general meeting held on 24 September 2007.

3. STATEMENT OF INDEBTEDNESS

As at 31 December 2007, being the latest practical date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding borrowings of aggregate principal amount of approximately HK$5,189 million, which comprised of secured short term bank loans of approximately HK$503 million, unsecured short term bank loans of approximately HK$240 million, secured long term bank loans of approximately HK$2,647 million, unsecured long term bank loans of approximately HK$195 million, unsecured convertible bonds of approximately HK$44 million, and guaranteed notes of approximately HK$1,560 million.

As at 31 December 2007, the Group had liabilities under acceptance of approximately HK$214 million.

As at 31 December 2007, the Group's secured bank facilities were secured by certain leasehold land, properties held or under development for sale, investment properties, interest in a subsidiary and cash in bank of the Group.

The guaranteed notes of the Group were guaranteed by all of the investment holding subsidiaries of the Company (except Anderson Land (Shanghai) Ltd.).

Save as disclosed in this section and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 December 2007 any mortgages, charges, debentures or loan capital issued and outstanding or agreed to be issued, bank loans, and overdrafts or other similar indebtedness, liabilities under acceptances or acceptance credits, hire purchases or finance lease commitments, guarantees or material contingent liabilities.

Save as disclosed in this section, the Directors are not aware of any material adverse change in the Group's indebtedness and contingent liabilities since 31 December 2007.

4. FINANCIAL AND TRADING PROSPECTS

The Group is optimistic about the business prospects of the real estate market in the PRC. Despite the macroeconomic control measures imposed by the PRC central government in late 2006 and throughout 2007, the national real estate climate index in November 2007, as reported by the National Bureau of Statistics, went up by 0.85 point to 106.59 which was 2.67 points higher than that for the same period last year. This evidences that the new macroeconomic control policy of the PRC central government will only rectify the unbalancing factors in the real estate sector, thus providing better opportunities for real estate development operators who have visions and the right strategies as well as adequate funding.

As a prudent developer, the Group will continue to carry out research and analysis on macroeconomic development and the market trend, enhance project execution and project management. Besides, for risk diversification and for the sustainability of its business, the Group is transforming from a residential property developer into an integrated real estate operator and will develop and maintain a mixed portfolio of properties including residential properties, shopping malls, hotels and offices. As a result, with the rapid economic growth in PRC, the Group believes its business prospects are strong and healthy.

5. WORKING CAPITAL

The Directors are of the opinion that, taking into account the financial resources available to the Enlarged Group including internally generated funds and the available banking facilities, the Enlarged Group will have sufficient working capital to meet its present requirements for at least the next 12 months from the date of this circular.

6. MATERIAL CHANGE

The Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2006, the date to which the latest published audited financial statements of the Group were made up.

7. RECONCILIATION STATEMENT IN RELATION TO THE PROPERTIES

The particulars of property interests of Huarui Asset Management, i.e. the Properties, are set out in the "Letter from the Board" in this circular. The Independent Valuer has valued the Properties as at 31 October 2007. A summary of values and valuation certificates in respect of the Properties issued by the Independent Valuer are set out in Appendix V to this circular.

The table below sets forth the reconciliation of aggregate amounts of land and buildings of Huarui Asset Management Group in its audited combined balance sheet as at 31 December 2007 to the unaudited net book value of Huarui Asset Management Group's property interests as at 31 October 2007:

	RMB'000
Net book value of property interests of Huarui Asset Management Group as at 31 December 2007	1,108,347
Movements for the 2 months ended 31 October 2007	
Additions	64,002
Depreciation	–
Disposals	–
Net book value as at 31 October 2007	1,044,345
Add: Estimated costs to complete the Properties as at 31 October 2007	235,278
Estimated total costs of the property interests of Huarui Asset Management Group	1,279,623
Valuation surplus to Huarui Asset Management Group as at 31 October 2007	4,931,377
Valuation of the Properties as at 31 October 2007 per the valuation report set out in Appendix V to this circular	6,211,000

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

31 January 2008

The Board of Directors
SRE Group Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Shenyang Huarui Shiji Asset Management Company Limited (瀋陽華銳世紀資產管理有限公司) ("Huarui Asset Management") and its subsidiary, Shenyang Huarui Commercial Management Development Company Limited (瀋陽華銳商業管理發展有限公司) ("Huarui Commercial Management") (hereinafter collectively referred to as the "Group"), for each of the three years ended 31 December 2005, 2006 and 2007 (the "Relevant Periods"), prepared on the basis as set out in note 2.2 of Section II below, for inclusion in the circular issued by SRE Group Limited ("SRE" or the "Company") dated 31 January 2008 (the "Circular") in connection with the proposed acquisition of the entire issued share capital of Qualico Investments Limited ("Qualico Investments") by China Edifice Ltd., an indirect wholly-owned subsidiary of the Company (the "Proposed Acquisition").

Huarui Asset Management was established as a limited liability company under the laws of the People's Republic of China (the "PRC") on 30 October 2007 as a result of the de-merger of Shenyang Huarui Shiji Investment Development Company Limited (瀋陽華銳世紀投資發展有限公司) ("Huarui Investment"), an indirect 51% owned subsidiary of the Company. On 15 July 2007, the board of directors of Huarui Investment passed a resolution to split Huarui Investment into two companies (the "De-merger") whereby certain portions of the assets, liabilities and US$10,000,000 of the paid-up capital of Huarui Investment would be injected into a newly set up company, i.e., Huarui Asset Management, which is held by the existing shareholders of Huarui Investment – Starweb Investment Ltd. ("Starweb") and Elegant Parkview Ltd. ("Elegant Parkview"), based on their existing proportion of equity interests in Huarui Investment of 51% and 49%, respectively. Upon completion of the De-merger, the paid up capital of Huarui Investment would be reduced from US$62,500,000 to US$52,500,000. The De-merger was approved by the Shenyang Municipal Bureau of Foreign Trade & Economic Cooperation on 30 October 2007.

On 30 October 2007, Huarui Asset Management also became the holding company of its subsidiary, Huarui Commercial Management, as a result of the De-merger as set out in note 1 in Section II below.

Huarui Asset Management has a registered and paid up capital of US$10,000,000 (equivalent to RMB80,000,000). The approved principal activity of Huarui Asset Management is the leasing of self-owned properties. During the Relevant Periods, the principal activities of the Group consisted of development of properties held for long term investment and for leasing and provision of commercial property management services in Mainland China. The properties developed and owned by the Group are mainly located in Shenyang, Liaoning Province, the PRC. The registered office of Huarui Asset Management is located at Room 1510, Fangyuan Mansion, No. 1 Yuebin Road, Shenhe District, Shenyang, Liaoning Province, the PRC. The principal place of business of Huarui Asset Management is Mainland China.

The statutory financial statements of Huarui Asset Management are prepared in accordance with PRC accounting principles (the "PRC GAAP Financial Statements"). No statutory audited financial statements have been prepared for Huarui Asset Management since its incorporation. The statutory audited financial statements of Huarui Commercial Management for the year ended 31 December 2006 were audited by Shenyang Dongfeng Certified Public Accountant Co., Ltd.

For the purpose of this report, the directors of Huarui Asset Management (the "Directors") have prepared the Financial Information, which include the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the Relevant Periods and the consolidated balance sheets of the Group and balance sheet of Huarui Asset Management as at 31 December 2005, 2006 and 2007 together with the notes thereto, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include the Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Financial Information set out in this report has been prepared based on the unaudited PRC GAAP Financial Statements of Huarui Asset Management and its subsidiary, after making the necessary adjustments as appropriate to comply with HKFRSs and is presented on the basis set out in note 2.2 of Section II below, as if the De-merger had been completed as at the beginning of the Relevant Periods.

The directors of Huarui Asset Management are responsible for the preparation and the true and fair presentation of the Financial Information together with the notes thereto, in accordance with HKFRSs. This responsibility includes selecting and applying appropriate accounting policies, and making accounting judgements and estimates that are reasonable in the circumstances. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you. We believe that our work provides a reasonable basis for our opinion.

PROCEDURES PERFORMED IN RESPECT OF THE RELEVANT PERIODS

For the purpose of this report, we have carried out an independent audit on the Financial Information of Huarui Asset Management and its subsidiary for the Relevant Periods in accordance with Statements of Auditing Standards issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION OF THE RELEVANT PERIODS

In our opinion, the Financial Information set out below, for the purpose of this report and on the basis of presentation set out in note 2.2 of Section II below, gives a true and fair view of the state of affairs of the Group as at 31 December 2005, 2006 and 2007 and of the financial performance and cash flows of the Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

Consolidated Income Statements

	Notes	Year ended 31 December 2005 *RMB'000*	2006 *RMB'000*	2007 *RMB'000*
Revenue		–	–	–
Cost of sales		–	–	–
Gross profit		–	–	–
Selling and marketing expenses		–	–	(1,059)
Administrative expenses		–	–	(1,360)
Impairment of goodwill		–	–	(2,219)
Operating loss		–	–	(4,638)
Finance income, net	*4*	–	–	10
Loss before tax	*5*	–	–	(4,628)
Income tax credit	*6*	–	–	4
Loss for the year		–	–	(4,624)

Consolidated Balance Sheets

	Notes	31 December 2005	2006	2007
		RMB'000	*RMB'000*	*RMB'000*
Non-current assets				
Plant and equipment	*7*	–	–	183
Leasehold land	*8*	142,577	142,577	142,577
Properties under development for long term investment	*9*	108,197	371,956	965,770
Goodwill on acquisition	*10*	–	–	–
Deferred tax asset	*12*	–	–	4
		250,774	514,533	1,108,534
Current assets				
Other receivables	*13*	–	–	4,682
Amount due from a fellow subsidiary	*14*	–	–	197,106
Consumables		–	–	83
Cash and cash equivalents		–	–	1,591
		–	–	203,462
Total assets		250,774	514,533	1,311,996
Current liabilities				
Other payables	*15*	–	–	197,267
Amount due to a fellow subsidiary	*16*	170,774	434,533	1,039,353
		170,774	434,533	1,236,620
Net current liabilities		170,774	434,533	1,033,158
Total assets less current liabilities		80,000	80,000	75,376
Net assets		80,000	80,000	75,376
Equity				
Equity attributable to equity holders of Huarui Asset Management				
Paid-up capital	*17*	80,000	80,000	80,000
Accumulated losses		–	–	(4,624)
Total equity		80,000	80,000	75,376

Balance Sheets

		31 December		
	Notes	**2005**	**2006**	**2007**
		RMB'000	*RMB'000*	*RMB'000*
Non-current assets				
Plant and equipment	*7*	–	–	6
Leasehold land	*8*	142,577	142,577	142,577
Properties under development for long term investment	*9*	108,197	371,956	965,770
Investment in a subsidiary	*11*	–	–	7,781
Deferred tax asset	*12*	–	–	4
		250,774	514,533	1,116,138
Current assets				
Cash and cash equivalents		–	–	82
		–	–	82
Total assets		250,774	514,533	1,116,220
Current liabilities				
Amount due to a fellow subsidiary	*16*	170,774	434,533	1,039,353
		170,774	434,533	1,039,353
Net current liabilities		170,774	434,533	1,039,271
Total assets less current liabilities		80,000	80,000	76,867
Net assets		80,000	80,000	76,867
Equity				
Equity attributable to equity holders of Huarui Asset Management				
Paid-up capital	*17*	80,000	80,000	80,000
Accumulated losses		–	–	(3,133)
Total equity		80,000	80,000	76,867

Consolidated Statements of Changes in Equity

	Paid-up capital *(note 17)* *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*
As at 1 January 2005	80,000	–	80,000
Increase in paid-up capital	–	–	–
As at 31 December 2005 and 1 January 2006	80,000	–	80,000
Increase in paid-up capital	–	–	–
As at 31 December 2006 and 1 January 2007	80,000	–	80,000
Loss for the year	–	(4,624)	(4,624)
As at 31 December 2007	80,000	(4,624)	75,376

Consolidated Cash Flow Statements

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Cash flows from operating activities			
Loss before tax	–	–	(4,628)
Adjustments to reconcile loss before tax to net cash flows			
Non-cash:			
Depreciation of plant and equipment	–	–	4
Impairment of goodwill	–	–	2,219
Finance income credited to the income statement, net	–	–	(10)
Working capital adjustments:			
Increase in consumables	–	–	(79)
Increase in other receivables	–	–	(6,526)
Increase in other payables	–	–	3,740
Cash used in operations	–	–	(5,280)
Interest received	–	–	10
Net cash used in operating activities	–	–	(5,270)
Cash flows from investing activities			
Increase in properties under development for long term investment	(104,357)	(263,759)	(593,814)
Increase in leasehold land	(5,957)	–	–
Purchase of plant and equipment	–	–	(187)
Disposal of long term investment	–	–	2,000
Acquisition of a subsidiary, net of cash acquired *(note 19)*	–	–	(5,958)
Net cash used in investing activities	(110,314)	(263,759)	(597,959)
Cash flows from financing activities			
Increase in an amount due to a fellow subsidiary	110,314	263,759	604,820
Net cash generated from financing activities	110,314	263,759	604,820
Net (decrease)/increase in cash and cash equivalents	(80,000)	–	1,591
Cash and cash equivalents at beginning of year	80,000	–	–
Cash and cash equivalents at end of year	–	–	1,591
Analysis of balances of cash and cash equivalents			
Cash in hand and bank balances	–	–	1,591

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND THE DE-MERGER

Huarui Asset Management was established as a foreign investment enterprise under the laws of the People's Republic of China (the "PRC") on 30 October 2007 as a result of the de-merger of Shenyang Huarui Shiji Investment Development Company Limited (瀋陽華銳世紀投資發展有限公司) ("Huarui Investment"). The approved operating term of Huarui Asset Management is 30 years. As at 31 December 2007, Huarui Asset Management has a registered and paid-up capital of US$10,000,000 (equivalent to RMB80,000,000).

Huarui Investment was established by Huhehaote City Huaxin Chuangye Investment Co., Ltd. and Shao Jinglan as a wholly domestic-owned limited liability company in Shenyang, the PRC on 22 December 2003. The principal activities of Huarui Investment are project investment and consultation, real estate development, property management and property leasing.

Shenyang Huarui Real Estate Development Co., Ltd. ("Huarui Real Estate") and Ding Renhua owned 95% and 5% equity interest in Huarui Investment immediately prior to the acquisition of the 51% equity interest in Huarui Investment by Starweb Investment Limited ("Starweb"). On 30 July 2006, Starweb, a wholly-owned subsidiary of SRE Group Limited, entered into agreements with Huarui Real Estate and Ding Renhua to acquire their 46% and 5% share of the paid-up capital in Huarui Investment, respectively. The Shenyang Municipal Bureau of Foreign Trade & Economic Cooperation approved the share transfers via an approval document "Shen Wai Jing Mao Fa (2006) No. 410" on 1 August 2006. Huarui Investment was converted into a Sino-foreign joint venture enterprise after the share transfer and became an indirect 51% owned subsidiary of SRE on 1 August 2006.

On 22 June 2007, Elegant Parkview Limited ("Elegant Parkview") entered into an agreement with Huarui Real Estate to acquire its entire 49% equity interest in Huarui Investment. The transfer was approved by the People's Government of Liaoning Province via an approval document designated as "Shang Wai Zi Shen Fu Du Zi (2007) No. 0242 on 3 July 2007. Following the change in shareholder, Huarui Investment was converted into a wholly foreign-owned joint venture enterprise and obtained its revised business license "Qi Du Liao Shen Zong Zi No. 411000136" on 3 July 2007. As at 3 July 2007, Starweb and Elegant Parkview owned 51% and 49% equity interest in Huarui Investment, respectively.

On 15 July 2007, the board of directors of Huarui Investment passed a resolution to split Huarui Investment into two companies (the "De-merger") whereby certain portions of the assets, liabilities and US$10,000,000 of the paid-up capital of Huarui Investment are injected into a newly set up company, i.e., Huarui Asset Management, which is held by the existing shareholders of Huarui Investment, based on their existing proportion of equity interests in Huarui Investment. Upon completion of the De-merger, the paid-up capital of Huarui Investment is reduced from US$62,500,000 to US$52,500,000. The De-merger was approved by the Shenyang Municipal Bureau of Foreign Trade & Economic Cooperation on 30 October 2007.

