SHENZHEN Special Economic Zone Real Estate & Properties (Group) Co., Ltd.
Annual Report 2006

Section I. Important Notes and Contents

The Board of Directors, the Supervisory Committee, directors, supervisors and senior executives of Shenzhen Special Economic Zone Real Estate & Properties (Group) Co., Ltd. (hereinafter referred to as the Company) hereby ensure that there are no false records, misleading statements, or significant omissions in the materials of this report, and will assume individual and joint responsibilities concerning the authenticity, accuracy and integrity of its contents.

Director Li QiuSheng did not attend the Board meeting due to personal reason and did not entrust another to vote.

Chairman of the Board Shao Zhihe, person in charge of accounting work Guo Hongzhuang and person in charge of accounting organ Chen Jincai hereby ensure the authenticity and integrity of the Financial Report enclosed in the Annual Report.

The annual Report is written in both English and Chinese. In case of any discrepancy between the two versions, Chinese version prevails.

Contents

Section II. Company Profile

1. Legal Name of the Company
   In Chinese: 深圳经济特区房地产（集团）股份有限公司
   In English: SHENZHEN Special Economic Zone Real Estate & Properties (Group) Co., Ltd.
   Short Form in Chinese: 深房集团
   Short Form in English: SPG
2. Legal Representative: Shao Zhihe
3. Secretary of the Board: Chen Ji
   Securities Affairs Representative: Feng Hongwei
   Contact Address: 47/F, SPG Plaza, Renmin South Road, Shenzhen
   Tel.: (0755) 82293000-4718, 4715
   Fax: (0755) 82294024
   E-mail: spg@163.net
4. Registered Address: 47/F, SPG Plaza, Renmin South Road, Shenzhen
   Office Address: 45/F-48/F, SPG Plaza, Renmin South Road, Shenzhen
   Postal Code: 518001
   E-mail: spg@163.net
5. Newspapers for Disclosing the Information:
   Domestic: China Securities Journal
   Overseas: Ta Kung Pao
   Internet Website Designated by CSRC for Publishing the Annual Report: http://www.cninfo.com.cn
   The Place Where the Annual Report is Prepared and Placed: 47/F of SPG Plaza, Renmin South Road, Shenzhen
6. Stock Exchange Listed with: Shenzhen Stock Exchange
   Short Forms of the Stock: SHENSHENFANG（Stock Code: 000029）
   SHENSHENFANG B (Stock Code: 200029)
7. Other Information of the Company
   Initial registration date: Jan. 8, 1980
   Registration place: Shenzhen Administration Bureau for Industry and Commerce
   Registration code of corporate business license: 4403011002426
   Registration code of taxation: 440301192179585
   Name and address of Certified Public Accountant engaged by the Company:
   Name: Shenzhen Nanfang Minhe Certified Public Accountants
   Address: 8/F, Electronics Tech. Bldg., No. 2007, Shennan Middle Road, Shenzhen

Section III. Abstract of Accounting Highlights and Business Highlights

(I) The financial indexes for the year 2006

Unit: RMB

Total profit realized by the Company as of the year 2006	20,449,631.64
Net profit	19,259,485.35
Net profit after deducting non-recurring gains and losses	54,338,604.44
Profit from main operations	17,649,059.03
Profit from other operations	486,437.69
Operating profit	56,443,333.46
Investment income	3,604,713.17
Subsidy income	0.00
Net non-operating income/expense	-39,598,414.99
Net cash flows arising from operating activities	175,115,254.95
Net increase in cash and cash equivalents	144,536,980.10

The amount of items of non-recurring gains and losses that had been deducted was RMB -35,079,119.09, including investment income on stocks of RMB 4,519,295.90, non-operating income of RMB 687,497.05, as well as non-operating expense of RMB 40,285,912.04. Because the Company need to make up the losses occurred over the previous years, thus, no income tax had to be paid in 2006, there existed no influenced on income tax arising from non-recurring gains and losses.

Difference between A-share and B-share:

Effect on net profit and net assets calculated under IFRS and reconciliation:

	Net profit (RMB'000)	Net assets (RMB'000)
According to IFRS	**42,069**	**1,035,466**
Switching back of depreciation charges and amortization charges of invested property	23,131	135,354
Adjustment of market price of short-term investment	-1,718	
Timing difference in recognition of expenses accrued in previous year	1,397	11,205
Difference in confirmed cost of fixed assets		-202,148
Goodwill arising from acquisition of subsidiaries		-2,901
Others		
According to Accounting System for Enterprises	**19,259**	**1,093,956**

II. Main accounting data and financial indexes of the Company over the past three years

	2006	2005	2004
Income from main operations (RMB'0000)	99,089.40	85,214.12	57,054.17
Net profit (RMB'0000)	1,925.95	1,210.02	-14,230.78
Total assets (RMB'0000)	239,144.17	228,030.67	251,899.27
Shareholders' equity (excluding minority shareholders' equity, unit: RMB'0000)	109,395.69	105,697.21	100,206.94
Earnings per share - diluted (RMB)	0.019	0.0120	-0.1407
Earnings per share – weighted (RMB)	0.019	0.0120	-0.1407
Earnings per share – deducting non-recurring gains and losses (RMB)	0.0537	-0.0400	-0.1271
Net assets per share (RMB)	1.0813	1.0448	0.9905

Net assets per share after adjustment (RMB)	1.03	0.9840	0.9304
Net cash flow per share arising from operating activities	0.1731	0.2632	0.0078
Return on equity – diluted (%)	1.76	1.14	-14.20
Return on equity – weighted (%)	1.81	1.20	-13.26
Return on equity after deducting non-recurring gains and losses – weighted (%)	5.09	-4.02	-11.98

III. Changes in shareholders' equity during the report period and the reasons for changes

Item	**Share capital (0,000 share)**	**Capital reserve (RMB'0000)**	**Surplus reserve (RMB'0000)**	**Including: public welfare fund (RMB'0000)**	**Retained profit (RMB'0000)**	**Translation balance in foreign currency statement (RMB'0000)**	**Total shareholders' equity (RMB'0000)**
Amount at the beginning of the report period	101,166	97,824.49	11,891.07	11,559.44	-104,171.40	-1,012.95	105,697.21
Increase in this period	0	0	0	0	1,925.95	1,772.53	3,698.48
Decrease in this period	0	0	0	11,559.44			
Amount at the end of the report period	101,166	97,824.49	11,891.07	0	-102,245.45	759.58	109,395.69
Reason for change				Note 1	profit in the report period		

Note 1: In accordance with the Article 167 of Company Law implemented since Jan. 1, 2006, the Company no longer withdrew statutory public welfare fund. In accordance with the Circular on Financial Treatment for Enterprises Subsequent to the Enacting of "Company Law" promulgated by the Ministry of Finance, the retained welfare fund of RMB 115,594,426.18 as at Dec. 31, 2005 was transferred into the surplus reserve.