According to the supplementary De-merger Agreement signed between Starweb and Elegant Parkview on 13 November 2007, Huarui Investment shall transfer certain assets and liabilities to Huarui Asset Management with reference to their carrying amounts as at 31 October 2007 in Huarui Investment's book as follows:

i) Commercial properties under construction under Phase I of approximately RMB1,044.3 million, which comprise the shopping mall property (including the two levels of underground car parks) and serviced-apartment hotel developed under the Phase I of Shenyang Richgate Project;

ii) Investment in Huarui Commercial Management at original investment cost of RMB10 million;

iii) Trade and other payables of approximately RMB374.3 million;

iv) Bank borrowing of approximately RMB600 million; and

v) Paid-up capital of US$10 million (translated to RMB80 million at the official exchange rate of US$1: RMB8.0).

The transfers of the legal rights and obligations of the bank borrowing and trade and other payables from Huarui Investment to Huarui Asset Management had not been completed as at 31 December 2007 and was reflected as a net amount due to Huarui Investment in Huarui Asset Management's financial statements as at that date.

As at 31 December 2007, Moony Hill Investments Limited ("Moony Hill") and Qualico Investments own 51% and 49% of the equity interest in Huarui Asset Management. The holding company of Huarui Asset Management is Moony Hill, an indirect wholly owned subsidiary of SRE incorporated in Hong Kong. The penultimate holding company of Huarui Asset Management is Sinopower Investment Co., Ltd., which is also a company established in the British Virgin Islands. The management of Huarui Asset Management regards SRE as the ultimate holding company of Huarui Asset Management.

The principal activity of Huarui Asset Management is the leasing of self-owned properties. The registered office of Huarui Asset Management is located at Room 1510, Fangyuan Mansion, No. 1 Yuebin Road, Shenhe District, Shenyang, the PRC. Its principal place of business is in Shenyang, the PRC.

2.1 GOING CONCERN ASSUMPTION

As at 31 December 2007, the current liabilities of the Group exceeded its current assets by approximately RMB1,033 million. The Directors have prepared the Financial Information on the going concern basis because SRE and Elegant Parkview have undertaken to provide continuing financial support to the Group to enable it to meet its liabilities as and when they fall due.

2.2 BASIS OF PRESENTATION

The Financial Information has been prepared on a continuing basis and the consolidated balance sheets, consolidated income statements, consolidated cash flow statements and consolidated statements of changes in equity of the Group have been prepared as if the De-merger had been completed as at the beginning of the Relevant Periods and included the results and cash flows of its subsidiary – Huarui Commercial Management, which was segregated from Huarui Investment upon the De-merger, from its date of acquisition by Huarui Investment on 19 July 2007.

Huarui Asset Management was split out from Huarui Investment on 30 October 2007. Prior to that date, all the assets, liabilities, capital of Huarui Asset Management were owned by Huarui Investment and the entire business operations were run by Huarui Investment. All construction contracts were entered into by Huarui Investment and all bank accounts and borrowings were maintained under the name of Huarui Investment. There were no separate accounting records maintained for Huarui Asset Management under different department or business units prior to the De-merger. Therefore, for the purpose of the preparation of the Financial Information, the assets and liabilities were segregated based on certain judgement and assumptions made by the management. The costs of the properties under development attributable to Huarui Asset Management were segregated based on judgemental basis as discussed in note 2.4 below. All the development costs (including Huarui Asset Management's share of the capitalised borrowing costs) of the properties under development were paid by Huarui Investment on behalf of Huarui Asset Management and is reflected as an amount due to Huarui Investment in Huarui Asset Management's balance sheet.

At the date of this report, the particulars of the subsidiary that Huarui Asset Management had direct equity interest are set out below:

Name	Place of incorporation	Paid-up capital	Percentage of equity holding	Principal activities
Huarui Commercial Management	Shenyang, the PRC	RMB10,000,000	100%	Provision of leasing and commercial property management services

2.3 BASIS OF PREPARATION

This Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants. The Financial Information has been prepared on a historical cost basis and is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Classification between properties under development held for long term investment and properties under development for sale

Properties under development held for long term investment are properties under development which the Group has a clear intention to hold in the long term to earn rentals and for capital appreciation. The management needs to apply significant judgement to determine the classification of properties under development according to their intention and strategies.

Allocation of development costs that are attributable to development activity in general that can be allocated to a specific property under development

Each property under development is accounted for as a separate project. Where a project comprises more than one component or phase with a separate temporary occupation permit, each component or phase is treated as a separate project, and interest and other common development costs are apportioned accordingly. The management needs to apply significant judgement to determine the appropriate basis and methods for the allocation of development costs that are attributable to development activity in general such as the shared development costs, shared infrastructure costs, costs of design and technical assistance, capitalised borrowing costs to a specific property under development.

Estimation uncertainty

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Income tax

Determining income tax provisions requires the Group to make judgements on the tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with the prevailing tax regulations and makes tax provisions accordingly.

2.5 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (HKFRSs)

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKAS 23 (revised)	Borrowing Costs
HKFRS 8	Operating Segments

HKAS 23 (revised) shall be applied for annual periods beginning on or after 1 January 2009. The main change from the previous version is the removal of the option of immediately recognising borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale as an expense. However, the revised Standard does not require the capitalisation of borrowing costs relating to assets measured at fair value, and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009 and will replace the existing HKAS 14 Segment Reporting. This Standard requires an entity to report on the financial performance of its operating segments based on the information used internally for the purpose of evaluating segment performance and deciding resource allocation to operating segments.

The Group expects that the adoption of these new and revised HKFRSs will not have any significant impact on its results of operations and financial position in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The Financial Information incorporates the management accounts of Huarui Asset Management and its subsidiary. As explained in note 2.2 of Section II above, the acquisition of this subsidiary during the Relevant Periods is accounted for using the purchase method of accounting.

The purchase method of accounting involves allocating the cost of a business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of acquisition is measured at the aggregate fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Subsidiary

A subsidiary is an entity whose financial and operating policies Huarui Asset Management controls, directly or indirectly, so as to obtain benefits from its activities.

Goodwill

Goodwill arising on the acquisition of subsidiary represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Plant and equipment and depreciation

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. All items of plant and equipment are initially recorded at cost. The cost of an item of plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of plant and equipment, and where its costs can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on a straight-line basis to write off the cost of each item of plant and equipment to its residual value over the estimated useful life or lease terms. The estimated residual value, useful life and annual depreciation rate of office equipment are as follows:

	Estimated residual value	Estimated useful life	Annual depreciation rate
Office equipment	5%	5 years	19%

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

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement of an item of plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the higher of its net selling price and value in use. Value in use is the present value of estimated future cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

Leasehold land

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. Amortisation of leasehold land in relation to properties under development is capitalised.

Properties under development

Cost of properties under development comprises development costs, capitalised borrowing costs and other direct costs attributable to the development.

Property that is being constructed or developed for future use as investment property is classified as properties under development for long term investment and stated at costs less any accumulated impairment losses until construction or development is completed, at which time it is reclassified and subsequently accounted for as an investment property.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to a fellow subsidiary and interest-bearing loans and borrowings, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents in the consolidated balance sheets comprise cash at banks and on hand.

For the purpose of the consolidated cash flow statements, cash and cash equivalents consists of cash at banks and at hand and short term deposits with an original maturity of three months or less.

Foreign currency transactions

The Financial Information is presented in RMB, which is the Group's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

Rental income

Rental income arising from operating leases on investment properties is recognised on a straight-line basis over the lease terms on ongoing leases.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities.

PRC income tax is provided at rates applicable to enterprises in the PRC on the income for statutory financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on the existing PRC income tax legislation, practices and interpretations thereof.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Conversely, previously unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased out by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on a straight-line basis over the lease terms.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Contingent liabilities

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

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

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

4. FINANCE INCOME, NET

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Interest on loans and borrowings	910	284	21,644
Less: Interest income on bank deposits	–	–	(10)
Less: Borrowing costs capitalised to properties under development for long term investment	(910)	(284)	(21,644)
Amount charged to income statement	–	–	(10)

Borrowing costs capitalised represented Huarui Asset Management's share of the borrowing costs incurred by Huarui Investment that are regarded as directly attributable to the construction of properties under development for long term investment that would be charged to Huarui Asset Management.

5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation of plant and equipment	–	–	4
Employee benefits expense:			
Wages and salaries	–	–	513
Staff social benefits	–	–	159

6. INCOME TAX

	Year ended 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Deferred income tax relating to the origination and reversal of temporary differences	–	–	(4)
Tax credit for the year	–	–	(4)

Corporate income tax is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expense items, which are not assessable or deductible for income tax purposes.

No provision for tax has been made as the Group does not have any assessable income for the Relevant Periods.

A reconciliation of income tax credit applicable to loss before tax at the statutory income tax rate to income tax credit at the Group's effective income tax rate for the Relevant Periods is as follows:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Loss before tax	–	–	(4,628)
Tax at the statutory corporate income tax rate of 33%	–	–	(1,527)
Non-deductible expenses	–	–	1,029
Tax losses not recognised	–	–	492
Effect of decrease in enacted corporate income tax rate from 33% to 25% on deferred tax	–	–	2
Income tax credit at the Group's effective tax rate	–	–	(4)

7. PLANT AND EQUIPMENT

Group

	Office equipment
	RMB'000
Cost:	
At 1 January 2007	–
Additions	–
At 31 December 2005 and 1 January 2006	–
Additions	–
At 31 December 2006 and 1 January 2007	–
Additions	187
At 31 December 2007	187
Accumulated depreciation:	
At 1 January 2005	–
Charge for the year	–
At 31 December 2005 and 1 January 2006	–
Charge for the year	–
At 1 January 2007	–
Charge for the year	4
At 31 December 2007	4
Net book value:	
At 31 December 2005	–
At 31December 2006	–
At 31 December 2007	183

Company

	Office equipment
	RMB'000
Cost:	
At 1 January 2005	–
Additions	–
At 31 December 2005 and 1 January 2006	–
Additions	–
At 31 December 2006 and 1 January 2007	–
Additions	6
At 31 December 2007	6
Accumulated depreciation:	
At 1 January 2005	–
Charge for the year	–
At 31 December 2005 and 1 January 2006	–
Charge for the year	–
At 1 January 2007	–
Charge for the year	–
At 31 December 2007	–
Net book value:	
At 31 December 2005	–
At 31December 2006	–
At 31 December 2007	6

8. LEASEHOLD LAND

Group and Company

		31 December	
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
In the PRC, held on leases of over 50 years	142,577	142,577	142,577

The Group's and Company's interest in leasehold land represents prepaid operating lease payments, which were in relation to properties under development for long term investment.

As at 31 December 2007, Huarui Asset Management was in the process of applying for the registration of the leasehold land in relation to the properties under development for long term investment that was segregated from Huarui Investment under its name.

9. PROPERTIES UNDER DEVELOPMENT FOR LONG TERM INVESTMENT

Group and Company

		31 December	
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	–	108,197	371,956
Additions	108,197	263,759	593,814
Including: Capitalisation of borrowing costs	*910*	*284*	*21,644*
At end of year	108,197	371,956	965,770

The properties under development for long term investment represent the Shenyang Richgate Shopping Mall and Shenyang Lexington Huafu Hotel that are located at the Western part of Huigong Plaza, Shenhe District, Shenyang, Liaoning Province, the PRC which were still under construction as at 31 December 2007. The legal ownership for the properties under development for long term investment was registered in the name of Huarui Asset Management on 13 December 2007.

The properties under development for long term investment are erected on eight adjacent parcels of land with a total site area of approximately 49,913.1 sq. metres, in general known as the Phase I of Shenyang Rich Gate. The land use rights of the properties were granted for a term of 40 years expiring on 9 June 2045 for commercial properties and for a term of 50 years expiring on 9 June 2055 for properties that would be used for hotel purposes.

The leasehold land (note 8) and properties under development for long term investment had an estimated market value of RMB6,211,000,000, which have been determined based on valuation performed by Sallmanns (Far East) Limited, an independent professionally qualified valuer, as at 31 October 2007, in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors, assuming the land use rights certificates under the name of Huarui Asset Management had been obtained and the properties could be freely transferred. The market value represents the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. According to SRE's group accounting policies, properties under development for long term investment are stated at cost less any accumulated impairment loss.

The leasehold land (note 8) and properties under development for long term investment are pledged under a first charge to secure Huarui Investment's bank loan obtained from Agricultural Bank of China prior to the De-merger with an outstanding balance of RMB592,400,000 as at 31 December 2007. The aforesaid bank loan is one of the designated liabilities of Huarui Investment that is to be transferred to Huarui Asset Management according to the De-merger Agreement. Such bank loan bears interest at a floating rate, based on the benchmark lending rate for a three-year term loan set forth by the People's Bank of China, adjusted annually. The loan is repayable in three unequal annual instalments with final maturity on 19 March 2010.

As at 31 December 2007, Huarui Investment was negotiating with the bank to process the transfer of the aforesaid loan to Huarui Asset Management. The aforesaid bank loan has been included in the amount due to Huarui Investment in the consolidated balance sheet as at 31 December 2007.

10. GOODWILL ON ACQUISITION

Group

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year	–	–	–
Goodwill arising from acquisition	–	–	2,219
Impairment of goodwill	–	–	(2,219)
At end of year	–	–	–

11. INVESTMENT IN A SUBSIDIARY

Company

			31 December
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted equity interest, at cost	–	–	10,000
Less: Impairment loss	–	–	(2,219)
	–	–	7,781

Details of the subsidiary as at 31 December 2007 are set out in note 2.2.

12. DEFERRED TAX ASSET

Group and Company

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets in respect of:			
Unused tax losses	–	–	4

The Group has tax losses arising from Mainland China of approximately RMB3,729,000 as at 31 December 2007 that are available for offset against future taxable profits. Under the PRC Income Tax Law, tax losses can be carried forward for a maximum of five years, for offset against future taxable profits. Deferred tax assets have not been recognised in respect of the losses of a subsidiary of RMB3,711,000 as the subsidiary has been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

13. OTHER RECEIVABLES

Group

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Renovation costs paid in advance on behalf of tenants	–	–	4,200
Other receivables	–	–	482
	–	–	4,682

14. AMOUNT DUE FROM A FELLOW SUBSIDIARY

Group

The amount due from a fellow subsidiary represented the amount due from Huarui Investment to Huarui Commercial Management. The amount is interest-free, unsecured and does not have fixed terms of repayment.

15. OTHER PAYABLES

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Security deposits received	–	–	6,256
Security deposits for renovation	–	–	1,018
Advances from third party companies	–	–	189,563
Other payables	–	–	430
	–	–	197,267

Advances from third party companies are unsecured, non-interest-bearing and do not have fixed terms of repayment.

16. AMOUNT DUE TO A FELLOW SUBSIDIARY

Company

The balance represented the costs of the properties under development for long term investment, acquisition cost of an investment in a subsidiary and other expenses that were paid on behalf of Huarui Asset Management by Huarui Investment. The amount is interest-free, unsecured and does not have fixed terms of repayment.

17. PAID-UP CAPITAL

Group and Company

The registered capital of Huarui Asset Management is US$10 million and has been fully paid-up as at 31 December 2007. Details of the registered and paid-up capital are as follows:

	Equity holding percentage	31 December 2005	2006	2007
		RMB'000	*RMB'000*	*RMB'000*
Starweb	51%	40,800	40,800	–
Elegant Parkview	49%	39,200	39,200	–
Moony Hill	51%	–	–	40,800
Qualico Investments	49%	–	–	39,200
		80,000	80,000	80,000

All capital contributions were translated at a fixed contractual exchange rate of US$1:RMB8.0 on the dates of contribution. Liaoning Bright Certified Public Accountants Co., Ltd. has verified the above capital contributions and had issued a capital verification report thereon.

On 14 November 2007, Starweb and Elegant Parkview entered into two share transfer agreements with Moony Hill and Qualico Investments to transfer their 51% and 49% equity interest in Huarui Asset Management to Moony Hill and Qualico Investments, respectively. Qualico Investments is a company with limited liability incorporated under the laws of Hong Kong on 19 September 2007 and is wholly owned by Elegant Parkview. Moony Hill is a company with limited liability incorporated under the laws of Hong Kong and is an indirect wholly owned subsidiary of SRE. The share transfers were approved by Shenyang Municipal Bureau of Foreign Trade & Economic Cooperation on 3 December 2007 via an approval document designated as "Shen Wai Jing Mao Fa (2007) No. 584 and the share transfers were executed on the same date.

18. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

	31 December 2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for:			
Properties under development	877,446	653,046	171,276

Operating lease commitments – the Group as lessor

Prior to the De-merger, Huarui Investment has entered into certain lease contracts to lease out the properties under development for long term investment under operating lease arrangements, with leases negotiated for terms ranging from 1 to 15 years. These lease arrangements were assigned to Huarui Asset Management upon the De-merger. The terms of the leases generally require the tenants to pay security deposits and also contain provisions for the periodic adjustments of rental according to the then prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December 2005, 2006 and 2007 are as follows:

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	–	–	291,926
After one year but not more than five years	–	–	593,678
More than five years	–	–	14,382
	–	–	899,986

Contingent liabilities

Joint Liabilities

Under the relevant PRC Laws, Huarui Asset Management is jointly liable for all outstanding debts and amounts payable to creditors of Huarui Investment that were in existence prior to the De-merger. Such debts/amounts owing to creditors of Huarui Investment that Huarui Asset Management is jointly liable for as at 31 December 2007 amounted to approximately RMB1.1 billion.

On 29 January 2008, Huarui Investment and Huarui Asset Management entered into a conditional Cross Indemnity Agreement, whereby both parties provide a cross-indemnity to each other in respect of claims for debts or liabilities which belong to itself after segregation of the liabilities under the De-merger. The Cross-Indemnity will have the effect of cancelling out any extra liabilities which Huarui Investment or Huarui Asset Management may have to bear under the aforesaid joint liabilities. Under the Cross-Indemnity arrangement, both Huarui Investment and Huarui Asset Management will have no further contingent liabilities in respect of each other's transactions prior to the Demerger after the full settlement of such joint liabilities. As at 31 December 2007, the Cross Indemnity Agreement is pending for the approval by the Independent shareholders of SRE, the ultimate holding company of Huarui Investment and Huarui Asset Management.

Breach of lease contracts

As disclosed in note 18, prior to the De-merger, Huarui Investment has entered into certain lease contracts to lease out the properties under development for long-term investment under operating lease arrangements, with leases negotiated for terms ranging from 1 to 15 years. These lease arrangements were assigned to Huarui Asset Management upon the De-merger. Huarui Investment had originally expected that the development of the said properties would be completed by November 2007 and some of the lease agreements that were entered into are with a start date that is as early as November 2007. Due to some delay in getting the said properties ready for use, the shop units at the shopping mall could not be handed over to the tenants as agreed and therefore certain penalties may apply. As a result, Huarui Asset Management may be contingently liable for such penalties arising from the breach of lease agreements. Management believes that no provision is needed as it is not probable that any outflow in settlement will be made based on its current assessment and negotiation with affected tenants. Moreover, Huarui Investment had undertaken to bear all penalty payments should they arise.

19. BUSINESS COMBINATION

On 19 July 2007, Huarui Investment completed its acquisition of the entire paid-up capital of Huarui Commercial Management, a commercial property management company operating in Shenyang City, the PRC for a consideration of RMB10,000,000. This acquisition has been accounted for using the purchase method of accounting. The amount of goodwill arising from the acquisition was approximately RMB2,219,000 and was written off to the consolidated income statement during the year ended 31 December 2007. From the acquisition date to 31 December 2007, Huarui Commercial Management did not generate any revenue.

The fair values of the assets and liabilities on acquisition date of Huarui Commercial Management were as follows:

	RMB'000
Long term investment	2,000
Consumables	4
Other receivables	222,870
Cash and cash equivalents	4,042
Other payables	(221,135)
Net assets acquired	7,781
Goodwill on acquisition	2,219
Purchase consideration settled in cash	10,000
Cash and cash equivalents in subsidiary acquired	(4,042)
Cash outflow on acquisition	5,958

Details of net assets acquired and goodwill arising from the acquisition of Huarui Commercial Management were as follows:

		31 December	
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Purchase consideration	–	–	10,000
Fair value of net assets of acquiree	–	–	(7,781)
Goodwill arising from acquisition	–	–	2,219

20. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

The holding and penultimate holding company of Huarui Asset Management are Moony Hill and Sinopower Investment Ltd., respectively. Management regards SRE Group Limited as the ultimate holding company of Huarui Asset Management.

In addition to the related party transactions disclosed in notes 14 and 16, the following table provides the total amounts of transactions entered into with related parties for the Relevant Periods:

Transactions with a fellow subsidiary

	Year end 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Development costs paid on behalf of Huarui Asset Management by Huarui Investment	104,357	263,759	593,814
Expenses paid on behalf of Huarui Asset Management by Huarui Investment	–	–	906
Cost of investment in Huarui Commercial Management paid by Huarui Investment	–	–	10,000
Transfer of cash amount from Huarui Investment to Huarui Asset Management	–	–	100

Balances due to a fellow subsidiary

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Huarui Investment	–	–	197,106

Balances due from a fellow subsidiary

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Huarui Investment	170,774	434,533	1,039,353

The outstanding balances with related parties are unsecured, interest-free and have no fixed terms of repayment. There have been no guarantees provided or received for any related party receivables or payables.

Compensation of key management personnel

The key management personnel of the Group did not receive any compensation from the Group during the Relevant Periods.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of its businesses whilst managing its interest rate, foreign currency, credit and liquidity risks. The Group operates within its guidelines on financial risk management and it is the Group's policy not to engage in speculative transactions.

The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group had no substantial long term interest-bearing assets as at 31 December 2007. The Group's exposure to the risk of changes in market interest rates relates primarily to interest-bearing bank loan that is to be transferred from Huarui Investment under the De-merger arrangement which the terms of such interest-bearing bank loan are disclosed in note 9 to the Financial Information.

Foreign currency risk

The Group operates mainly in Mainland China. As its functional currency is the RMB and its transactions are denominated in that currency, it is currently not exposed to significant transactional foreign exchange risks.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

The Group does not have any significant exposure to any individual customer or counterpart nor does it have any major concentration of credit risk related to any financial instruments. The Group collects rentals and security deposits that is equivalent of one to three-month lease rentals to minimise its credit risk exposure.

Liquidity risk

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that it's refinancing, repayment and funding needs are met. As part of its overall liquidity management, the Group endeavours to maintain sufficient levels of cash or cash equivalents to meet its working capital requirements. In addition, the Group strives to maintain relationships with various banks so that funds maybe drawn from available banking facilities when required to meet its obligations as they fall due. As far as possible, the Group obtains committed support or funding from its investor and banks and balances its debt portfolio with some short term funding to achieve overall cost effectiveness.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment policy or increase its paid-up capital. No changes were made in the objectives, policies or processes during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio at below 50%. The Group includes within net debt, trade and other payables less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Group.

	31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Other payables	–	–	197,267
Amount due to a fellow subsidiary	170,774	434,533	1,039,353
Less: Cash and cash equivalents	–	–	(1,591)
	170,774	434,533	1,235,029
Equity attributable to the equity holders of the parent representing total capital	80,000	80,000	75,376
Capital and net debt	250,774	514,533	1,310,405
Gearing ratio	68%	84%	94%

The gearing ratio of the Group as at 31 December 2007 of 94% exceeded the targeted level. The directors are of the opinion that the high gearing ratio is only temporary during the properties development phase when financing is arranged by Huarui Investment on behalf of Huarui Asset Management. It is expected that gearing ratio will be reduced to the target level in the next twelve months when the Group increases its capital and starts generating profits once the properties are completed.

22. FAIR VALUE

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair values of other receivables, an amount receivable from a fellow subsidiary, other payables and an amount due to a fellow subsidiary are not materially different from their carrying amounts as the amounts are expected to be settled shortly.

23. SIGNIFICANT EVENT

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of income tax rate for domestic-invested and foreign-invested enterprises at 25%. Therefore, the Group's deferred tax assets as at 31 December 2007 are measured at 25%.

24. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Huarui Asset Management and its subsidiary in respect of any period subsequent to 31 December 2007.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The accompanying unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group has been prepared to illustrate the effect of the acquisition of a 100% interest in Qualico Investments Ltd. (the "Acquisition") on the financial position of the Enlarged Group as at 30 June 2007.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "Pro Forma Financial Information") is prepared based on the unaudited consolidated balance sheet of SRE Group Limited (the "Company" or "SRE") and its subsidiaries (hereinafter referred to as the "Group") as at 30 June 2007, as extracted from the interim results announcement of the Company for the six months ended 30 June 2007, after taking into account the pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition transaction; and (ii) factually supportable, as summarised in the accompanying notes.

The accompanying unaudited Pro Forma Financial Information is prepared by the directors to provide the unaudited pro forma financial information of the Enlarged Group upon completion of the Acquisition based on a number of assumptions, estimates and currently available information. As it is prepared for illustration purposes only, the accompanying unaudited Pro Forma Financial Information does not purport to describe the financial position that would have been presented had the Acquisition been completed or purport to predict the financial position of the Enlarged Group at any future dates.

The accompanying unaudited Pro Forma Financial Information should be read in conjunction with the unaudited financial statements of the Group and other financial information as set out in the circular dated 31 January 2008 issued by the Company.

Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group

	The Group as at 30 June 2007 *(Note 1)* *HK$'000*	Pro forma Adjustments *HK$'000*	*Notes*	Pro forma Enlarged Group *HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	1,166,529			1,166,529
Investment properties	1,429,517	353,489	*(6)*	1,783,006
Investment in a subsidiary	–	38,220	*(2)*	–
		1,952,780	*(3)*	
		(1,991,000)	*(7)*	
Leasehold land	254,935			254,935
Properties under development for long term investment	584,904	5,200,667	*(5)*	5,785,571
Intangible assets	77,542	11,998	*(7)*	84,980
		(4,560)	*(8)*	
Interests in associated companies	109,819			109,819
Financial assets at fair value through profit or loss	564,683			564,683
Deferred tax assets	9,896			9,896
Total non-current assets	4,197,825			9,759,419
CURRENT ASSETS				
Leasehold land	2,695,669			2,695,669
Properties held or under development for sale	5,009,746			5,009,746
Inventories, at cost	3,650			3,650
Amounts due from related companies	102,054	38,220	*(3)*	102,054
		(38,220)	*(4)*	
Prepayments and other current assets	76,917			76,917
Other receivables	345,000			345,000
Accounts receivable, net	118,115			118,115
Prepaid income tax	81,051			81,051
Cash and bank balances	1,213,355	(4,000)	*(3)*	1,209,355
Total current assets	9,645,557			9,641,557
TOTAL ASSETS	13,843,382			19,400,976

	The Group as at 30 June 2007 *(Note 1)* *HK$'000*	Pro forma Adjustments *HK$'000*	*Notes*	Pro forma Enlarged Group *HK$'000*
CURRENT LIABILITIES				
Short term borrowings	2,003			2,003
Convertible bonds, current portion	42,361			42,361
Advances received from the pre-sale of properties under development	2,248,190			2,248,190
Accounts payable	577,240			577,240
Other payables, accruals and derivative instruments	1,263,723			1,263,723
Current income tax liabilities	396,699			396,699
Long term borrowings, current portion	783,773			783,773
Total current liabilities	5,313,989			5,313,989
NET CURRENT ASSETS	4,331,568			4,327,568
TOTAL ASSETS LESS CURRENT LIABILITIES	8,529,393			14,086,987
NON-CURRENT LIABILITIES				
Long term borrowings	2,747,594			2,747,594
Guaranteed notes	1,535,167			1,535,167
Loans from a shareholder	–	38,220	*(2)*	–
		(38,220)	*(4)*	
Deferred tax liabilities	527,347	1,300,166	*(5)*	1,915,885
		88,372	*(6)*	
Total non-current liabilities	4,810,108			6,198,646
NET ASSETS	3,719,285			7,888,341

	The Group as at 30 June 2007 *(Note 1)*	Pro forma Adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*Notes*	*HK$'000*
EQUITY				
Equity attributable to equity holders of the parent				
Share capital and premium	1,962,279	1,987,000	*(3)*	1,962,279
		(1,987,000)	*(8)*	
Other reserves	228,568			228,568
Fair value gain	–	1,989,256	*(5)*	2,254,373
		265,117	*(6)*	
Retained earnings	1,076,340	(4,000)	*(7)*	1,143,896
		(71,556)	*(8)*	
	3,267,187			5,589,116
Minority interest	452,098	1,911,245	*(5)*	2,299,225
		(1,975,002)	*(7)*	
		1,910,884	*(8)*	
Total equity	3,719,285			7,888,341

Notes to the Adjustments

Note 1 This represents the unaudited consolidated balance sheet of the Group as at 30 June 2007, as extracted from the interim results announcement of SRE for the six months ended 30 June 2007. The assets and liabilities of Huarui Asset Management have already been included in the consolidated financial statement of the Group as at 30 June 2007 as prior to the Acquisition, Huarui Asset Management is a 51% owned subsidiary of Starweb Investment Ltd., an indirect wholly owned-subsidiary of SRE.

Note 2 The adjustment represents the recognition of an investment in Huarui Asset Management and loan from Elegant Parkview in Qualico Investments upon completion of the transfer of a 49% equity interest in Huarui Asset Management from Elegant Parkview to Qualico Investments at net book value of US$4,900,000 (equivalent to HK$38,220,000), which is financed by a shareholder's loan.

Note 3 The adjustment represents the Acquisition by China Edifice Ltd. of a 100% equity interests in Qualico Investments Ltd. and assignment of the shareholder's loan of US$4,900,000 (equivalent to HK$38,220,000) as described in *Note 2*, for an aggregate consideration of HK$1,987,000,000 which are satisfied by China Edifice issuing 3,800 new shares of HK$1.00 each in the capital of China Edifice at completion of the Acquisition, representing approximately 38% of the enlarged issued share capital of China Edifice and the related acquisition cost of approximately HK$4,000,000, which was paid in cash.

Note 4 The adjustment represents the elimination of the shareholder's loan in Qualico Investment's book against the amount due from a subsidiary in China Edifice Ltd.'s book as a result of the assignment of the loan by Elegant Parkview to China Edifice Ltd.

Note 5 The adjustment represents the excess of fair values of Huarui Asset Management's leasehold land and properties under development for long term investment over their carrying amounts in the consolidated financial statements of SRE Group of RMB1,169,923,000 as at 31 December 2007. These carrying amounts are arrived at after taken into consideration the fair value adjustment of RMB61,576,000 that was made to restate Huarui Asset Management's leasehold land and properties under development for long term investment at fair value under the purchase method of accounting in the consolidated financial statement of the Company on 1 August 2006, the date when the Company first gained control over Huarui Asset Management.

The properties were valued on 31 October 2007 by Sallmanns, independent qualified professional valuers, with an adjustment of fair value gain of RMB4,869,801,000 (translated to HK$5,200,667,000), after taking into consideration the estimated costs to get the properties ready for their intended use of approximately RMB171,000,000.

According to HKAS 40 and HKAS 16, properties that are under construction cannot be regarded as investment properties and therefore, are stated at costs less any impairment loss. As the terms of the Acquisition transaction are based on the fair values of the properties, the directors of the Company are of the opinion that the properties should be reported at fair value in the Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group to reflect the value of the interest acquired as a result of the Acquisition transaction, which is solely for illustrative purpose only in the Pro Forma Financial Information. The directors of the Company are also of the view that the valuation as determined by independent qualified professional valuers, is a good estimate of the fair value of the properties as at 31 December 2007 and reference has been made to such valuations for the purpose of the Acquisition transaction. Deferred tax liabilities on the fair value adjustments, calculated at the applicable tax rate of 25% in the People's Republic of China (the "PRC"), amounting to RMB1,217,450,000 (translated to HK$1,300,166,000) have been recognised accordingly. Minority shareholders shared a net revaluation gain of RMB1,789,652,000 (translated to HK$1,911,245,000), based on their equity holding percentage at 49% prior to the Acquisition.

Note 6 The adjustment represents the excess of fair values of Huajian's investment properties as at 31 October 2007 over their carrying amounts as at 30 June 2007. The properties were valued on 31 October 2007 by Sallmanns, independent qualified professional valuers, with an additional adjustment for fair value gain of RMB331,000,000 (translated to HK$353,489,000) compared to fair value as of 30 June 2007. Deferred tax liabilities on the fair value adjustments, calculated at the PRC tax rate of 25%, amounted to RMB82,750,000 (translated to HK$88,372,000) have been recognised accordingly.

Similar to the situation as described in *Note 5*, the directors of the Company are of the opinion that for the purpose of the Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group, pro forma adjustments should be made to state Huajian's investment properties at their fair values as of 31 October 2007. This is to reflect the consideration of the Acquisition transaction; the valuation result as of 31 October 2007 is a good estimate of the fair value of the properties, which had been used as reference for the purpose of the Acquisition transaction.

Note 7 Being acquisition of minority interest in Huarui Asset Management for HK$1,987,000,000 and the recognition of goodwill of approximately HK$11,998,000 that would arise from the Acquisition. Goodwill on acquisition is calculated as the excess of the consideration for the Acquisition over the share of fair value of the identifiable assets and liabilities of Huarui Asset Management as at 31 December 2007. The related acquisition cost of HK$4,000,000 is charged to the consolidated income statement.