Section IV. Change of Share Capital and Particulars of Shareholders

I. Statement of change in share capital

(I) The Company has completed the share merger reform on Feb. 15, 2006. In accordance with the share merger reform plan, there were 50,583,000 shares subject to moratorium were freed from the trading moratorium as shares not subject to moratorium. The Company's equity structure was adjusted as follows:

	Before the change		Change in this time (+,-)					After the change	
	Number of shares (10,000 shares)	Proportion (%)	Allotment of new shares	The number shares were free from the trading moratorium	Capitalization of public reserve	Others	Subtotal	Number of shares (10,000 shares)	Proportion (%)
I. Shares subject to trading moratorium	67286.42	66.51		-5058.30			-5058.30	62228.12	61.51
1. Shares held by the State	67285.68	66.51		-5058.30			-5058.30	62227.38	61.51
2. Shares held by state-owned legal persons									
3. Shares held by other domestic investors									
Of which:									
Shares held by domestic legal persons									
Shares held by domestic natural persons	0.74							0.74	
4. Shares held by foreign investors									
Of which:									
Shares held by overseas legal persons									
Shares held by overseas natural persons									
II. Shares not subject to moratorium	33879.58	33.49		5058.30			5058.30	38937.88	38.49
1. RMB ordinary shares	21879.58	21.63		5058.30			5058.30	26937.88	26.63
2. Domestically listed foreign shares	12000	11.86						12000	11.86
3. Overseas listed foreign shares									
4. Others									
III. Total shares	101,166	100						101,166	100

II. Issuance and listing of shares

1. Over the past three years as at the end of the report period, the Company issued neither new shares nor derived securities.

2. On Feb. 26, 2007, the shares subject to moratorium amounting to 50,583,000 shares held by Shenzhen Investment Holding Co., Ltd., the only shareholder holding non-tradable shares, was freed from the trading moratorium, taking up 5% of the total share capital of the Company, 7.52% of the total shares subject to moratorium, as well as 14.93% of total shares not subject to moratorium.

3. The Company's inner employees shares were listed for trading through approval on Aug. 26, 1994. At present, the Company has no inner employees' shares.

III. About shareholders

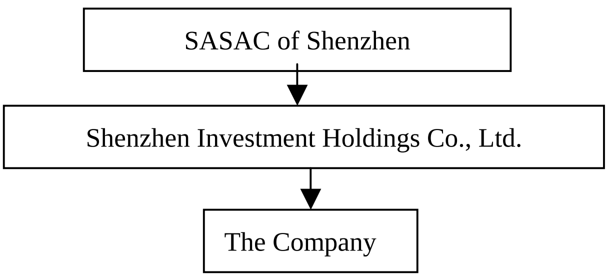
1. The number of shareholders and shares held by the shareholders

Total number of shareholders			**95523**		
Particulars about shares held by the top ten shareholders					
Name of shareholder	**Type of shareholders**	**Proportion**	**Total number of shares held**	**Total number of shares subject to moratorium held**	**Share pledged or frozen**
SHENZHEN CONSTRUCTION INVESTMENT HOLDINGS CORP.	State-owned shareholder	66.51%	672,856,800	672,856,800	0
YANG CONG RONG	Foreign shareholder	0.11%	1,121,500	0	0
JIANDE DATONG INDUSTRIAL CORPORATION, ZHEJIANG	Other	0.10%	1,028,000	0	0
CHENG KANG LIANG	Foreign shareholder	0.09%	890,382	0	0
MIN ZHEN	Other	0.08%	830,000	0	0
CHINA LIFT INSURANCE COMPANY LTD.	Other	0.08%	792,992	0	0
ABN AMRO BANK NV	Foreign shareholder	0.08%	786,800	0	0
HUANG XIA LIAN	Other	0.07%	764,600	0	0
SBCI FINANCE ASIA LTD A/C HONG KONG	Foreign shareholder	0.07%	749,960	0	0
CHU KOON YUK	Foreign shareholder	0.07%	720,000	0	0

Particulars about shares held by the top ten shareholders holding tradable shares		
Name of shareholders	**Numbers of tradable shares held**	**Type of shares**
YANG CONG RONG	1,121,500	Domestically listed foreign share
JIANDE DATONG INDUSTRIAL CORPORATION, ZHEJIANG	1,028,000	RMB ordinary share
CHENG KANG LIANG	890,382	Domestically listed foreign share
MIN ZHEN	830,000	RMB ordinary share
CHINA LIFT INSURANCE COMPANY LTD.	792,992	RMB ordinary share
ABN AMRO BANK NV	786,800	Domestically listed foreign share
HUANG XIA LIAN	764,600	RMB ordinary share
SBCI FINANCE ASIA LTD A/C HONG KONG	749,960	Domestically listed foreign share
CHU KOON YUK	720,000	Domestically listed foreign share
CHEN ZU DE	692290	Domestically listed foreign share
Explanation on associated relationship among the above shareholders or acting-in-concert	Unknown	

2. The controlling shareholder of the Company: Shenzhen Investment Holdings Co., Ltd. is a sole state-funded company limited, who was founded on Oct. 13, 2004 with a registered capital of RMB 4 billion as well as legal representative Chen Hongbo. Its business scope included: providing guarantees for municipal state-owned enterprises, management of state-owned equity, and assets restructure, reformation, capital operation and equity investment of enterprises, etc.. The ultimate controller of the Company was Shenzhen State-owned Assets Supervision Administrative Committee. SASAC of Shenzhen was located at Investment Building, Shennan Av., Futian District, Shenzhen, as well as the post code 518029.