Note 8 This adjustment represents the dilution of the Group's equity interest in China Edifice from 100% to 62% as a result of the issuance of the Consideration Shares to the shareholders of Qualico Investments Ltd. and the recognition of the additional minority interest in China Edifice Group. Goodwill attributable to the minority interest of the enlarged China Edifice Group as a result of the deemed disposal of approximately HK$4,560,000 is de-recognised. A gain on deemed disposal of HK$71,556,000 is recognised in the consolidated income statement. This adjustment is for illustrative purpose and the actual gain at date of completion of the Acquisition may be different.

Note 9 For the purpose of the pro forma statement of assets and liabilities, the balances stated in RMB have been translated to Hong Kong Dollars ("HK$") at an exchange rate of RMB1:HK$1.0679, which is the prevailing exchange rate on 31 December 2007.

Note 10 No adjustment has been made to reflect any trading results or other transaction of the Group and Huarui Asset Management Group entered into subsequent to 30 June 2007 and 31 December 2007, respectively.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

The Board of Directors
SRE Group Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of SRE Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including its interest in Qualico Investments Ltd. ("Qualico Investments") (the "Enlarged Group") set out on pages III-1 to III-6 in Appendix III to the circular dated 31 January 2008 (the "Circular") issued by the Company, which has been prepared by the directors for illustrative purposes only, to provide information in connection with its proposed acquisition of the entire issued share capital of Qualico Investments (the "Proposed Acquisition"). The pro forma financial information is presented to provide information about how the Proposed Acquisition might have affected the relevant financial information of the Group as separately presented.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted statement of assets and liabilities of the Group as at 30 June 2007 with the interim results announcement of the Company for the six months ended 30 June 2007, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group, had the transaction actually occurred as at 30 June 2007 indicated therein or any future date.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong
31 January 2008

As the acquisition of Shuo Cheng was completed after the date of the latest published audited accounts of the Company, being 31 December, 2006, the following financial information of the Shuo Cheng Group for the 3 years ended 31 December 2003, 2004 and 2005 and the 10 months ended 31 October, 2006 which were included in the circular issued by the Company in respect of the acquisition of 55% interest in Shuo Cheng are reproduced in this appendix for the purposes of paragraph 31 of Appendix 1B of the Listing Rules.

I. FINANCIAL INFORMATION

(a) Consolidated balance sheets of Shuo Cheng Group

	Note	As at 31 December 2003	2004	2005	As at 31 October 2006
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	1,551	1,205	925	752
Deferred income tax assets	7	395	950	2,325	5,341
		1,946	2,155	3,250	6,093
Current assets					
Leasehold land	8	414,901	955,601	1,445,153	1,917,171
Properties held or under development for sale	10	17,381	57,937	286,679	569,187
Financial assets held for trading		–	3,000	–	–
Prepayment and other current assets	11	–	–	–	25,450
Other receivables		377	363	2,344	2,313
Prepaid income tax		–	–	–	12,680
Cash and bank balances	12	85,447	93,837	186,257	177,798
		518,106	1,110,738	1,920,433	2,704,599
Total assets		520,052	1,112,893	1,923,683	2,710,692
EQUITY					
Capital and reserves attributable to equity holders of Shuo Cheng					
Share capital	13	50,000	50,000	50,000	50,000
Accumulated losses		(801)	(1,929)	(4,701)	(10,764)
		49,199	48,071	45,299	39,236
Minority interest		–	–	179	118
Total equity		49,199	48,071	45,478	39,354

	Note	As at 31 December 2003 RMB'000	As at 31 December 2004 RMB'000	As at 31 December 2005 RMB'000	As at 31 October 2006 RMB'000
LIABILITIES					
Non-current liabilities					
Long-term borrowings	*14, 24*	470,688	670,763	724,872	599,272
Current liabilities					
Short-term borrowings	*14*	–	393,899	1,018,618	447,018
Accounts payable	*15*	–	–	125,804	221,780
Other payables and accruals	*16*	165	160	8,911	302,639
Advances received from the pre-sale of properties under development	*17*	–	–	–	786,734
Long-term borrowings, current portion	*14*	–	–	–	313,895
		165	394,059	1,153,333	2,072,066
Total liabilities		470,853	1,064,822	1,878,205	2,671,338
Total equity and liabilities		520,052	1,112,893	1,923,683	2,710,692
Net current assets		517,941	716,679	767,100	632,533
Total assets less current liabilities		519,887	718,834	770,350	638,626

(b) Balance sheets of Shuo Cheng

	Note	As at 31 December 2003 *RMB'000*	As at 31 December 2004 *RMB'000*	As at 31 December 2005 *RMB'000*	As at 31 October 2006 *RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	*6*	1,551	1,205	904	644
Investment in a subsidiary	*9(a)*	–	–	19,800	19,800
Deferred income tax assets	*7*	395	950	1,302	1,335
		1,946	2,155	22,006	21,779
Current assets					
Leasehold land	*8*	414,901	955,601	885,311	1,364,224
Properties held or under development for sale	*10*	17,381	57,937	83,558	146,382
Financial assets held for trading		–	3,000	–	–
Other receivables		377	363	833	744
Amount due from a subsidiary	*9(b)*	–	–	628,438	–
Cash and bank balances	*12*	85,447	93,837	179,523	46,301
		518,106	1,110,738	1,777,663	1,557,651
Total assets		520,052	1,112,893	1,799,669	1,579,430
EQUITY					
Capital and reserves attributable to equity holders of Shuo Cheng					
Share capital	*13*	50,000	50,000	50,000	50,000
Accumulated losses		(801)	(1,929)	(2,643)	(2,710)
Total equity		49,199	48,071	47,357	47,290

	Note	As at 31 December 2003 RMB'000	2004 RMB'000	2005 RMB'000	As at 31 October 2006 RMB'000
LIABILITIES					
Non-current liabilities					
Long-term borrowings	*14,24*	470,688	670,763	724,872	299,272
Current liabilities					
Short-term borrowings	*14*	–	393,899	1,018,618	447,018
Other payables and accruals	*16*	165	160	8,822	297,961
Amount due to a subsidiary	*9(b)*	–	–	–	173,994
Long-term borrowings, current portion	*14*	–	–	–	313,895
		165	394,059	1,027,440	1,232,868
Total liabilities		470,853	1,064,822	1,752,312	1,532,140
Total equity and liabilities		520,052	1,112,893	1,799,669	1,579,430
Net current assets		517,941	716,679	750,223	324,783
Total assets less current liabilities		519,887	718,834	772,229	346,562

(c) Consolidated income statements of Shuo Cheng Group

		Year ended 31 December			Ten months ended 31 October	
	Note	**2003**	**2004**	**2005**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue		–	–	–	–	–
Cost of sales		–	–	–	–	–
Gross profit		–	–	–	–	–
Other (losses)/gains-net		(1)	4	10	10	(3)
Selling and marketing costs		(303)	(187)	(2,922)	(1,873)	(7,494)
Administrative expenses		(892)	(1,500)	(1,256)	(914)	(1,643)
Operating loss	*18*	(1,196)	(1,683)	(4,168)	(2,777)	(9,140)
Finance costs	*20*	–	–	–	–	–
Loss before income tax		(1,196)	(1,683)	(4,168)	(2,777)	(9,140)
Income tax	*21*	395	555	1,375	916	3,016
Loss for the year/period		(801)	(1,128)	(2,793)	(1,861)	(6,124)
Attributable to:						
Equity holders of the Shuo Cheng		(801)	(1,128)	(2,772)	(1,848)	(6,063)
Minority interests		–	–	(21)	(13)	(61)
		(801)	(1,128)	(2,793)	(1,861)	(6,124)
Losses per share for losses attributable to the equity holders of Shuo Cheng		N/A	N/A	N/A	N/A	N/A
Dividends		–	–	–	–	–

(d) Consolidated statements of changes in equity of Shuo Cheng Group

	Note	Attributable to equity holders of Shuo Cheng Share capital *RMB'000*	Accumulated losses *RMB'000*	Minority interest *RMB'000*	Total equity *RMB'000*
Balance at 29 January 2003		–	–	–	–
Loss for the period		–	(801)	–	(801)
Capital contributions from equity holders of Shuo Cheng		50,000	–	–	50,000
Balance at 31 December 2003		50,000	(801)	–	49,199
Loss for the year		–	(1,128)	–	(1,128)
Balance at 31 December 2004		50,000	(1,929)	–	48,071
Capital contributions from minority shareholder of a subsidiary		–	–	200	200
Loss for the year		–	(2,772)	(21)	(2,793)
Balance at 31 December 2005		50,000	(4,701)	179	45,478
Loss for the period		–	(6,063)	(61)	(6,124)
Balance at 31 October 2006		50,000	(10,764)	118	39,354
For the ten months ended 31 October 2005 (unaudited)					
Balance at 31 December 2004		50,000	(1,929)	–	48,071
Capital contributions from minority shareholder of a subsidiary		–	–	200	200
Loss for the period		–	(1,848)	(13)	(1,861)
Balance at 31 October 2005 (unaudited)		50,000	(3,777)	187	46,410

(e) Consolidated cash flow statements of Shuo Cheng Group

	Note	Year ended 31 December 2003	2004	2005	Ten months ended 31 October 2005	2006
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash flows from operating activities:						
Cash (used in)/generated from operations	22	(419,528)	(552,177)	(512,337)	(367,543)	186,025
Income tax paid		–	–	–	–	(12,680)
Interest paid		(13,267)	(33,507)	(40,134)	(25,160)	(58,101)
Net cash (used in)/generated from operating activities		(432,795)	(585,684)	(552,471)	(392,703)	115,244
Cash flows from investing activities:						
Purchase/constructions of property, plant and equipment		(1,658)	(25)	(28)	(8)	(103)
Net cash used in investing activities		(1,658)	(25)	(28)	(8)	(103)
Cash flows from financing activities:						
Capital contributions from equity holders of Shuo Cheng	13	50,000	–	–	–	–
Capital contributions from minority shareholder of a subsidiary		–	–	200	200	–
Increase of pledged deposits		–	(40,000)	–	–	–
Release of pledged deposits		–	–	19,959	19,971	5,038
Proceeds from short-term borrowings		–	523,899	1,318,618	971,000	914,018
Repayment of short-term borrowings		–	(130,000)	(693,899)	(650,000)	(1,485,618)
Proceeds from long-term bank borrowings		–	–	–	–	300,000
Proceeds from shareholder borrowings	24((b)ii)	669,900	224,078	291,622	291,422	–
Repayment of shareholder borrowings	24((b)ii)	(200,000)	(24,078)	(271,622)	(271,622)	(140,693)
Advance from third parties	16	–	–	–	–	288,693
Net cash generated from/(used in) financing activities		519,900	553,899	664,878	360,971	(118,562)

		Year ended 31 December			Ten months ended 31 October	
	Note	**2003**	**2004**	**2005**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Net increase/(decrease) in cash and cash equivalents		85,447	(31,810)	112,379	(31,740)	(3,421)
Cash and cash equivalents at beginning of year/period		–	85,447	53,637	53,637	166,016
Cash and cash equivalents at end of year/period	*12*	85,447	53,637	166,016	21,897	162,595

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION OF SHUO CHENG GROUP

Shuo Cheng was incorporated in the People's Republic of China (the "PRC") on 29 January 2003 as a limited liability company with registered capital of RMB 50 million. During the Relevant Periods, Shuo Cheng Group has only one business of property construction in Shanghai city, no revenue from sales of properties has been recognised.

As at the date of this report, Shuo Cheng had direct interests in a subsidiary as set out below:

Name	Place and date of incorporation	Percentage of equity interest attributable to Shuo Cheng Group				Issued and paid-up capital	Authorised share capital	Principal activities
		2003	2004	2005	2006			
Shanghai Oasis Ya Bin Li Real Estate Co., Ltd. ("Ya Bin Li")	PRC 18 July 2005	–	–	99%	99%	RMB20,000,000	RMB20,000,000	Property development

The principal activities of Shuo Cheng Group are property development and management.

The registered office of Shuo Cheng is located at 2/F, Building 1104, No. 960, Zhongxing Road, Shanghai, the PRC.

The Financial Information is prepared in thousands of RMB Yuan ("RMB'000"), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The Financial Information of Shuo Cheng Group has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA. The Financial Information is the first consolidated financial statements of Shuo Cheng Group being prepared in accordance with HKFRS. HKFRS 1 – "First-time Adoption of Hong Kong Financial Reporting Standards" has been applied in preparing the Financial Information.

Shuo Cheng Group's financial statements issued previously were prepared in accordance with PRC GAAP. Reconciliations and descriptions of the effect of the transition from PRC GAAP to HKFRS on Shuo Cheng Group's equity and its net income are provided in Note 5.

The Financial Information of Shuo Cheng Group has been prepared under the historical cost convention, as modified by the revaluation of financial assets held for trading.

The preparation of Financial Information 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 Shuo Cheng Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKFRS 29", effective for annual periods beginning on or after 1 March 2006;

- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1 May 2006;
- HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006;
- HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. HKAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1 January 2007.
- HK(IFRIC)-Int 10, "Interim Financial Reporting and Impairment", effective for annual periods beginning on or after 1 November 2006.

The management is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards.

2.2 Going concern

As at 31 October 2006, Shuo Cheng Group had outstanding bank borrowings, shareholders' borrowings, government's borrowings and borrowings from other entities of approximately RMB1,649 million in aggregate, of which approximately RMB1,050 million is due for repayment or renewal within the next twelve months. Taking into account Shuo Cheng Group's operating cash flows and the loan obligations, its ability to continue as a going concern will depend on the support from the bankers and shareholders.

The Directors are confident that Shuo Cheng Group will continue to obtain the ongoing support from its bankers, and are in active negotiation to renew certain existing facilities. In addition, Shanghai Real Estate Limited, the shareholder, has undertaken to provide continuing financial support to Shuo Cheng Group after the Acquisition, to enable it to operate as a going concern and meet its obligation for the next twelve months.

Based on the above, the Directors are satisfied that Shuo Cheng Group will be able to meet its financial obligations as and when they fall due for the twelve months from 31 October 2006. Accordingly, the Directors are of the opinion that it is appropriate to prepare the Financial Information on a going concern basis. The Financial Information does not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should Shou Cheng Group be unable to continue as a going concern.

2.3 Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which Shuo Cheng 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 Shuo Cheng Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to Shuo Cheng Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by Shuo Cheng Group. 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 Shuo Cheng Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Shuo Cheng Group.

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

(ii) Transactions with minority interests

Shuo Cheng Group applies a policy of treating transactions with minority interests as transactions with parties external to Shuo Cheng Group. Disposals to minority interests result in gains and losses for Shuo Cheng Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.4 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 providing 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.

2.5 Functional and presentation currency

Items included in the financial statements of each of Shuo Cheng Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Financial Information are presented in RMB Yuan, which is Shuo Cheng and its subsidiary' functional and presentation currency.

2.6 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.

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 Shuo Cheng Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

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

Furniture and equipment	5 years
Motor vehicles	5 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 (Note 2.7).

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

2.7 Impairment of non-financial assets

Assets that are subject to amortisation and depreciation 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 purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

Shuo Cheng Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when Shuo Cheng Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.10).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Shuo Cheng Group's management has the positive intention and ability to hold to maturity. During the Relevant Periods, Shuo Cheng Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. During the Relevant Periods, Shuo Cheng Group did not hold any investments in this category.

Regular purchases and sales of investments are recognised on trade-date – the date on which Shuo Cheng Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and Shuo Cheng Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Shuo Cheng Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, or other appropriate pricing models.

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

2.9 Properties held or under development for sale

Properties held or under development for sale are included in current assets at the lower of cost and net realisable value.

The costs of properties held or under development consist of construction expenditures and borrowing costs directly attributable to the construction of such properties, the amortisation of leasehold land and other direct costs. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and variable selling expenses.

No depreciation is provided on properties held or under development for sale.

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that Shuo Cheng 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 income statement.

2.11 Cash and cash equivalent

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.12 Borrowings

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

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

2.13 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 Information. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by Shuo Cheng Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.14 Employee benefits – pension obligation (defined contribution plan)

Pursuant to PRC laws and regulations, all Chinese employees of Shuo Cheng Group participate in a social pension scheme organized and administered by the governmental authorities. According to the relevant regulations, the contributions that Should be born by Shuo Cheng Group are calculated based on percentages of the total salary of employees, subject to a certain ceiling, and are paid to the social pension authority. The government authority is responsible for the pension liabilities relating to such staff on their retirement. Shuo Cheng Group has no legal or constructive obligations to pay further contributions if the scheme do not hold sufficient assets to pay all employees the benefits relating to employee in the current and prior periods. The provision and contributions have been included in the consolidated income statements upon incurrence.

Shuo Cheng Group provides no retirement or termination benefits other than those described above.

2.15 Provisions

Provisions are recognised when: Shuo Cheng 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Contingent liabilities and contingent assets

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 Shuo Cheng 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 accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of Shuo Cheng Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.17 Government grants

Government grants in form of non-monetary assets are recognised at their nominal values, when there is a reasonable assurance that the grants will be received and Shuo Cheng Group will comply with all attached conditions.

Government grants relating to the purchase of assets are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the assets and are recognised as the income statement over the life of the assets by way of a reduced depreciation charge on the assets or by a reduced cost of sale in the event that the assets concerned are sold.

Government loans at nil or low interest rates are a form of government assistance. The loan is measured at the amount of the loan received, without benefit quantified by the imputation of interest.

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of Shuo Cheng Group's activities, net of value-added tax, sales tax, rebates and discounts and after eliminating sales within Shuo Cheng Group.

Revenue from sale of properties is recognised upon completion of sale agreement, which refers to the time when properties are completed and delivered to the buyers. Deposits and instalments received on properties sold prior to completion of the respective sale agreements are included as advance received from pre-sale of properties under development.

During the Relevant Periods, Shuo Cheng Group has not recognised any revenue from sales of properties.

2.19 Operating leases (as a lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

Shuo Cheng Group made upfront payments to obtain operating leases of land use rights on which properties will be developed for sale. The upfront payments for leasehold land are recorded as assets and amortised over the lease periods when Shuo Cheng Group is entitled to exercise its right to use the leased assets. The amortisation during the period of construction of the properties is capitalised as the cost of properties under development for sale. The amortisation during the period before the commencement and after the completion of the construction of the properties for sale is expensed in income statement. The unamortised upfront payments are recognised as cost of sales when the relevant properties are sold.

2.20 Borrowing cost

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 expensed.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

Shuo Cheng Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and foreign currency exchange rate risk. Shuo Cheng Group's overall risk management programme focuses on efforts to minimise potential adverse effects of such risks on Shuo Cheng Group's financial performance.

(a) Credit risk

Shuo Cheng Group's exposure to credit risk is represented by the carrying amount of each financial asset, mainly including receivables.

Shuo Cheng Group has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics. For the sale of development properties to retail customers, consideration would be settled in cash or customers' purchase would be financed by mortgage loans provided by banks.

(b) Liquidity risk

Shuo Cheng Group maintains sufficient liquidity at all times with a financial planning system which is used to recognise Shuo Cheng Group's future state of liquidity as is evident from the results of Shuo Cheng Group's strategic and planning process. The major sources of funds for project costs are bank borrowings, shareholders' borrowings and advances received from the pre-sale of properties under development.

Shuo Cheng Group has developed strategic relationship with the major banks that will normally provide financing to Shuo Cheng Group when relevant approval from government authorities for the commencement of a project is obtained.

(c) Fair value and cash flow interest rate risk

Shuo Cheng Group has significant borrowings which brings interest-rate risk. Borrowings issued at variable rates expose Shuo Cheng Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose Shuo Cheng Group to fair value interest-rate risk. Shuo Cheng Group has not hedged its cash flow and fair value interest rate risk. The interest rate and terms of repayments of borrowings are disclosed in Note 14.

Shuo Cheng Group has no significant interest-bearing assets other than cash in bank, Shuo Cheng Group's income and operating cash flows are substantially independent of changes in market interest rates.

(d) Foreign exchange risk

Shuo Cheng Group operates in Mainland China with the transactions denominated in Chinese Renminbi. The conversion of Chinese Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the Mainland China government.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by Shuo Cheng Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Shuo Cheng Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value less impairment provision of trade receivables and the carrying value of trade payables approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Shuo Cheng Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

4.1 Critical accounting estimates and assumptions

Shuo Cheng 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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Going concern

Shuo Cheng Group's management's assessment of the going concern assumption involves making a judgement, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain. Major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in Note 2.2 to the Financial Information.

4.2 Critical judgements in applying the entity's accounting policies

(a) Leasehold land

Pursuant to a leasehold land agreement signed in July 2003 between Shuo Cheng and the local government ("the Land Contract"), the local government provided the raw land to Shuo Cheng, and Shuo Cheng is responsible for relocating the original residents on the land, on which Shuo Cheng develops properties for sale. On the condition that all relocation costs are settled, Shuo Cheng would get the leasehold land free of the land premium.

As a result of the Land Contract, the relocation costs incurred on the land as a condition of its acquisition are treated as the cost of acquisition of the land and are accounted for as leasehold land.

5. TRANSITION TO HKFRS

5.1 Basis of transition to HKFRS

5.1.1 Application of HKFRS 1

The Financial Information of Shuo Cheng Group is the first financial statements that comply with HKFRS. The Financial Information has been prepared as described in Note 2.1. Shuo Cheng Group has applied HKFRS 1 in preparing the Financial Information.

Shuo Cheng Group' transition date is 29 January 2003 (date of incorporation of Shuo Cheng). Shuo Cheng Group prepared its opening HKFRS balance sheet at that date.

In preparing the Financial Information in accordance with HKFRS 1, Shuo Cheng Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of HKFRS.

5.1.2 Exemptions from full retrospective application elected by Shuo Cheng Group

Shuo Cheng Group has elected to apply the following optional exemptions from full retrospective application.

(a) Business combinations exemption

Shuo Cheng Group did not perform any business combinations during the Track Record Periods. This exemption is not applicable.

(b) Fair value as deemed cost exemption

Shuo Cheng Group did not measure any items of property, plant and equipment at or before the date of transition to HKFRS at its fair value. This exemption is not applicable.

(c) Employee benefits exemption

Shuo Cheng Group has not entered into any employee defined benefit plans. This exemption is not applicable.

(d) Cumulative translation differences exemption

Shuo Cheng Group has no translation difference arising from foreign operation, this exemption is not applicable

(e) Compound financial instruments exemption

Shuo Cheng Group did not issue any compound instruments. This exemption is not applicable.

(f) Assets and liabilities of subsidiaries, associates and joint ventures exemption

This exemption is not applicable, as the use of the exemption is made at the level of the subsidiaries and associated companies that adopts HKFRS later than its parent company.

(g) Designation of financial assets and financial liabilities exemption

Shuo Cheng Group has not applied this exemption to designate any previously recognised financial assets and financial liabilities as available-for-sale investments and financial assets at fair value through profit and loss at the date of transition to HKFRS.

(h) Share-based payment transaction exemption

Shuo Cheng Group did not make any share-based payment. This exemption is not applicable.

(i) Insurance contracts exemption

Shuo Cheng Group did not issue any insurance contracts. This exemption is not applicable.

(j) Decommissioning liabilities included in the cost of property, plant and equipment exemption

Shuo Cheng Group had no such liabilities at the date of transition to HKFRS. This exemption is not applicable.

(k) Fair value measurement of financial assets or liabilities at initial recognition

Shuo Cheng Group has not applied the exemption offered by the revision of HKAS 39 on the initial recognition of the financial instruments measured at fair value through profit and loss where there is no active market. This exemption is therefore not applicable.

5.1.3 Exceptions from full retrospective application followed by Shuo Cheng Group

Shuo Cheng Group has applied the following mandatory exceptions from retrospective application.

(a) Derecognition of financial assets and liabilities exception

Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under HKFRS. The application of the exemption from restating comparatives for HKAS 32 and HKAS 39 means that Shuo Cheng Group recognised from 1 January 2005 any financial assets and financial liabilities derecognised since 1 January 2004 that do not meet the HKAS 39 derecognition criteria. Management did not choose to apply the HKAS 39 derecognition criteria at an earlier date.

(b) Hedge accounting exception

Shuo Cheng Group did not enter into any hedge transactions before or at the transition date. No adjustment was required.

(c) Estimates exception

Estimates under HKFRS at 29 January 2003 Should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

(d) Assets held for sale and discontinued operations exception

Management applies HKFRS 5 prospectively from 1 January 2005. Any assets held for sale or discontinued operations are recognised in accordance with HKFRS 5 only from 1 January 2005. Shuo Cheng Group did not have any assets that met the held-for-sale criteria during the Track Record Periods. No adjustment was required.

5.2 Reconciliations between HKFRS and PRC GAAP

Besides the above analysis, there are certain other GAAP differences, which resulted into reconciliation items from transition from PRC GAAP to HKFRS on Shuo Cheng Group's equity and net income:

	29 January 2003 (date of incorporation) *RMB'000*	**31 October 2005** *RMB'000* *(unaudited)*	**31 December 2005** *RMB'000*	*Note*
Total equity under PRC GAAP	–	50,000	50,000	
Expense off start-up period expenses	–	(5,655)	(7,047)	*(a)*
Deferred tax adjustments	–	1,666	2,325	*(b)*
Others		–	200	
Total equity under HKFRS	–	46,011	45,478	

	29 January 2003 to 31 December 2003 *RMB'000*	**1 January 2005 to 31 October 2005** *RMB'000* *(unaudited)*	**1 January 2005 to 31 December 2005** *RMB'000*	*Note*
Net income under PRC GAAP	–	–	–	
Expense off start-up period expenses	(1,196)	(2,777)	(4,168)	*(a)*
Deferred tax adjustments	395	916	1,375	*(b)*
Net income under HKFRS	(801)	(1,861)	(2,793)	

(a) Under PRC GAAP, expenses incurred during start-up period should be capitalised in other long term assets, and will be expensed in the first month of commercial operations.

(b) Expenses incurred during start-up period are tax deductible within five years since they are charged into PRC GAAP income statements. Deferred tax assets arose from such temporary difference in accordance with HKFRS. However, no deferred tax assets are recognised under PRC GAAP.

6. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Furniture and equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 29 January 2003			
Cost	–	–	–
Accumulated depreciation	–	–	–
Net book amount	–	–	–
Period ended 31 December 2003			
Opening net book amount	–	–	–
Additions	554	1,104	1,658
Depreciation	(28)	(79)	(107)
Closing net book amount	526	1,025	1,551
At 31 December 2003			
Cost	554	1,104	1,658
Accumulated depreciation	(28)	(79)	(107)
Net book amount	526	1,025	1,551
Year ended 31 December 2004			
Opening net book amount	526	1,025	1,551
Additions	25	–	25
Depreciation	(91)	(212)	(303)
Disposals	(68)	–	(68)
Closing net book amount	392	813	1,205
At 31 December 2004			
Cost	511	1,104	1,615
Accumulated depreciation	(119)	(291)	(410)
Net book amount	392	813	1,205

GROUP

	Furniture and equipment *RMB'000*	**Motor vehicles** *RMB'000*	**Total** *RMB'000*
Year ended 31 December 2005			
Opening net book amount	392	813	1,205
Additions	28	–	28
Depreciation	(96)	(212)	(308)
Closing net book amount	324	601	925
At 31 December 2005			
Cost	539	1,104	1,643
Accumulated depreciation	(215)	(503)	(718)
Net book amount	324	601	925
Ten months ended 31 October 2006			
Opening net book amount	324	601	925
Additions	103	–	103
Depreciation	(99)	(177)	(276)
Closing net book amount	328	424	752
At 31 October 2006			
Cost	642	1,104	1,746
Accumulated depreciation	(314)	(680)	(994)
Net book amount	328	424	752

Depreciation expenses have been charged to "properties held or under development for sale" and the consolidated income statements are as follows:

	Year ended 31 December			**Ten months ended 31 October**	
	2003 *RMB'000*	**2004** *RMB'000*	**2005** *RMB'000*	**2005** *RMB'000* *(unaudited)*	**2006** *RMB'000*
Properties held or under development for sale	58	161	172	142	161
Selling and marketing expenses	1	3	2	1	15
General and administrative expenses	48	139	134	114	100
	107	303	308	257	276

COMPANY

	Furniture and equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 29 January 2003			
Cost	–	–	–
Accumulated depreciation	–	–	–
Net book amount	–	–	–
Period ended 31 December 2003			
Opening net book amount	–	–	–
Additions	554	1,104	1,658
Depreciation	(28)	(79)	(107)
Closing net book amount	526	1,025	1,551
At 31 December 2003			
Cost	554	1,104	1,658
Accumulated depreciation	(28)	(79)	(107)
Net book amount	526	1,025	1,551
Year ended 31 December 2004			
Opening net book amount	526	1,025	1,551
Additions	25	–	25
Depreciation	(91)	(212)	(303)
Disposals	(68)	–	(68)
Closing net book amount	392	813	1,205
At 31 December 2004			
Cost	511	1,104	1,615
Accumulated depreciation	(119)	(291)	(410)
Net book amount	392	813	1,205
Year ended 31 December 2005			
Opening net book amount	392	813	1,205
Additions	7	–	7
Depreciation	(96)	(212)	(308)
Closing net book amount	303	601	904
At 31 December 2005			
Cost	518	1,104	1,622
Accumulated depreciation	(215)	(503)	(718)
Net book amount	303	601	904

	Furniture and equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Ten months ended 31 October 2006			
Opening net book amount	303	601	904
Depreciation	(83)	(177)	(260)
Closing net book amount	220	424	644
At 31 October 2006			
Cost	518	1,104	1,622
Accumulated depreciation	(298)	(680)	(978)
Net book amount	220	424	644

7. DEFERRED INCOME TAX

GROUP AND COMPANY

The movement in deferred income tax assets during the Relevant Periods is as follows:

Deferred income tax assets:

	Tax losses carried forward	
	The Company	The Group
At 29 January 2003	–	–
Recognised in the income statement *(Note 21)*	395	395
At 31 December 2003	395	395
Recognised in the income statement *(Note 21)*	555	555
At 31 December 2004	950	950
Recognised in the income statement *(Note 21)*	352	1,375
At 31 December 2005	1,302	2,325
Recognised in the income statement *(Note 21)*	33	3,016
At 31 October 2006	1,335	5,341

Deferred income tax assets mainly represent the tax effect of temporary differences arising from tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

As at 31 December 2003, 2004, 2005 and 31 October 2006, Shuo Cheng Group had no significant unrecognised deferred tax assets and liabilities.

8. LEASEHOLD LAND

GROUP

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
In the PRC, held on:				
Leases of over 50 years	414,901	955,601	1,445,153	1,917,171

Shuo Cheng Group's interests in leasehold land represent prepaid operating lease payments. The amortisation of leasehold land commences when Shuo Cheng Group is entitled to exercise its right to use the leased assets. The net book values of leasehold land are analysed as follows:

	Year ended 31 December			Ten months ended 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Beginning of year/period	–	414,901	955,601	1,445,153
Additions	414,901	540,700	495,757	478,913
Amortisation into properties under development for sale	–	–	(6,205)	(6,895)
End of year/period	414,901	955,601	1,445,153	1,917,171

The net book amount of leasehold land of Shuo Cheng Group, which are secured for bank borrowings and other borrowings (Note 14) is as follows:

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Leasehold land for property under development for sale	–	232,670	1,207,308	973,086

COMPANY

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
In the PRC, held on:				
Leases of over 50 years	414,901	955,601	885,311	1,364,224

Shuo Cheng's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	Year ended 31 December			Ten months ended 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Beginning of year/period	–	414,901	955,601	885,311
Additions	414,901	540,700	495,757	478,913
Transfer to a subsidiary	–	–	(563,979)	–
Amortisation into properties under development for sale	–	–	(2,068)	–
End of year/period	414,901	955,601	885,311	1,364,224

The net book amount of leasehold land of Shuo Cheng, which are secured for bank borrowings and other borrowings (Note 14) is as follows:

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Leasehold land for property under development for sale	–	232,670	647,466	420,140

9. INVESTMENT IN AND AMOUNTS DUE FROM (DUE TO) A SUBSIDIARY

COMPANY

(a) Investment in a subsidiary

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity interests, at cost	–	–	19,800	19,800

Details of the subsidiary at respective balance sheet dates are set out in Note 1.

(b) Amounts due from (due to) a subsidiary

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Ya Bin Li	–	–	628,438	(173,994)

The amounts due from (due to) the subsidiary were unsecured, interest free and without fixed repayment terms.

The carrying amounts of balances with the subsidiary approximate their fair value.

10. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

GROUP

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At cost, in Shanghai City, the PRC	17,381	57,937	286,679	569,187

The net book amount of properties under development for sale of Shuo Cheng Group, which are secured for bank borrowings and other borrowings (Note 14) is as follows:

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Properties under development for sales	–	–	–	422,805

COMPANY

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At cost, in Shanghai City, the PRC	17,381	57,937	83,558	146,382

The Company did not pledge any properties under development for borrowings during the Relevant Periods.