The property right and controlling relationship between the Company and the actual controller are as follows:



Section V. Particulars of Directors, Supervisors, Senior Administrative Personnel and Employees

I. About directors, supervisors and senior executives:

Name	Position	Gender	Age	Office term	Shares held at the beginning of the year	Shares held at the end of the year	Reason of the change
Shao Zhihe	Chairman of the Board	Male	56	Dec. 28, 2002 till now	5,000	7,400	
Gu Hongzhuang	Director, GM	Male	48	Sep. 8, 2006 till now	0	0	
Zhuang Chuanghui	Chairman of the Supervisory Committee	Male	52	Jan. 28, 2003 till now	0	0	
Xu Zhenhan	Director	Male	53	Jan. 28, 2003 till now	0	0	
Peng Naidian	Director	Male	57	Sep. 28, 1996 till now	0	0	
Li Qiusheng	Independent director	Male	43	Feb. 2, 2005 till now	0	0	
Zong Dechun	Independent director	Male	65	Jun. 28, 2004 till now	0	0	
Hou Liying	Independent director	Female	52	Jun. 28, 2004 till now	0	0	
Liu Ying	Director	Female	44	Sep. 8, 2006 till now	0	0	
Wen Li	Director	Female	37	Sep. 8, 2006 till now	0	0	
Chen Junyi	Supervisor	Male	49	Apr. 11, 2006 till now	0	0	
Zhang Xuxi	Supervisor	Male	30	Apr. 11, 2006 till now	0	0	
Xiong Xingnong	Supervisor	Male	49	Jun. 28, 2004 till now	0	0	
Deng Kangcheng	Supervisor	Male	39	Jun. 28, 2004 till now	0	0	
Luo Kunquan	Deputy GM	Male	51	Jan. 28, 2003 till now	0	0	
Luo Zichao	Deputy GM	Male	46	Aug. 12, 2003 till now	0	0	
Song Gongli	Deputy GM	Male	50	Aug. 21, 2006 till now	0	0	
Yang Jiayong	Deputy GM	Male	34	Aug. 21, 2006 till now	0	0	
Chen Ji	Secretary of the Board	Male	34	Jan. 28, 2003 till now			

Note: Xu Zhenhan, Liu Ying and Wen Li, the director of the Company, and Deng Kangcheng, the supervisor of the Company, held positions in shareholding units. For their positions and office term, please refer to “Section V. II”.

II. Particulars about the main working experiences and concurrent posts of the directors, supervisors and senior administrative personnel

1. Shao Zhihe: Aug. 1981 - Sep. 1983, commander, 13th company, 4th barrack, 302 regiment, Capital Construction Engineer Corps; Sep. 1983 – Oct. 1995, Manager, Installation Branch, Shenzhen Municipal Engineering Corporation; Oct. 1995 – May 1999, Vice General Manager of Shenzhen Tonge Group; May 1999 – Dec. 2002, General Manager and Vice Secretary of CPC, Shenzhen Urban Construction Investment & Development Company; Dec. 2002 till now, Secretary of the CPC and Chairman of the Board of the Company.

2. Guo Hongzhuang, male, the Han nationality, party member of CPC, on-the-job master degree, Engineer. He was born in Chaoyang, Guangdong in Dec. 1958. He ever took posts of clerk in Cadre Department, the 16th regiment, Capital Construction Engineer Corps; of director of the Office of Shenzhen Nanyang Enterprise Corporation, of clerk of Labor Union and secretary of GM in Shenzhen Construction (Group) Corporation, of Deputy GM in Shenzhen Construction Engineering General

Contract Corporation, of Manager in Longgang Real Estate Company of Shenzhen Construction (Group) Corporation, of Deputy GM in Real Estate Development in Shenzhen Construction Investment Holding Corporation, of Secretary of CPC and GM in Shenzhen Kingon (Group) Co., Ltd., of Vice Secretary of CPC, GM, Secretary of CPC and Chairman of the Board in Shenzehn Cities Construction Development (Group) Corporation. He acted as GM, Vice Secretary of CPC and Director of the Company since Aug. 2006.

3. Zhuang Chuanghui: Feb. 1983 – Mar. 1986, promulgation chief, Cannon Regiment, 42 Army; Mar. 1986 – Dec. 1987, deputy section chief of the Cadre Section, deputy director of the Office, Economic Work Department, Huizhou Local CPC Committee; Dec. 1987 – Jul. 1989, deputy director of the Office, section chief of the Statistics Section, Huizhou local Administration for Industry & Commerce; Jul. 1989 – Feb. 1997, senior staff member, principal staff member, discipline inspector of deputy section chief level, vice director of the Office (section chief level), No. 1 Office, Shenzhen Commission for Discipline Inspection; Feb. 1997 – May 1999, Vice Secretary of Commission for Discipline Inspection, Shenzhen Construction Investment Holdings Corporation; May 1999 – Jan. 2003, Vice Secretary of CPC, director in SPG. Jan. 2003 till now, Vice Secretary of CPC, Chairman of the Supervisory Committee of the Company

4. Xu Zhenhan: once had been commander-level secretary in charge, 802 Regiment, Capital Construction Engineer Corps; clerk, Vice Secretary of Discipline Inspection Committee, director at the CPC Office, Secretary of Discipline Inspection Committee, Vice Secretary of the CPC in Shenzhen Mechanical Equipment Installation Company; Vice Secretary of Discipline Inspection Committee, Shenzhen Construction Investment Holdings Corporation. He held the post of Vice Secretary of Discipline Inspection Committee of Shenzhen Investment Holdings Co., Ltd. since Oct. 2004.

5. Peng Naidian: Jul. 1973 – Dec. 1984, section chief, vice minister, and standing member, Secretary Department, Young Farmer Department, Publicity Department, Secretariat, Communist Youth League Guangdong Committee, and concurrently director of the Publicity Department; Jan. 1985 – May 1992, superintendent, and member of the CPC Organization, Guangdong Institute of Foreign Trade & Economic Development; Jun. 1992 – Sep. 1996, Assistant General Manager, Chairman of the Labor Union in Shenzhen Huihua Group Co., Ltd.; Sep. 1996 till now, Director and Vice Secretary of Discipline Inspection Committee.

6. Li Qiusheng, male, nationality of Han, party member of CPC, was born in Hunan in July 1963, three-year college education, CPA and Certified Tax Agent. He ever held the posts of section chief of Hunan Hengshan County Auditing Bureau, auditor of Shenzhen Special Economic Zone Auditors Firm, deputy principal of Shenzhen Minzheng Certified Public Accountants. Now he acts as deputy principal of Shenzhen Zhongheng Certified Public Accountants.