11. PREPAYMENT AND OTHER CURRENT ASSETS

GROUP

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepaid business tax and surtaxes *(Note 21)*	–	–	–	17,392
Prepaid land appreciation tax *(Note 21)*	–	–	–	6,510
Others	–	–	–	1,548
Total	–	–	–	25,450

The carrying amounts of other current assets approximate their fair value.

12. CASH AND CASH EQUIVALENTS

GROUP

	As at 31 December			As at 31 October
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash in hand	–	14	56	58
Demand deposits	85,447	53,623	165,960	162,537
Cash and cash equivalents	85,447	53,637	166,016	162,595
Other restricted bank deposits	–	40,200	20,241	15,203
Total	85,447	93,837	186,257	177,798

COMPANY

	As at 31 December			As at 31 October
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash in hand	–	14	–	–
Demand deposits	85,447	53,623	159,282	31,098
Cash and cash equivalents	85,447	53,637	159,282	31,098
Other restricted bank deposits	–	40,200	20,241	15,203
Total	85,447	93,837	179,523	46,301

Besides RMB0.2 million was restricted for certain credit cards, as at 31 December 2004 and 2005 and 31 October 2006, bank deposits of approximately RMB40 million, RMB20 million and RMB15 million of Shuo Cheng and Shuo Cheng Group respectively were restricted for procuring short-term bank borrowings (see Note 14).

The carrying amounts of cash and cash balances are denominated in Chinese Renminbi.

13. SHARE CAPITAL

GROUP AND COMPANY

	Year ended 31 December			Ten months ended 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered capital	50,000	50,000	50,000	50,000
Paid-in capital				
Beginning of year/period	–	50,000	50,000	50,000
Capital contributions from equity holders of Shuo Cheng	50,000	–	–	–
End of year/period	50,000	50,000	50,000	50,000

14. BORROWINGS

GROUP

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Short-term bank borrowings				
– Secured loans	–	–	471,000	250,000
– Borrowings via discounted bank notes	–	393,899	197,618	147,018
Other short-term borrowings				
– Secured	–	–	350,000	50,000
Short-term borrowings	–	393,899	1,018,618	447,018
Long-term bank borrowings				
– Secured	–	–	–	300,000
Long-term shareholders' borrowings				
– Unsecured	470,688	670,763	724,872	613,167
Long-term borrowings	470,688	670,763	724,872	913,167
Long-term borrowings are repayable as follows:				
– Within one year	–	–	–	313,895
– In the second year	–	–	724,872	299,272
– In the third to fifth year	470,688	670,763	–	300,000
Less: current portion of long-term borrowings	–	–	–	313,895
Borrowings under non-current liabilities	470,688	670,763	724,872	599,272

COMPANY

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Short-term bank borrowings				
– Secured loans	–	–	471,000	250,000
– Borrowings via discounted bank notes	–	393,899	197,618	147,018
Other short-term borrowings				
– Secured	–	–	350,000	50,000
Short-term borrowings	–	393,899	1,018,618	447,018
Long-term shareholders' borrowings				
– Unsecured	470,688	670,763	724,872	613,167
Long-term borrowings are repayable as follows:				
– Within one year	–	–	–	313,895
– In the second year	–	–	724,872	299,272
– In the third to fifth year	470,688	670,763	–	–
Less: current portion of long-term borrowings	–	–	–	313,895
Borrowings under non-current liabilities	470,688	670,763	724,872	299,272

Short-term bank borrowings – via discounted bank notes

As at 31 December 2004, short-term bank borrowings of approximately RMB394 million were procured via discounted bank notes and secured by bank deposits of RMB40 million, as well as guarantee provided by two shareholders of Shuo Cheng (Note 12 and Note 24).

As at 31 December 2005 and 31 October 2006, short-term bank borrowings of approximately RMB198 million and RMB147 million respectively were procured via discounted bank notes and secured by bank deposits of RMB20 million and RMB15 million respectively (see Note 12), as well as guarantee provided by Shanghai Anderson Fuxing Land Co., Ltd., which is a wholly owned subsidiary of Shanghai Real Estate Limited, together with two shareholders of Shuo Cheng (Note 24).

Short-term bank borrowings – secured loans

As at 31 December 2005 and 31 October 2006, short-term bank borrowings of approximately RMB471 million and RMB250 million respectively were secured by pledges of Shuo Cheng Group's leasehold land, together with certain properties under development for sale (Note 8 and Note 10).

Other short-term borrowings

During the year ended 31 December 2005, other short-term borrowings of RMB300 million were borrowed from Shanghai Enterprise Annuity Development Centre, arranged via a bank (entrusted loan). And during the ten month period ended 31 October 2006, additional RMB200 million was borrowed through the same arrangement. The borrowings were secured by pledge of Shuo Cheng Group's leasehold land, together with certain properties under development for sale (Note 8 and Note 10). The interest rates of the borrowings during the year ended 31 December 2005 and the ten month period ended 31 October 2006 are 6.88% and 7.18% per annum respectively. Such borrowings were repaid in September and October 2006 separately.

As at 31 December 2005 and 31 October 2006, other short-term borrowings of RMB50 million were borrowed from Construction and Management Committee of Zhabei District Government, which were unsecured, interest free and without fixed repayment terms. The interest-free borrowings from the government is initially measured at the amount of the loan received, without benefit quantified by the imputation of interest.

Long-term bank borrowings

As at 31 October 2006, long-term bank borrowings of approximately RMB300 million were secured by pledges of certain properties under development for sale (Note 10).

Long-term shareholders' borrowings

As at 31 December 2003, 2004 and 2005 and 31 October 2006, long-term shareholders' borrowings of approximately RMB471 million, RMB671 million, RMB725 million and RMB613 million respectively were unsecured and interest bearing at prevailing market interest rates. See Note 24 for details.

Overall collateral arrangements for borrowings

As at 31 October 2006, leasehold land of approximately RMB973 million (Note 8) and properties under development for sale of approximately RMB423 million (Note 10) respectively (31 December 2004: approximately RMB233 million and nil respectively; 31 December 2005: approximately RMB1,207 million and nil respectively), were mortgaged as collateral for Shuo Cheng Group's short-term borrowings, long-term bank borrowings and banking facilities.

The carrying amounts of Shuo Cheng Group's borrowings are all denominated in RMB.

The effective interest rates for these borrowings at the respective balance sheet dates were as follows:

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
Short-term bank borrowings	–	5.32%	5.73%	6.07%
Other short-term borrowings	–	–	0-6.88%	0-7.18%
Long-term bank borrowings	–	–	–	6.34%
Long-term shareholders' borrowings	5.22%	5.38%	5.95%	5.89%

Borrowings are all procured at prevailing market interest rates other than interest free borrowings from government. The interest rates of long-term bank borrowings and shareholders' borrowings would be adjusted in line with the change of prevailing interest rate published by the People's Bank of China, other than the exception disclosed in Note 24 (b).

The carrying amounts of borrowings approximate their fair value.

Shuo Cheng Group has the following undrawn bank borrowing facilities as of the respective balance sheet dates:

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Floating rate facilities:				
– expiring within one year	–	–	329,000	–
– expiring beyond one year	1,000,000	600,000	–	–
	1,000,000	600,000	329,000	–

15. ACCOUNTS PAYABLE

GROUP

Accounts payable represents payables arising from property constructions, which are usually settled within one year. The aging of accounts payable as at 31 December 2005 and 31 October 2006 are both within 1 year.

The carrying amounts of accounts payable approximate their fair value.

16. OTHER PAYABLES AND ACCRUALS

GROUP

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances from other companies (a)	–	–	–	288,693
Accrued interest expense	–	–	8,325	10,938
Deposits from customers	–	–	–	1,940
Others	165	160	586	1,068
	165	160	8,911	302,639

COMPANY

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances from other companies (a)	–	–	–	288,693
Accrued interest expense	–	–	8,325	8,773
Others	165	160	497	495
	165	160	8,822	297,961

(a) The advances, which are unsecured, interest-free and will be repaid within one year, are from three companies, including Shanghai Trans-ocean Group Company, a former shareholder of Shuo Cheng (Note 24(a)), and an associated company of Shanghai Trans-ocean Group Company. The management considers that none of these companies is related to Shuo Cheng at present.

The carrying amounts of other payables approximate their fair value.

17. ADVANCES RECEIVED FROM THE PRE-SALE OF PROPERTIES UNDER DEVELOPMENT

GROUP

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances received from pre-sale of properties under development	–	–	–	786,734

Shuo Cheng Group conducts the pre-sale of properties when they are still under development. As contracted with customers, advances amounting to a substantial portion of sales consideration are paid to Shuo Cheng Group shortly from the signing of the pre-sales contract. Such amounts held by Shuo Cheng Group are non-interest bearing. Business tax and land appreciation tax, generally calculated at rates of 5% and 1% respectively on advances received, are imposed by the tax authorities and had been recorded in "prepayments and other current assets" as prepaid business tax and land appreciation tax (Note 11).

18. EXPENSES BY NATURE

Expenses included in selling and marketing costs and administrative expenses are analysed as follows:

	Year ended 31 December			Ten months ended 31 October	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Employee benefit expense	381	985	943	714	2,355
Wages and salaries	304	671	590	456	1,675
Social welfare costs	17	74	135	64	202
Pension cost – defined contribution plan	19	146	135	127	277
Staff welfare and bonus	41	94	83	67	201
Exhibition costs	–	–	2,071	1,715	4,007
Advertising costs	–	31	582	–	1,028
Depreciation of property, plant and equipment	49	142	136	115	115
Auditors' remuneration	16	15	17	15	15
Other expenses	749	514	429	228	1,617
Total selling and marketing costs and administrative expenses	1,195	1,687	4,178	2,787	9,137

19. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments of individual director during the Relevant Periods are set out below:

Name of Director	Fees	Salary	Allowance	Other benefits	Contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Period ended 31 December 2003						
Director						
– Mr. Qian Guo Zhong	–	–	–	–	–	–
– Mr. Zhang Li	–	–	–	–	–	–
– Ms. Sun Feng Li	–	–	–	–	–	–
– Mr. Wang Jian Zhong	–	–	–	–	–	–
– Ms. Tao Li Na	–	–	–	–	–	–
– Ms. Li Da Wei	–	–	–	–	–	–
	–	–	–	–	–	–
Year ended 31 December 2004						
Director						
– Mr. Yu Hai Sheng	–	–	–	–	–	–
– Mr. Shi Jian	–	–	–	–	–	–
– Ms. Li Hua	–	120	–	14	15	149
– Mr. Mao Yi Ping	–	120	–	14	15	149
– Mr. Qian Guo Zhong	–	–	–	–	–	–
– Mr. Shi Jian Dong	–	–	–	–	–	–
	–	240	–	28	30	298
Year ended 31 December 2005						
Director						
– Mr. Yu Hai Sheng	–	–	–	–	–	–
– Mr. Shi Jian	–	–	–	–	–	–
– Ms. Li Hua	–	120	–	16	16	152
– Mr. Mao Yiping	–	120	–	16	16	152
– Mr. Qian Guo Zhong	–	–	–	–	–	–
– Mr. Shi Jian Dong	–	–	–	–	–	–
	–	240	–	32	32	304
Ten months ended 31 October 2006						
Director						
– Mr. Yu Hai Sheng	–	–	–	–	–	–
– Mr. Shi Jian	–	–	–	–	–	–
– Ms. Li Hua	–	100	–	14	15	129
– Mr. Mao Yi Ping	–	100	–	14	15	129
– Mr. Chen Liang	–	–	–	–	–	–
– Mr. Chen Jian Kang	–	–	–	–	–	–
	–	200	–	28	30	258

Name of Director	Fees	Salary	Allowance	Other benefits	Contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Ten months ended 31 October 2005 (unaudited)						
Director						
– Mr. Yu Hai Sheng	–	–	–	–	–	–
– Mr. Shi Jian	–	–	–	–	–	–
– Ms. Li Hua	–	100	–	13	13	126
– Mr. Mao Yi Ping	–	100	–	13	13	126
– Mr. Qian Guo Zhong	–	–	–	–	–	–
– Mr. Shi Jian Dong	–	–	–	–	–	–
	–	200	–	26	26	252

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in Shuo Cheng Group for the Relevant Periods are as follows:

	Year ended 31 December			Ten months ended 31 October	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Wages and salaries	188	480	480	400	400
Social security costs	31	57	64	53	59
Pension cost – defined contribution	33	59	65	54	60
Staff welfare and bonus	–	–	–	–	–
	252	596	609	507	519
Number of directors	–	2	2	2	2
Number of employees	5	3	3	3	3
	5	5	5	5	5

All the five highest paid individuals' emoluments fell within the bands between RMB Nil to RMB 1,000,000 during the Relevant Periods.

20. FINANCE COSTS

	Year ended 31 December			Ten months ended 31 October	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest expenses on bank borrowings – wholly repayable within five years	–	7,714	37,944	31,275	34,428
Interest expenses on other borrowings – wholly repayable within five years	–	–	3,039	–	26,087
Interest expenses on long-term shareholders' borrowings – wholly repayable within five years *(Note 24(b)ii))*	14,055	25,868	41,585	34,494	29,187
Total borrowing cost incurred	14,055	33,582	82,568	65,769	89,702
Less: Amount capitalised in properties under development for sale	(14,055)	(33,582)	(82,568)	(65,769)	(89,702)
	–	–	–	–	–

The weighted average interest capitalisation rate for the Relevant Periods were as follows:

	Year ended 31 December			Ten months ended 31 October	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Weighted average interest capitalisation rate	5.22%	5.36%	5.70%	5.64%	6.15%

21. TAXATION

(a) Income tax

	Year ended 31 December			Ten months ended 31 October	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Current taxation – PRC	–	–	–	–	–
Deferred taxation *(Note 7)*	395	555	1,375	916	3,016
	395	555	1,375	916	3,016

All Shuo Cheng Group entities conduct their business in the PRC and the applicable enterprise income tax ("EIT") rate is 33%.

The taxation on the Group's loss before taxation is calculated using the Group's general taxation rate of 33%.

For the pre-sale of properties under development, the tax authorities imposes income tax ahead of the completion of transaction and revenue recognition, based on certain estimations. The income tax imposed beforehand is recognised as prepaid income tax.

(b) Land appreciation tax ("LAT")

Under the Provisional Regulations on Land Appreciation Tax ("LAT") issued on 27 January 1995, all gains arising from the transfer of real estate properties in the PRC effective from 1 January 1994 are subject to LAT at progressive rates of up to 60 percent.

During the Relevant Periods, as Shuo Cheng Group is developing properties without any transfer of real estate properties, it accrued and prepaid LAT at 1 percent of pre-sale of properties as required by the local tax authorities. LAT imposed beforehand is recognised as other current assets (Note 11).

(c) Business tax ("BT") and surtaxes

Shuo Cheng Group is subject to business tax at 5% on the revenue from the sale/pre-sale of properties. On top of BT, Shuo Cheng Group is subject to the following surtaxes:

- City development tax, a tax levied at 5% of BT;
- Education supplementary tax, a tax levied at 3% of BT;
- Riverway fee, a tax levied at 1% of BT.

BT and surtaxes imposed beforehand is recognised as other current assets (Note 11).

22. CONSOLIDATED CASH FLOW STATEMENTS

GROUP

Reconciliation of loss for the year/period to net cash inflow generated from operations:

	Year ended 31 December			**Ten months ended 31 October**	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Loss for the year/period	(801)	(1,128)	(2,793)	(1,861)	(6,124)
Adjustments for:					
– Tax	(395)	(555)	(1,375)	(916)	(3,016)
– Depreciation of property, plant and equipment	49	142	136	115	115
– Fair value gain (including profit on disposal) on financial assets held for trading	–	(6)	(12)	(12)	–
Operating profit before working capital changes:					
Increase in other restricted cash *(Note 12)*	–	(200)	–	–	–
(Increase)/decrease of financial assets held for trading	–	(2,994)	3,012	3,012	–
Increase in prepayments and other current assets	–	–	–	–	(25,450)
(Increase)/decrease in other receivables	(377)	14	(1,981)	(1,999)	31
Increase in leasehold land	(414,901)	(540,700)	(495,757)	(355,589)	(478,913)
(Increase)/decrease in properties held or under development for sale	(3,268)	(6,745)	(139,797)	(90,903)	(185,750)
Increase/(decrease) in accounts payable	–	–	125,804	80,233	95,976
Increase/(decrease) in other payables and accruals	165	(5)	426	377	2,422
Increase in advance received from pre-sale of properties under development for sale	–	–	–	–	786,734
Cash (used in)/generated from operation	(419,528)	(552,177)	(512,337)	(367,543)	186,025

23. COMMITMENTS

(a) Capital commitments

Capital expenditures at the balance sheet date but not yet incurred is as follows:

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Construction cost for properties under development for sale				
– Contracted but not provided for	–	15,839	101,129	156,560
– Authorised but not contracted for	531,481	511,633	354,000	274,392
	531,481	527,472	455,129	430,952

In addition, as at 31 December 2004 and 2005 and 31 October 2006, the residents relocation obligations for leasehold land obtained are approximately RMB333 million, RMB1,148 million and RMB932 million respectively based on management's estimation.