7. Zong Dechun: Jan. 1981 – Aug. 1983, Director of the Political Department, 304 Regiment, Capital Construction Engineer Corps; Sep. 1983 – Feb. 1986, Vice Secretary of the CPC, Shenzhen No. 5 Construction Engineering Co., Ltd.; Mar. 1986 – Nov. 1996, Division Chief of the HR Department, Chairman of the Labor Union, Chairman of the Supervisory Committee, Shenzhen Construction Group; Dec. 1996 –

Jun. 2002, Secretary of the Discipline Inspection Committee, Chairman of the Supervisory Committee in Shenzhen Construction Investment Holdings Corporation; Jul. 2002, retired; Jun. 2004, independent director of the Company.

8. Hou Liying: Aug. 1982 – Aug. 1984, Assistant Economist, Development & Design Research Institute, China National Offshore Oil Corp.; Sep. 1984 till now, associate professor, masters' instructor, College of Management, Shenzhen University. Jun. 2004, she was engaged as the independent director of the Company.

9. Liu Ying, female, the Han nationality, bachelor degree, economic engineer. She was born in Changchun, Jili in Jul. 1962. She ever took the posts of clerk and Senior Staff Member in China Power Equipment Bidding Center of State Commodities Bureau, of Principal Staff Member and League Secretary in China Power Equipment Bidding Center of Economic and Trade commission of the State Council, of Deputy Manager of Security Dept., Manager and Director of GM Office in Shenzhen Hongchang Industrial Co., Ltd., of Deputy Director of the Office and principal Head of Assets Operation Dept. in Shenzhen Trade Investment Holding Corporation, and of senior Head of the Assets Operation and Management Dept. and principal Head of the Property Management Dept. in Shenzhen Investment Holdings Co., Ltd.

10. Wen Li, female, the Han nationality, master degree, engineer as well as economic engineer. She was born in Sichuan in Dec. 1969. She ever took the posts of Engineer of Real Estate Development Dept. in Shenzhen Zhenye (Group) Co., Ltd., of Assistant GM, Project Manager as well as Manager of Market Planning Dept. in Fantasia Investment Development Co., Ltd., and of Deputy Manager in Shenzhen Investment Holdings Co., Ltd.

11. Chen Junyi, male, aged 49, party member of CPC, bachelor degree, political engineer. He was born in Xiangyin, Hunan. He ever took the posts of Section Chief of Organization Department in Bureau of Mine, of Director of GM Office in Shenzhen Xinguang Milk Union Corporation, of Director of GM Office in Shenzhen North-South Industrial Co., Ltd., of Section Chief and Deputy Director of Shenzhen Huihua Group Corporation, of Deputy Director of Discipline Inspection Supervisory Office in SPG Group, of Deputy GM in Shenzhen Properties & Resources Development (Group) Ltd., of Deputy GM and concurrently Secretary of Labor Union in Shenzhen Petrel Hotel Co., Ltd. He now acts as Deputy Director of Work Dept. of CPC and Discipline Inspection Commission in SPG Group. From Apr. 11, 2006, he acted as the employee supervisor of the Company.

12. Zhang Xuxi, male, the Han nationality. He was born in Meizhou, Guangdong in May 1976. He ever took the posts of Enterprise Law Adviser and Deputy Manager of Law Affair Office in the Company. From Apr. 11, 2006, he acted as the employee supervisor of the Company.

13. Xiong Xingnong: Jan. 1982 – Jan. 1983, trainee, Party school, Guangzhou Railway Administration; Jan. 1983 – Dec. 1995, office secretary, consultant, section chief, Guangzhou Railway Administration; Jan. 1996 – Mar. 2004, office director of SPG; Mar. 2004 till now, Vice Director of Office of the Supervisory Committee. From Jun. 2004, he took the post of supervisor of the Company.

14. Deng Kangcheng: Jul. 1991 – Dec. 1991, technician of Shenzhen Luohu Material Trading Center; Dec. 1991- Mar. 1997, Assistant Engineer, deputy section chief and section chief in Shenzhen Construction Earthwork Mechanical Engineering Company; Apr. 1997 – Sep. 2004, supervisor, vice director and director in Discipline Inspection and Supervision Office of Shenzhen Construction Investment Holdings Corporation; Oct. 2004 till now, deputy director of the Office of Shenzhen Investment Holdings Co., Ltd.. In Jun. 2004, he was elected as supervisor of the Company.

15. Luo Kunquan: Oct. 1987 – Sep. 1990, vice factory director, Guangdong Xingning County Brewage Machinery Factory; Sep. 1990 – Jul. 1993, Manager, Guangdong Xingning County Foreign-Invested Enterprise Resources Company; Aug. 1993 – Dec. 1993, General Manager, Shenzhen Communist Youth Industrial Park Industrial Company; Dec. 1993 – Jun. 1994, Manager of Shenzhen Shenhua Enterprise Company; Jun. 1994 – Nov. 1998, Manager of Shenzhen Shenhua Property Development Company; Nov. 1998 – Dec. 2002, Deputy General Manager of Shenzhen Shenhua Group Company; Dec. 2002 – Dec. 2005, Deputy General Manager of the Company. He took the post of Standing Deputy General Manager of the Company since Dec. 2005.

16. Luo Zichao: Oct. 1984 – May 1993, assistant, office director, chief assistant, Shenzhen Design & Decoration Engineering Company; May 1993 – Jul. 2003, General Manager and Vice Secretary of the CPC Committee in Shenzhen Design & Decoration Engineering Company; May 1999 – Jul. 2003, General Manager, Shenzhen Construction Engineering Contractor Corporation; May 1999 – Jul. 2002, Chairman of the Board, Shenzhen Architectonic Industrial Co., Ltd.; he took the post of Deputy General Manager of the Company since Jul. 2003.

17. Song Gongli, male, the Han nationality, party member of CPC, master degree. He was born in Changgeng, Henan in June 1956. He ever took the posts of officer and Senior Staff Member of budget office in Guizhou Provincial Department of Finance, of Principal Staff Member of Economic Development Bureau of Shenzhen Municipality Office, of Deputy Manager in Shenzhen Foreign Trade Investment Corporation, of Deputy Division Chief of Travel Service and Division Chief of Planning & Financial Division in Shenzhen Trade Development Bureau, of Director General in Shenzhen Travel Bureau Quality Supervision Institute; of the Principal in charge of Financing, Head of Enterprise Management Dept, Director of the Office and Assistant President in Shenzhen Trade Investment Holding Corporation, of Director of the Office in Shenzhen Investment Holdings Co., Ltd. Since Aug. 2006, he acted as the post of Deputy GM of the Company.

18. Yang Jiayong, male, the Han nationality, party member of CPC, master degree, economic engineer. He was born in Maoming, Guangdong in Nov. 1972. He ever took the posts of Assistant Economic Engineer, Assistant Manager of HR Dept. in Shenzhen Tonge (Group) Co., Ltd, of Director of the Office, Secretary of Party General Branch, Manager of HR Dept. and Assistant GM in Shenzhen Cities Construction Investment Development Corporation, of Director of the Office and Assistant GM in SPG, of GM and Secretary of Party General Branch in Shenzhen SPG Tariff Free Trade Co., Ltd. Since Jul. 2006, he acted as the post of Deputy GM of the Company.

19. Chen Ji: Jul. 1995 – Jul. 1996, secretary in charge of the Comprehensive Office, Tonge Truck Transportation Company; Jul. 1996 – Mar. 2001, secretary of the CPC Office in Shenzhen Construction Investment Holdings Corporation; Mar. 2001 – Dec. 2002, director of the CPC Office of Shenzhen Urban Construction Investment Development Company; Dec. 2002 till now, he took the posts of Secretary of the Board, Director of the Board Office of the Company and office director.

III. Annual remunerations

Annual payment system had been introduced into the rewards for directors, supervisors and senior executives, of which the salaries for Chairman of the Board and General Manager had been checked and set by relevant municipal sections, while those for other senior executives had been set according to relevant systems of the Company.

Name	Position	Gender	Age	Office term	Total payment drawn from the Company in the report period (RMB'0000)	Drawing payment from the shareholding companies or other related parties or not (Yes / No)
Shao Zhihe	Chairman of the Board	Male	56	Dec. 28, 2002 till now	30.53	No
Guo Hongzhuang	Director, GM	Male	48	Sep. 8, 2006 till now	12.72	No
Zhuang Chuanghui	Chairman of the Supervisory Committee	Male	52	Jan. 28, 2003 till now	30.53	No
Xu Zhenhan	Director	Male	53	Jan. 28, 2003 till now	0	Yes
Peng Naidian	Director	Male	57	Sep. 28, 1996 till now	24.43	No
Li Qiusheng	Independent director	Male	43	Feb. 2, 2005 till now	3.6	No
Zong Dechun	Independent director	Male	65	Jun. 28, 2004 till now	3.6	No
Hou Liying	Independent director	Female	52	Jun. 28, 2004 till now	3.6	No
Liu Ying	Director	Female	44	Sep. 8, 2006 till now	0	Yes
Wen Li	Director	Female	37	Sep. 8, 2006 till now	0	Yes
Chen Junyi	Supervisor	Male	49	Apr. 11, 2006 till now	16.18	No
Zhang Xuxi	Supervisor	Male	30	Apr. 11, 2006 till now	14.65	No
Xiong Xingnong	Supervisor	Male	49	Jun. 28, 2004 till now	14.65	No
Deng Kangcheng	Supervisor	Male	39	Jun. 28, 2004 till now	0	Yes
Luo Kunquan	Deputy GM	Male	51	Jan. 28, 2003 till now	24.43	No
Luo Zichao	Deputy GM	Male	46	Aug. 12, 2003 till now	24.43	No
Song Gongli	Deputy GM	Male	50	Aug. 21, 2006 till now	10.18	No
Yang Jiayong	Deputy GM	Male	34	Aug. 21, 2006 till now	12.21	No
Chen Ji	Secretary of the Board	Male	34	Jan. 28, 2003 till now	18.31	No
Total					244.05	

Xu Zhenhan, Liu Ying and Wen Li, the director of the Company, Deng Kangcheng, the supervisor of the Company, drew their salaries from shareholding companies, not from the Company.
Annual allowance for each independent director in 2006 was RMB 36,000 (tax included), and they received no other rewards besides this from the Company.

IV. Particulars about leaving post, engaging and dismissing
1. In the report period, directors, supervisors and senior executives leaving his post are as follows: (1) Yang Shaojia, the independent director of the Company, and Xie Guangliang, the director of the Company, no longer took their positions for the expiration of their office term; (2) Wu Zhiyong and Lin Huimei, the supervisor of the Company, no longer took the post of supervisor for the expiration of their office term; (3) Shen Yuesheng, the deputy general manager of the Company, resigned from such post for individual reason.

2. In the report period, the Company newly added directors, supervisors and senior executives as follows, director: Guo Hongzhuang, Liu Ying and Wen Li; supervisor: Chen Junyi and Zhang Xuxi; senior executives (deputy GM): Song Gongli and Yang Jiayong.

V. The number of employees, professional/occupational composition, education background and retired employees
By the end of the year 2006, the Group had totally 2323 employees, including 1355 production personnel, 51 sales personnel, 489 technicians, 117 financial personnel and 311 administrative personnel. Among them, 221 undergraduates or above, 263 graduated from 3-years regular college, 297 from technical secondary school, 1542 from senior high school or below. The Company had 275 retirees.

Section VI. Corporate Governance

I. Actual status of corporate governance

In accordance with the requirements of Company Law, Securities Law, Administrative Rules for Listed Companies and Stock Listing Rules of Shenzhen Stock Exchange and other laws and regulations, the Company continuously perfected its corporate governance, standardized its operation, and actively established and amplified modern enterprise system. In the report period, the Company strictly carried out the spirit of new Company Las and Securities Law, and revised such standardization documents as the Articles of Association of the Company, Rules of Procedure for the Shareholders' General Meeting, Rules of Procedure for the Board of Directors and Rules of Procedure for the Supervisory Committee timely, which provided the strong safeguard for perfecting corporate governance and standardizing operation. Meanwhile, the Company also paid attention to the internal controlling system to perfect the structure of business process and management and supervision system actively.

1. Shareholders and Shareholders' General Meeting: preparations and holding of the shareholders' general meeting and disclosure of the meetings were carried through normatively in line with the regulations; all shareholders were on an equal footing and could fully exercise their legal rights.

2. Directors and the Board of Directors: preparations and holding of the Board meeting and disclosure of the meetings were carried through normatively in line with the Articles of Association of the Company and Rules of Procedure for the Board of Directors; the Board of Directors could normally exert its decision-making right. All directors and independent directors could perform their obligations in an honest and diligence manner.