(b) Operating lease commitments – as a lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	165	165	165	165
Later than 1 year and not later than 5 years	591	426	261	124
	756	591	426	289

24. RELATED PARTY TRANSACTIONS

(a) Name of related party and nature of relationship:

Name	Relationship with Shuo Cheng Group
Shanghai Good Development Investment and Construction Co., Ltd. ("Good Development")	Shareholder of Shuo Cheng
Shanghai Wingo Infrastructure Co., Ltd. ("Wingo Infrastructure")	Shareholder of Shuo Cheng
Shanghai Housing Technology investment Co., Ltd. ("Housing Technology") *(note *)*	Former shareholder of Shuo Cheng
Shanghai Trans-ocean Group Company ("Trans-ocean Group Company") *(note **)*	Former shareholder of Shuo Cheng
Shanghai Real Estate Limited ("SRE")	Ultimate holding company of Wingo Infrastructure and with the same director of Shuo Cheng
Shanghai Anderson Fuxing Land Co.,Ltd. ("Anderson Fuxing")	Subsidiary of SRE

* *Housing Technology used to hold 35% equity interest in Shuo Cheng, and sold all its equity interest in October 2006 to two new shareholders of Shuo Cheng.*

** *Trans-ocean Group used to hold 20% equity interest in Shuo Cheng, and sold its all equity interest to Wingo Infrastructure in July 2005.*

(b) Related party transactions carried out during the year:

i) Key management compensation

	Year ended 31 December			Ten months ended 31 October	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Wages and salaries	346	528	528	440	600
Social security costs	18	67	75	62	73
Pension cost – defined contribution	20	70	76	64	75
	384	665	679	566	748

ii) Borrowings from related parties

	Year ended 31 December			Ten months ended 31 October	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Beginning of year/ period	–	470,688	670,763	670,763	724,872
Additions of borrowings					
– Housing Technology	194,400	24,078	–	–	–
– Trans-ocean Group Company	475,500	–	–	–	–
– Wingo Infrastructure	–	200,000	70,000	70,000	–
– Good Development	–	–	221,622	221,422	–
	669,900	224,078	291,622	291,422	–
Repayment of borrowings					
– Housing Technology	–	–	–	–	(90,693)
– Trans-ocean Group Company	(200,000)	(24,078)	(251,422)	(251,422)	–
– Good Development	–	–	(20,200)	(20,200)	(50,000)
	(200,000)	(24,078)	(271,622)	(271,622)	(140,693)
Interest expenses recognised *(Note 20)*	14,055	25,868	41,585	34,494	29,187
Interest expenses paid	(13,267)	(25,793)	(535)	(535)	(199)
Transferred to "other payables and accruals *(note *)*	–	–	(6,941)	(6,941)	–
End of year/period	470,688	670,763	724,872	717,581	613,167
Including:					
– Principal	469,900	669,900	689,900	689,700	549,207
– Interest payable	788	863	34,972	27,881	63,960

* *As of 31 December 2005, interests payable to Trans-ocean Group Company were transferred to "other payables" as Trans-ocean Group Company was no longer a related party of Shuo Cheng Group.*

Except the unsecured shareholder's borrowings from Wingo Infrastructure with fixed interest rate of 6% per annum, other shareholders' borrowings are all unsecured and with prevailing market interest rates.

The carrying values of borrowings from related parties approximate their fair value.

iii) Borrowings guaranteed by related parties

	Year ended 31 December			Ten months ended 31 October	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Housing Technology, Transocean Group Company and Anderson Fuxing *(Note 14)*	–	–	147,736	98,178	147,018
Housing Technology and Trans-ocean Group Company *(Note 14)*	–	393,899	49,882	99,440	–
	–	393,899	197,618	197,618	147,018

(c) Shuo Cheng Group had the following material balances with related parties:

	As at 31 December			As at 31 October
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Long-term shareholders' borrowings *(Note 14)*				
– Housing Technology	194,711	218,863	231,622	149,054
– Trans-ocean Group Company	275,977	251,900	–	–
– Wingo Infrastructure	–	200,000	285,997	299,272
– Good Development	–	–	207,253	164,841
	470,688	670,763	724,872	613,167

The carrying amounts of balances with related parties approximate their fair value.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Shuo Cheng or any of the companies in Shuo Cheng Group in respect of any period subsequent to 31 October 2006. No dividend has been declared, made or paid by Shuo Cheng or any of the companies in Shuo Cheng Group in respect of any period subsequent to 31 October 2006.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuations as at 31 October 2007 of the property interests held or to be held by China Edifice or its subsidiaries immediately after Completion.

Sallmanns

Corporate valuation and consultancy
www.sallmanns.com

22nd Floor
Siu On Centre
188 Lockhart Road
Wanchai, Hong Kong
Tel : (852) 2169 6000
Fax : (852) 2528 5079

31 January 2008

The Board of Directors
SRE Group Limited
36/F, Times Tower
No. 391-407 Jaffe Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with the instructions from SRE Group Limited (the "Company") to value certain property interests held or to be held by China Edifice Holdings Ltd. ("China Edifice"), which is currently an indirect wholly-owned subsidiary of the Company, or its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 October 2007 (the "date of valuation").

Our valuations of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interests for commercial use by the investment method by capitalizing the net rental incomes of the properties derived from the existing tenancies with due allowance for the reversionary values of the properties.

We have valued the remaining property interests for service apartment hotel and car parking spaces uses by the direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advices given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Shanghai Certificates of Real Estate Ownership and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments. We have relied considerably on the advice given by the Company's PRC legal advisers – Jingtian & Gongcheng, concerning the validity of the Group's titles to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our summary of values and valuation certificates are enclosed.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 25 years' experience in the valuation of properties in the PRC and 28 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

PROPERTY INTERESTS HELD FOR INVESTMENT BY THE GROUP IN THE PRC

No.	Property	Capital value in existing state as at 31 October 2007 *RMB*	Interest attributable to the Group	Capital value attributable to the Group as at 31 October 2007 *RMB*
1.	Rich Gate Shopping Mall and Shenyang Lexington Huafu Hotel Nos. 118 and 128 Harbin Road Shenhe District Shenyang City Liaoning Province The PRC	No commercial value	51%	No commercial value
2.	Rich Gate Nos. 1 to 6 Alley 222 Madang Road Luwan District Shanghai The PRC	1,691,000,000	100%	1,691,000,000
	Total:	1,691,000,000		1,691,000,000

VALUATION CERTIFICATE

PROPERTY INTERESTS HELD FOR INVESTMENT BY THE GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2007 *RMB*
1. Rich Gate Shopping Mall and Shenyang Lexington Huafu Hotel Nos. 118 and 128 Harbin Road Shenhe District Shenyang City Liaoning Province The PRC	The property comprises a shopping mall consisted of 5 levels commercial space plus two-level basement and a 28-storey service apartment hotel tower erected thereon completed in 2007. The property forms part of the development complex known as Phase I of the Shenyang Rich Gate. The whole development of the Phase I of the Shenyang Rich Gate comprises 8 parcels of adjoining land with a total site area of approximately 49,913.1 sq.m. on which three 28-storey residential towers and an 18-storey office tower with the subject property are erected on the land. The shopping mall has a gross floor area of approximately 245,252 sq.m. and the service apartment hotel has a gross floor area of approximately 55,976.12 sq.m. Levels one to five of the shopping mall are for retail use and the two-level basement comprises 1,200 car parking spaces and several commercial and ancillary units. The land use rights of the property have been granted for a term of 40 years expiring on 9 June 2045 for commercial use and a term of 50 years expiring on 9 June 2055 for apartment hotel use respectively.	The property is currently vacant and internal fitting out works are in progress.	No commercial value

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract – Shen Gui Guo Tu Chu He Zi No. (2005) 0050 dated 9 June 2005 entered into between Shenyang Huarui Shiji Investment Development Company Limited ("Huarui Investment", a 51% owned subsidiary of the Company) and Shenyang Plan and Land Resources Bureau, the land use rights of the property were contracted to be granted to Huarui Investment for a term of 40 years for commercial use and for a term of 50 years for apartment hotel use respectively. The land use rights premium is RMB200,000,000.

2. Pursuant to 8 State-owned Land Use Rights Certificates – Shen Yang Guo Yong (2005) Di Nos. 0295, 0298 and 0300 and Shen Yang Guo Yong (2006) Di Nos. 0309 to 0313 dated 9 August 2005 and 30 September 2006 issued by the Shenyang Plan and Land Resources Bureau, the land use rights of 8 parcels of land with a total site area of approximately 49,913.1 sq.m. (Phase I of the Shenyang Rich Gate) have been granted to Huarui Investment for a term of 40 years expiring on 9 June 2045 for commercial use and for a term of 50 years expiring on 9 June 2055 for apartment hotel use respectively.

3. Pursuant to 2 Building Ownership Certificates – Shen Fang Quan Zheng Shi Shen He Zi Di Nos. 12360 and 12361 dated 13 December 2007 issued by the Housing Administration Bureau of Shenyang City, 2 buildings with a total gross floor area of approximately 301,228.12 sq.m. (the shopping mall and the service apartment hotel) are owned by Shenyang Huarui Shiji Asset Management Company Limited ("Huarui Asset Management"), which is currently a 51% owned subsidiary of China Edifice and will be an indirect wholly-owned subsidiary of China Edifice after the completion of acquisition, for commercial and residential uses respectively.

4. As at the time of our inspection, the property was undergoing internal fitting out works.

5. Pursuant to a Commodity Building Pre-Sale Permit – Shen Fang Yu Shou Di No. 06104 dated 30 June 2006 in favour of Huarui Investment, Huarui Investment is entitled to sell 4 residential buildings and an office building with a total gross floor area of approximately 154,543.94 sq.m. (including the service apartment hotel of the property) in the market.

6. Pursuant to various Tenancy Agreements and Supplementary Agreements entered into between Huarui Investment or together with Shenyang Huarui Commercial Management and Development Company Limited (瀋陽華鋭商業管理發展有限公司) and various independent third parties (the "Tenants"), 18 units with a total leased area of approximately 109,048 sq.m. are leased to the Tenants for various terms with expiry dates between 9 November 2008 and 9 November 2017 at a total first year rental of approximately RMB483,510,998, excluding the management fees, water and electricity charges.

7. Pursuant to various Cooperation Management Agreements and relevant Supplementary Agreements entered into between Huarui Investment or together with Shenyang Huarui Commercial Management and Development Company Limited (瀋陽華鋭商業管理發展有限公司) and the Tenants, 94 units with a total leased area of approximately 22,768 sq.m. are leased to the Tenants for various terms with expiry dates between 31 October 2008 and 31 December 2022 at various turnover rents of between 5% to 25% of the total gross receipts.

8. In the valuation of this property, we have attributed no commercial value to the property which has not obtained the land use rights certificates under the name of Huarui Asset Management. However, for reference purposes, we are of the opinion that the capital value of the property as at the date of valuation would be RMB6,211,000,000 assuming the land use rights certificates under the name of Huarui Asset Management had been obtained and the property could be freely transferred.

9. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

    1) after the land use rights certificates under the name of Huarui Asset Management have been obtained, the land use rights and building ownership rights of the property will be legally owned by Huarui Asset Management and Huarui Asset Management can legally use and occupy the property. Huarui Asset Management can legally transfer, lease and mortgage the

property upon obtaining the approval of the mortgagee. The land use rights of the property have been obtained by Huarui Investment and the land use rights certificates under name of Huarui Asset Management are under application;

2) pursuant to an approval of the Construction in Progress mortgage registration issued by the Building Bureau of Shenyang City dated 2 April 2007, the property is subject to a mortgage in favour of the Binhe Branch of Shenyang City of Agriculture Bank of China (the "Bank") for a term commencing from 20 March 2007 and expiring on 19 March 2010. As advised by Huarui Investment and Huarui Asset Management, the alteration of the mortgage is under application from Construction in Progress to the buildings;

3) the lessors under the name of Huarui Asset Management are under alteration due to the name of Building Ownership Certificates has been changed from Huarui Investment to Huarui Asset Management;

4) after the lessors and the land use rights certificates under name of Huarui Asset Management have been changed from Huarui Investment, Huarui Asset Management can obtain the profit from the leased property according to the Tenancy Agreements or Cooperation Management Agreements;

5) pursuant to a consent letter, the Bank has approved Huarui Asset Management and Huarui Investment to lease the shopping mall of the property; and

6) as advised by Huarui Asset Management, the relevant registration of the above Tenancy Agreements are under application.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 October 2007 *RMB*
2. Rich Gate Nos. 1 to 6 Alley 222 Madang Road Luwan District Shanghai The PRC	The property comprises various commercial units on the basement floor, the first and second floors of a 29-storey residential and commercial building completed in about 2006. The property has a total gross floor area of approximately 11,330.31 sq.m. The land use rights of the property have been granted for a term expiring on 27 February 2072 for residential use.	The first and second floors of the property are leased to various independent third parties for various terms and the whole basement floor of the property is currently vacant.	1,691,000,000 100% interest attributable to the Group: 1,691,000,000

Notes:

1. Pursuant to 3 Shanghai Certificates of Real Estate Ownership – Hu Fang Di Lu Zi (2007) Di Nos. 001027 to 001029 all dated 9 February 2007 issued by the Shanghai Housing, Land and Resources Administration Bureau, the property with a total gross floor area of approximately 11,330.31 sq.m. is owned by Shenyang Hua Jian Real Estate Limited (瀋陽華建置業有限公司) ("Shenyang Huajian"), an indirect wholly-owned subsidiary of China Edifice.

2. Pursuant to various Tenancy Agreements and Supplementary Agreements entered into between Shenyang Huajian and various independent third parties (the "Tenants"), 18 units with a total leased area of approximately 5,322.57 sq.m. are leased to the Tenants for various terms with expiry dates between 31 July 2009 and 30 November 2012 at a total monthly rent of approximately RMB4,160,750 as at the date of valuation, exclusive of management fees.

3. As at the date of our inspection, the whole basement floor with a total gross floor area of approximately 5,014.85 sq.m. was vacant.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

   1) the building ownership rights and land use rights of the property are legally owned by Shenyang Huajian and can be legally occupied and used by Shenyang Huajian. Shenyang Huajian can transfer lease and mortgage the property upon obtaining the approval of the mortgagee;

   2) pursuant to a Mortgage Registration Certificate issued by Real Estate Registration Department of Shanghai dated 3 April 2007, the property is subject to a mortgage in favour of CITIC Ka Wah Bank Limited (中信嘉華銀行有限公司) for a term commencing from 28 March 2007 and expiring on 30 September 2015;

   3) the Tenancy Agreements are legal and valid;

   4) pursuant to 2 lease registration certificates issued by the Building Register Department of Shanghai, 2 Tenancy Agreements have been registered; and

   5) as advised by Shenyang Huajian, the relevant registrations of the above Tenancy Agreements (except the above 2 Tenancy Agreements) are under application.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) As at the Latest Practicable Date, the interests and short position of the Directors and chief executive of the Company in the Shares and underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or (b) pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long positions in Shares

Director	Personal Interests	Family Interests	Corporate Interests	Total	Approx. percentage of total issued shares
Shi Jian	2,076,814	2,147 *(Note 1)*	1,206,827,168 *(Note 2)*	1,208,906,129	44.16%
Li Yao Min	2,147	–	–	2,147	0.0001%
Yu Hai Sheng	1,065,914	–	–	1,065,914	0.04%

Notes:

1. These Shares were held by Md. Si Xiao Dong, the wife of Mr. Shi Jian.

2. These Shares were held by SRE Investment Holding Limited (formerly known as "Good Time Resources Limited"), a company incorporated in the British Virgin Islands in which Mr. Shi Jian and his wife, Md, Si Xiao Dong, together beneficially own 63% of its issued share capital. The remaining 37% interest in SRE Investment Holding Limited were held by other management staff of the Company including but not limited to Mr. Yu Hai Sheng, Mr. Li Yao Min and Mr. Jiang Xu Dong. Mr. Shi Jian and Mr. Li Yao Min, being executive Directors, are directors of SRE Investment Holding Limited.