3. Supervisors and the Supervisory Committee: the members composing of the Supervisory Committee are reasonable. The Supervisory Committee conducted the supervision and inspection for the significant events of the Company strictly in accordance with the Rules of Procedure for the Supervisory Committee, and exert its supervision right effectively and brought its supervision function into full play.

4. Information Disclosures: the Board of Directors seriously performed information disclosure obligations strictly according to the relevant laws and regulations and the Articles of Association of the Company, and could publish all significant information in true, accurate, complete and timely manner.

II. Implementation of duties of independent directors

In the report period, the Company's independent directors fully performed their duties regulated in the laws and the Articles of Associations, seriously examined all proposals and expressed independent opinion on the following matters such as engaging and dismissing of senior executives and election of newly-added directors, did not propose objection to any proposals. Of which, independent director Mr. Li Qiusheng and Zong Dechun took part in examination and voting of all proposals examined by all Board meetings held by means of field voting; independent director

Hou Liying took part in examination and voting of proposals examined by all Board meetings held by means of field voting except that she entrusted other director to vote on her behalf due to business for two times.

III. The Company was independent from the controlling shareholders in business, personnel, assets, organization and financing of the Company, possessed independent operation capabilities facing market.

1. Business: The Company possessed independent production, supply and distribution system;

2. Personnel: the Company was absolutely independent in management of labor, personnel and salaries from the controlling shareholders. All the senior executives of the Company took no office title concurrently and received no remunerations from the Shareholder Company.

3. Assets: The Company possessed independent and integrated assets and the property of the Company is transparent.

4. Organization: The Board of Directors and the Supervisory Committee operated independently. There existed no superior-inferior relationship between the controlling shareholder and its function department and the Company.

5. Financing: the Company has independent financial department, independently accounted and paid taxes according to the law. The Company established a complete set of accounting systems and financial accountng system and financial administrative systems. The Company opened independent bank accounts.

IV. The equity encouragement plan to senior executive of the Company was preparing.

Section VII. Particulars about the Shareholders' General Meeting

I. The 1st Extraordinary Shareholders' General Meeting 2006: the Company held the 1st extraordinary shareholders' general meeting 2006 at 9:30 am of Apr. 11, 2006. The relevant public notice on resolutions was published in China Securities Journal and Ta Kung Pao and website appointed by CSRC dated Apr. 12, 2006.

II. The 2nd Extraordinary Shareholders' General Meeting 2006: the Company held the 2nd extraordinary shareholders' general meeting 2006 at 9:30 am of Sep. 8, 2006. The relevant public notice on resolutions was published in China Securities Journal and Ta Kung Pao and website appointed by CSRC dated Sep. 9, 2006.

III. The Annual Shareholders' General Meeting 2005 (the 14th Shareholders' General Meeting): the Company held the annual shareholders' general meeting 2005 (the 14th shareholders' general meeting) at 9:30 am of June 30, 2006. The relevant public notice on resolutions was published in China Securities Journal and Ta Kung Pao and website appointed by CSRC dated July 2, 2006.

Section VIII. Report of the Board of Directors

I. Analysis on overall operation in the report period

(I) Discussion and Analysis of the Management

The Year 2006 is deepen year of macro-control for the Company in the real estate industry. Under the general environment that the growing speed of industry development slowed step by step and the industry competition was fierce day by day, the whole Group developed the spirit of “solidify, work hard, strenuous and promising”, surrounded two keys of the operation work and construction of spiritual civilization, exert ourselves two re-establishments promotion such as enterprise brand benefit and enterprise spirit, insisted on constructing the harmonious enterprise and sustainable development way, and each task of the Company went to a new step and showed a good development situation. In 2006, the development and property management of the real estate industry, the main operation of the Company, gained the enhancement, the basic financing continued to straighten up, the enterprises under the Company done well in the turn loss into gain, the issues left over from history were settled, the management level and supervision function obtained the intensification, the cost reduced continually, the brand benefit and enterprise image has upgrade, the enterprise spirit civilization construction was strengthened. The atmosphere of “solidification, harmonious and advancement” has came into being primarily.

(II) Overall operation

In 2006, the Company realized income from main operation amounting to RMB 990.89 million, with an increase of RMB138.75 million compared with RMB 852.14 realized in the same period of previous year, as well as growing range of 16.28%; achieved total profit amounting to RMB 20.45 million, an increase of 85.74% compared with RMB 11.01 million realized in the same period of previous year; realized net profit amounting to RMB 19.26 million, an increase of RMB 12.1 million compared with the same period of previous year, as well as growing range of 59.17%.

The increase or decrease of main operations is as follows:

(1) The sales income from real estates industry, the core industry of the Company, was RMB 598.35 million, up 12.67% compared with RMB 531.06 million realized in the same period of last year, which was mainly because that the headquarters of SPG achieved the sales income of RMB 543.06 million, of which got RMB 194.03 million, RMB 199.25 million, RMB 123.22 million and RMB 26.56 million from the sales of Yitai Building, BiTongHai Garden, Star Lake Garden and former building.

(2) Income from housing lease was RMB 45.45 million, a decrease of 17.93% compared with RMB 55.38 million realized in the same period of last year, which was mainly due to decrease of leasing areas.

(3) Income from construction fixing was RMB 177.03 million, an increase of RMB 78.58 million, namely up 79.82% compared with RMB 98.45 million realized in the

same period of last year, which was mainly because the income from construction of Zhentong Company (the company under the Company) has increase by a big margin.

(4) Income from property management, hotel & dietetic service and other industries have increase a few over the same period of last year. Income from commodity communication industry has decrease by 34.02% compared with the same period of last year, which was mainly because that Bonded Trade Co., Ltd. (the company under the Company) stopped to operate the import & export in Aug. 2006.

II. Scope of main operation and status

1. The Company belongs to real estate industry and is engaged in the development of real estate and sales of commercial house, lease and management of property, construction decoration and fixing, retail and trade of commodities and hotel and dietetic service.