(b) So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) or corporations had any interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in Shares

Name of Shareholder	Capacity	Number of Shares	Approx. percentage of total issued shares
Si Xiao Dong	Beneficial owner, spouse and corporate interest	1,208,906,129 (L) *(Note 3)*	44.16%
SRE Investment Holding Limited *(Note 4)*	Beneficial owner	1,206,827,168 (L)	44.08%
Newton Investment Management Ltd.	Investment manager	157,532,701 (L)	5.75%

(L) indicates a long position

(S) indicates a short position

Notes:

3. These Shares in which Md. Si Xiao Dong is interested in comprise (i) 2,147 Shares being personal interest held by Md. Si Xiao Dong; (ii) 1,206,827,168 Shares being interest held by SRE Investment Holding Limited in which Md. Si Xiao Dong and her spouse, Mr. Shi Jian together beneficially own 63% of its issued share capital; and (iii) 2,076,814 Shares being personal interest of Mr. Shi Jian.

4. These Shares were held by SRE Investment Holding Limited, a company incorporated in the British Virgin Islands in which Mr. Shi Jian and his wife, Md, Si Xiao Dong, together beneficially own 63% of its issued share capital. The remaining 37% interest in SRE Investment Holding Limited were held by other management staff of the Company including but not limited to Mr. Yu Hai Sheng, Mr. Li Yao Min and Mr. Jiang Xu Dong. Mr. Shi Jian and Mr. Li Yao Min being executive Directors, are directors of SRE Investment Holding Limited.

(c) So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (other than a Director, chief executive of the Company or a member of the Group) were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each such person's interest in such securities, together with particulars of any options in respect of such capital, were as follows:

Name of member of the Group	**Name of shareholder**	**Approximate percentage**
Anderson Land (Shanghai) Ltd.	Lucky Charming Enterprises Limited	48%
上海安信復興置地有限公司 (Shanghai Anderson Fuxing Land Co., Ltd.)	Anderson Land (Shanghai) Ltd.	48.52%
上海綠洲仕格維花園酒店公寓有限公司 (Shanghai Skyway Oasis Garden Hotel and Condominium Co., Ltd.)	中國長城資產管理公司有限公司 (Great Wall Asset Management Company)	35%
上海住富房地產發展有限公司 (Shanghai Zhufu Property Development Co., Ltd.)	上海海展投資管理有限公司 (Shanghai Haizhan Investment and Management Company Limited)	49%
Huarui Investment	Elegant Parkview Limited (遠景有限責任公司)	49%

(d) Save as disclosed above, as at the Latest Practicable Date:

(i) so far as was known to the Directors, none of the Directors or chief executive of the Company had any interest or short positions in any Shares or underlying Shares or interest in debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

(ii) there was no person known to the Directors who had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group, or any options in respect of such capital.

(e) Mr. Cheung Wing Yui, a non-executive Director, is a consultant of Woo, Kwan, Lee & Lo, the Company's legal advisers on Hong Kong law in relation to the Acquisition and the Cross Indemnity. Woo, Kwan, Lee & Lo will receive normal fees for professional services rendered in connection therewith.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, each of the following Directors had entered into a service contract with the Company, the terms and conditions of which are set out below:

Director	**Term of Service Contract**	**Fixed Annual Remuneration** *(in HK$)*	**Compensation for termination**
Executive Director			
Shi Jian	1 July 2007 to 30 June 2010	2,000,000	6 months' salary
Li Yao Min	1 July 2007 to 30 June 2010	1,500,000	6 months' salary
Yu Hai Sheng	1 July 2007 to 30 June 2010	2,500,000	6 months' salary
Jiang Xu Dong	1 July 2007 to 30 June 2010	2,000,000	6 months' salary
Lee Wai Man	25 September 2007 to 24 September 2010	2,200,000	6 months' salary
Non-executive Director			
Cheung Wing Yui	1 July 2007 to 30 June 2008	300,000	1 month's salary
Jing Bing Rong	1 July 2007 to 30 June 2008	300,000	1 month's salary
Independent non-executive Director			
Yeung Kwok Wing	1 July 2007 to 30 June 2008	150,000	1 month's salary
Geng Yu Xiu	1 July 2007 to 30 June 2008	120,000	1 month's salary
E Hock Yap	1 July 2007 to 30 June 2008	200,000	1 month's salary

Each Director is entitled to an annual bonus under the relevant service contract, the amount of which is to be determined by the Board from time to time (which shall not be more than 10% of the Company's profit after taxation and minority interests in any event).

Save as disclosed above, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by relevant member of the Group within one year without payment of compensation, other than statutory compensation).

4. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2006, being the date to which the latest published audited accounts of the Group were made up.

5. DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

6. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, so far so was known to the Directors, none of the Directors, and their respective associates had interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. LITIGATION

So far as the Directors are aware, neither the Company nor any of its subsidiaries was engaged in any litigation or claims of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries as at the Latest Practicable Date.

8. EXPERTS

(a) The followings are the qualifications of the experts who have given opinions or advice in this circular:

Name	**Qualification**
Ernst & Young	Certified Public Accountants
Sallmanns (Far East) Limited	Independent property valuer
Grand Vinco Capital Limited	A licensed corporation to carry on business in type 1 (dealing in securities) and type 6 (advising on corporation finance) regulated activities under the SFO

(b) As at the Latest Practicable Date, none of Ernest & Young, the Independent Valuer and Grand Vinco had any shareholding directly or indirectly in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Enlarged Group.

(c) As at the Latest Practicable Date, none of Ernest & Young, the Independent Valuer and Grand Vinco had any direct or indirect interest in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group since 31 December, 2006, the date of which the latest published audited consolidated financial statements of the Group were made up.

(d) Ernest & Young, the Independent Valuer and Grand Vinco have given and have not withdrawn their written consents to the issue of this circular with inclusion of their respective letters or reports (as the case may be) and references to their names in the form and context in which they respectively appear.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group after the date of two years preceding the date of the Announcement and which are or may be material:

(a) The agreement dated 14 December, 2005 entered into between 上海好發展投資建設有限公司 (Shanghai Good Development Investment Construction Company Limited)("Shanghai Good Development") and 上海永高建設有限公司 (Shanghai Wingo Infrastructure Co., Ltd.) in relation to the acquisition of 5% interest in 上海碩誠置業有限公司 (Shanghai Shuo Cheng Real Estate Limited) ("Shuo Cheng") for the consideration of RMB2.5 million.

(b) The acquisition agreement dated 21 March, 2006 entered into between Ms. Ji Hong and Shunlink Investment Limited ("Shunlink"), a wholly-owned subsidiary of the Company, in relation to the acquisition of 40% interest in 上海琴海置業有限公司 (Shanghai Qinhai Real Estate Company Limited) ("Qinhai") for the consideration of RMB40 million.

(c) The subscription agreement dated 10 April, 2006 entered into between the Company and Deutsche Bank AG, Singapore Branch and Morgan Stanley & Co. International Limited in relation to the 8.625% guaranteed notes in the aggregate principal amount of US$200 million issued by the Company.

(d) The transfer agreement dated 19 May, 2006 entered into between Shanghai Chengfu Enterprise Management Company Limited and Shunlink in relation to the acquisition of 30% interest in Qinhai for the consideration of RMB105 million.

(e) The agreement dated 1 June, 2006 entered into between Lucky Charming Enterprises Limited ("Lucky Charming"), Shanghai Oasis Garden Real Estate Company Limited ("Shanghai Oasis"), a 98.75%-owned indirect subsidiary of the Company, and Kolsun Enterprises Limited, a wholly-owned subsidiary of the Company, in relation to the 47.52% indirect proportionate interest in the shopping mall properties transferred by Lucky Charming to Shanghai Oasis for the consideration of RMB300 million.

(f) The transfer agreement dated 30 July, 2006 entered into between 瀋陽華銳房地產開發有限公司 (Shenyang Huarui Real Estate Development Limited), Ding Renhua and Starweb Investment Limited, a wholly-owned subsidiary of the Company, in relation to the acquisition of 51% interest in Huarui Investment for the total consideration of RMB204 million.

(g) The transfer agreement dated 4 October, 2006 entered into between 上海誠福企業管理有限公司 (Shanghai Chengfu Enterprise Management Co. Ltd.) and Gaken Investment Limited, a wholly-owned subsidiary of the Company, in relation to the acquisition of 30% interest in Qinhai for the consideration of RMB90 million.

(h) The sale and purchase agreement dated 3 November, 2006 entered into between 上海其方實業有限公司, Shanghai Good Development and 上海良事實業有限公司 and Mayson Resources Limited, a wholly-owned subsidiary of the Company, in relation to the acquisition of 55% interest in Shuo Cheng for the total consideration of RMB33.48 million.

(i) The placing, underwriting and subscription agreement dated 5 December, 2006 entered into between the Vendor, Mr. Shi Jian, the Company, and Citigroup Global Markets Hong Kong Futures and Securities Limited in relation to the placing of 342,000,000 existing Shares and the subscription of 212,000,000 new Shares by SRE Investment Holding Limited (formerly known as "Good Time Resources Limited") ("SRE Investment") at the placing price of HK$2.42 per Share.

(j) The agreement dated 20 December, 2006 entered into between Sinopower Investment Limited ("Sinopower"), a wholly-owned subsidiary of the Company, Grand Wealth Resources Limited ("Grand Wealth") and China New Town Development Company Limited ("CNTD") in relation to (i) the disposal of the entire issued share capital of Meeko Investment Limited by Sinopower and (ii) the disposal of the entire issued share capital of Weblink International Limited and loan in the principal amount of HK$147,195,000.55 due from Weblink International Limited by Grand Wealth for the consideration of US$15,738,387.93 and US$3,735.20 respectively, to be satisfied by (1) the allotment and issue of 4,900 CNTD shares to Sinopower and the issue by CNTD to Sinopower of a convertible note in the principal amount of US$12,173,833.93 and (2) the allotment and issue of 5,099 CNTD shares to Grand Wealth.

(k) The transfer agreement dated 29 June, 2007 entered into between 上海海展投資管理有限公司 (Shanghai Haizhan Investment and Management Company Limited) and Wellton Resources Limited, a wholly-owned subsidiary of the Company, in relation to the acquisition of 49% equity interest in 上海住富房地產發展有限公司 (Shanghai Zhufu Property Co., Ltd.) for the consideration of RMB70 million.

(l) The sale and purchase agreement dated 17 August, 2007 entered into between SRE Investment, Goldfull Enterprises Limited and the Company in relation to the acquisition of the entire share capital of Konmen Investment Limited for the consideration of HK$1,600 million.

(m) The Acquisition Agreement.

(n) The Cross Indemnity.

10. PROCEDURES TO DEMAND FOR A POLL AT GENERAL MEETING

Pursuant to the existing bye-law 66 of the bye-laws of the Company, a resolution put to the vote of a general meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules or unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

(a) the chairman of the meeting;

(b) at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting;

(c) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting;

(d) a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding Shares 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 the Shares conferring that right; or

(e) if required by the rules of the Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

11. GENERAL

(a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(b) The head office of the Company is at 36th Floor, Times Tower, 391– 407 Jaffe Road, Wanchai, Hong Kong.

(c) The branch registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited, Share Registration, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The secretary and qualified accountant of the Company is Lee Wai Yee, who is a member of the Hong Kong Institute of Certified Public Accounts and the Association of Chartered Certified Accountants.

(e) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company at 36th Floor, Times Tower, 391– 407 Jaffe Road, Wanchai, Hong Kong during normal business hours up to and including 18 February, 2008:

(a) the Acquisition Agreement;

(b) the Transfer Agreement;

(c) the Cross Indemnity;

(d) the memorandum of association and bye-laws of the Company;

(e) the letter from the Board, the text of which is set out on pages 6 to 20 of this circular;

(f) the letter from the Independent Board Committee, the text of which is set out on pages 21 to 22 of this circular;

(g) the letter from Grand Vinco, the text of which is set out on pages 23 to 33 of this circular;

(h) the annual reports of the Company for the two years ended 31 December, 2006 and the interim report of the Company for the six months ended 30 June, 2007;

(i) the accountants' report on Huarui Asset Management Group for the three years ended 31 December, 2007, the text of which is set out in Appendix II to this circular;

(j) the report on the unaudited pro forma financial information on the Enlarged Group, the text of which is set out in Appendix III to this circular;

(k) the letter and valuation certificates from the Independent Property Valuer, the text of which is set out in Appendix V to this circular;

(l) the service contracts referred to in the section headed "Directors' Service Contracts" in this Appendix;

(m) the contracts referred to in the section headed "Material Contracts" in this Appendix;

(n) the written consents referred to in the section headed "Experts" in this Appendix; and

(o) each of the circulars of the Company issued pursuant to the requirements set out in Chapters 14 and/or 14A which has been issued since 1 January, 2007.

SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1207)

NOTICE IS HEREBY GIVEN that a special general meeting of SRE Group Limited (the "Company") will be held at 10:00 a.m. on Monday, 18 February, 2008 at Queensway and Victoria (Level 3), JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong for the purpose of considering, and if appropriate, passing, with or without modification, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the conditional sale and purchase agreement dated 29 November, 2007 (the "**Acquisition Agreement**") entered into between China Edifice Holdings Ltd. ("**China Edifice**"), China Edifice Ltd. (the "**Purchaser**") as purchaser and Elegant Parkview Limited (the "**Vendor**") as vendor for the acquisition by the Purchaser from the Vendor of the entire issued share capital of Qualico Investments Limited and the unsecured and non-interest bearing loan in the amount of US$4,900,000 owing by Qualico Investments Limited to the Vendor as of the completion of the Acquisition Agreement, a copy of which is produced to the meeting marked "A" and initialed by the chairman of the meeting for the purpose of identification) and all transactions contemplated thereunder and in connection therewith, including the issue of 3,800 shares of HK$1.00 each in the capital of China Edifice as consideration under the Acquisition Agreement and the corresponding dilution of the percentage interest held by subsidiaries of the Company in China Edifice, be and are hereby approved, confirmed and/or ratified;

(b) the conditional cross indemnity agreement dated 29 January, 2008 (the "**Cross Indemnity**") entered into between 瀋陽華銳世紀投資發展有限公司 (Shenyang Huarui Shiji Investment Development Company Limited) and 瀋陽華銳世紀資產管理有限公司 (Shenyang Huarui Shiji Asset Management Company Limited) under which these two subsidiaries of the Company undertake to indemnify each other in respect of claims for debts or liabilities which belong to itself after segregation of the liabilities under the de-merger of 瀋陽華銳世紀投資發展有限公司 (Shenyang Huarui Shiji Investment Development Company Limited), a copy of which is produced to the meeting marked "B" and initialed by the chairman of the meeting for the purpose of identification) and all transactions contemplated thereunder and in connection therewith be and are hereby approved, confirmed and/or ratified; and

* *for identification purpose only*

(c) any one director of the Company, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorized for and on behalf of the Company to execute all such other documents and agreements and do all such further acts and things as he or she or they may in his or her or their absolute discretion consider to be necessary, desirable, appropriate or expedient to implement and/or give effect to the Acquisition Agreement, the Cross Indemnity and the transactions contemplated thereunder and all matters incidental to, ancillary to or in connection with the Acquisition Agreement, the Cross Indemnity and/or the transactions contemplated thereunder, including agreeing and making any modifications, amendments, waivers, variations or extensions of the Acquisition Agreement, the Cross Indemnity and the transactions contemplated thereunder."

By order of the Board
SRE Group Limited
Shi Jian
Chairman

Hong Kong, 31 January, 2008

Notes:

1. Any member entitled to attend and vote at the meeting is entitled to appoint one or more than one proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.

2. In order to be valid, the form of proxy, together with any power of attorney or authority, if any, under which it is signed or a notarially certified copy of such power of attorney, must be deposited at the Company's branch registrar and transfer office in Hong Kong, Tricor Tengis Limited, Share Registration at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the holding of the of the meeting or any adjournment thereof.

3. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.

4. As at the date of this notice, the board of directors of the Company comprises ten directors, five of whom are executive directors, namely Mr. Shi Jian, Mr. Li Yao Min, Mr. Yu Hai Sheng, Mr. Jiang Xu Dong and Mr. Lee Wai Man; two of whom are non-executive directors, namely Mr. Cheung Wing Yui and Mr. Jin Bing Rong; and three of whom are independent non-executive directors, namely Mr. Yeung Kwok Wing, Mr. Geng Yu Xiu and Mr. E Hock Yap.