2. Particulars about composing of income from main operations and profit from main operations classified according to industry:

Industries	Operating income		Operating cost		Operating gross profit	
	2006	2005	2006	2005	2006	2005
Development real estate	598,353,091.09	531,061,153.71	594,599,961.34	451,687,250.23	3,753,129.75	79,373,903.48
Income from lease of housing	45,452,221.21	55,377,640.94	29,457,622.86	27,312,385.67	15,994,598.35	28,065,255.27
Construction fixing	177,026,747.42	98,446,923.89	166,024,854.99	92,404,217.83	11,001,892.43	6,042,706.06
Property management	75,360,126.32	64,047,096.58	68,968,715.53	57,260,870.63	6,391,410.79	6,786,225.95
Travel, hotel meal service	28,153,786.53	25,577,582.81	14,963,656.43	14,966,455.12	13,190,130.10	10,611,127.69
Commodity circulation	60,798,063.27	92,151,416.61	59,762,591.59	91,170,799.58	1,035,471.68	980,617.03
Other	10,749,967.90	7,320,366.38	2,987,216.54	980,709.33	7,762,751.36	6,339,657.05
Internal offsetting	(5,000,000.00)	(21,840,982.71)	(10,949,751.54)	(7,374,075.12)	5,949,751.54	(14,466,907.59)
Total	990,894,003.74	852,141,198.21	925,814,867.74	728,408,613.27	65,079,136.00	123,732,584.94

3. Particulars about composing of income from main operations and profit from main operations according to areas:

Items	Operating income		Operating cost		Operating gross profit	
	2006	2005	2006	2005	2006	2005

Domestic	995,148,841.18	848,778,358.29	936,764,619.28	717,283,119.12	89,564,221.90	131,495,239.17
Overseas	745,162.56	25,203,822.63	--	18,499,569.27	745,162.56	6,704,253.36
Internal offsetting	(5,000,000.00)	(21,840,982.71)	(10,949,751.54)	(7,374,075.12)	5,949,751.54	(14,466,907.59)
Total	990,894,003.74	852,141,198.21	925,814,867.74	728,408,613.27	65,079,136.00	123,732,584.94

III. Operations achievements (the consolidated statement) of wholly-owned affiliated company and shareholding company

(Unit: RMB)

Names of companies	Business scope	Income from main operations (RMB)	Total profit (RMB)	Net profit (RMB)	Registered capital (RMB'0000)
Shenzhen Petrel Hotel Co., Ltd.	Hotel Service	28,153,787	-3,593,896	-3,593,896	3000
Shenzhen Property Management Co., Ltd.	Property management service	86,929,724	-17,198,486	-17,640,601	725
Shenzhen Zhentong Engineering Co., Ltd.	Fixing and maintenance of projects	173,518,894	-1,763,848	-1,763,848	1000
Shenzhen SPG Mini-bus Rent Co., Ltd.	Rent of mini-bus	4,150,297	-357,386	-452,112	1029
Shenzhen SP Bonded Trade Co., Ltd	Import & Export trade and bonded business	60,798,063	-742,055	-742,055	500
Shenzhen Special Economic Zone Real Estate (Group) Guangzhou Real Estate Co., Ltd.	Development and operation of real estate	220,000	24,653	2,226	2000
Xin Feng Property Co., Ltd.	Investment and holding	53,112,520	1,476,982	1,097,652	HKD100
Xin Feng Enterprise Co., Ltd.	Investment, management, and consultancy	3,083,233	-16,175,442	-16,175,442	HKD100
Shenzhen Huazhan Construction Supervision Co., Ltd.	Construction and supervision	3,507,853	152,273	152,273	800

IV. Main suppliers and customers

Unit: RMB' 0000

Total amount of purchase of the top five suppliers	4,082.16	Proportion in the total amount of purchase	4.12%
Total amount of sales of the top five sales customers	3,685.71	Proportion in the total amount of sales	6.83%

V. Problems, difficulties, and dissolution plans in operation

1. Operation problem and difficulty: (1) the operation of auxiliary industry is hard, the profit capability still need to strengthen. This year, the profit capability of enterprises under the Company has improved, but still stayed in the situation of low-interest in the whole, especially such enterprises as the construction of project and hotel, their competition ability and self-development ability await further upgrade.

(2) The limited resource reserve and the smaller development scale, and the development program of main operations are put off as a whole. Owing to the lack of land reserve, the on-building project is on the low side. In the year 2006, the Company made the effort to find land, but did not obtain progress due to many reasons, the main operation of the Group faced the problem of sustainable development.
(3) The single financing channels and the limited self-owned funds. The Company's financing mainly relied on mortgage loan with the difficult in increase of financing scale. Being under the control of history issues, the Company's self-owned funds were hard to plenitude by self-accumulation during the short term, so as to limit the ability obtaining resource.
(4) The lack of resource integration capacity and marking capacity. Especially, in the respect of innovation of product conceptual, launch of market hot spot and realization of integration marketing, the Company has fallen behind. In the respect of value create of product development, the function value was strong, while the create capacity of investment value and brand service value was short, thereby, the market calling of brand was lack.
2. Proposed solutions for the above problem and difficulty:
(1) Break through the former management system of parent-subsidiary company, upgrade independent living ability, enhance independent operation, initiate a new aspect of independent development, (2) slow not where we may quick, breakthrough bottleneck of project development to step up efficiency level and benefit level of main operation; (3) quicken financing capacity innovation, breakthrough capital bottleneck, advance resource reserve capacity; (4) Reinforce management, increase income and cut expense, to perform overall budget management; (5) reinforce the integration marketing capacity of enterprise and train enterprise brand.

VI. Investment
1. In the report period, the Company had no raised proceeds, nor raised proceeds lasting to the report period.
2. Investment with non-raised proceeds

Unit: RMB'0000

Name of projects	Amount of projects	Rate of progress of projects	Income from projects
BiTonghai Garden		Joining partnership in Aug. 2005	Switching back sale income of RMB 199257600, as well as gross profit 62,916,300
Star Lake Garden		Joining partnership in Aug. 2005	Switching back sale income of RMB 123,222,200, as well as gross profit 39,053,100
Di Jing Ming Garden of East Lake	11,903.89	Planning Permit for Using Land for Construction Purposes obtained	Not settled
Yitai Center		Joining partnership in 2006	Switching back sale income of RMB 194,028,400, as well as gross profit -105,856,000
The 6th -9th phase of Jinye Island International Garden	2208.89	Development by stages	Not settled
The3# Building phase of Star Lake Garden	42	Construction in preparation	Naught
Whampoa Garden	8108.67	The projects have been	Not settled

		accomplished basically at the end of 2006, Equipments testing had been ready for check and accepting.	
Total	22263.45	-	-

VII. In the report period, analysis on financial status and operating results

(I) Analysis of financial status

Change in balance sheet year-on-year

Items	Dec. 31, 2006		Dec. 31, 2006		Growing percentage point of proportion in total assets
	Amount (RMB)	Proportion in total assets (%)	Amount (RMB)	Proportion in total assets (%)	
Total assets	**2,391,441,694.13**	**100.00**	**2,280,306,748.29**	**100.00**	
Current assets	**1,962,753,348.99**	**82.07**	**1,827,889,548.67**	**80.16**	**1.91**
Monetary fund	461,311,146.09	19.29	310,856,949.28	13.63	**5.66**
Short-term investment			1,704,214.79	0.07	**- 0.07**
Accounts receivable	18,956,883.97	0.79	30,691,905.02	1.35	**- 0.55**
Other receivables	170,653,648.78	7.14	128,507,309.91	5.64	**1.50**
Accounts in advance	7,560,118.78	0.32	11,667,789.13	0.51	**- 0.20**
Subsidiary receivable			4,186,557.27	0.18	**- 0.18**
Inventory	1,286,967,699.69	53.82	1,326,105,743.84	58.15	**- 4.34**
Deferred and prepaid expenses	17,303,851.68	0.72	14,169,079.43	0.62	0.10
Long-term equity investment	160,073,275.68	6.69	164,643,553.06	7.22	**- 0.53**
Long-term credit investment	82,545,764.62	3.45	85,093,435.25	3.73	**- 0.28**
Net – fixed assets	185,930,271.90	7.77	201,703,682.02	8.85	**- 1.07**
Construction work in progress					-
Intangible assets and other	139,032.94	0.01	976,529.29	0.04	**- 0.04**
					-
Current liabilities	**1,229,137,438.54**	**51.40**	**1,110,811,956.98**	**48.71**	**2.68**
Short-term loan	165,424,900.00	6.92	291,474,378.56	12.78	**- 5.86**
Accounts payable	33,911,509.50	1.42	45,093,987.01	1.98	**- 0.56**
Advance receivable	285,510,034.84	11.94	302,259,671.44	13.26	- 1.32
Salary payable	16,166,492.29	0.68	16,517,761.36	0.72	**- 0.05**
Welfare payable	12,842,325.58	0.54	10,506,303.98	0.46	**0.08**
Dividend payable			-	-	-
Tax payable	4,313,435.83	0.18	8,295,637.00	0.36	**- 0.18**
Other unpaid expenses	162,194.22	0.01	187,356.70	0.01	- 0.00
Other payables	500,790,212.81	20.94	315,966,218.35	13.86	7.08
Accrual Expense	100,016,333.47	4.18	94,010,642.58	4.12	0.06
Long-term liabilities due with one year	110,000,000.00	4.60	26,500,000.00	1.16	**3.44**
Total long-term liabilities	85,796,326.59	3.59	130,659,024.96	5.73	**- 2.14**
Long-term loan	65,000,000.00	2.72	110,000,000.00	4.82	**- 2.11**
Long-term accounts payable	20,796,326.13	0.87	20,659,024.96	0.91	**- 0.04**
Total liabilities	**1,314,933,765.13**	**54.98**	**1,241,470,981.94**	**54.44**	**0.54**

The composing of balance sheet is going to become rational day by day, the quality of assets had a little improving, the ratio of debts to assets of 54.98% stayed in the lower level in the same industry, the financial status was in steadiness, which provided the solid foundation for the sustaining development of the Company.

Explanation on change of each item:

(1) Monetary fund was RMB 461.31 million, an increase of RMB 150.45 million compared with RMB 310.86 million realized in the same period of last year, with the growing range of 48.4%, which was mainly because of net cash arising from operating activities.

(2) Accounts receivable has decreased by 38.19%, which was mainly because that the Company received the part of accounts receivable in the report period.

(3) Increase of other receivables was mainly because that Xinfeng Enterprise and Shantou Hualin Company paid un-drawn funds to the Company.

(4) Decrease of inventory was mainly because that the house selling cost was more than input in 2006.

(5) Increase of deferred and prepaid expenses was mainly due to increase of income tax of house funds from receivable in advanced.

(6) Decrease of reserve for impairment of fixed assets was mainly because that reserve for impairment withdrew due from switching back of value recovery of housing or building.

(7) Decrease of short-term loan was mainly because the Company borrowed RMB 80 million from Shenzhen Investment Holding Co., Ltd. instead of Shenzhen Construction Group – Financial Company.

(8) The balance of accounts payable as at the end of period has decreased by 24.79% compared with the period-being, which was mainly because the Company paid engineering funds in the report period.
(9) The balance of other payables as at the end of period was RMB 500.79 million, up 58.49% over the last year, which was because that conversion-in amounts from loans, projects and deposit of owner and others.

(10) Change in long-term loan is as follows: two long-term loans of RMB 110 million from Rural Credit Cooperatives borrowed by the Company were transferred in long-term liabilities due within one year in 2007, and the Company added two long-term loans of RMB 65 million in the report period.

(II) Analysis of operating results
1. In 2006, the Company realized the profit from main operations amounting to RMB 17.65 million, which has decreased by a big margin compared with RMB 85 million realized in the same period of last year; the profit margin on main operations was 4.78%, a decrease of 5.19% compared with 9.97% realized in the same period of last year, which was mainly because the gross profit ratio of real estate industry of 0.63% has decreased by a large margin compared with the same period of last year. The

essential reasons are as follows: the Company carried forward the income from Yitai Building amounting to RMB 194.03 million, corresponding, carried forward the cost amounting to RMB 299.88 million, as well as gross profit ratio of -35.3%. Yitai Building is the problems left over by history with such disadvantage as high historical accumulative cost, imperfect geographical environment and sale price lower than cost. The Company withdrew the reserve for falling price of inventories on Yitai Building in the year 1998 and 2001, corresponding, wrote off reserve for falling price of inventories withdrawn over the previous years amounting to RMB 176.64 million.

2. Administrative expense was RMB -89.04 million in the report period, which has decrease by a big margin compared with RMB 66.4 million used in the same period of last year, which was mainly because that wrote off reserve for falling price of inventories withdrawn over the previous years amounting to RMB 178.35 million when Yitai Building was sold in 2006 (the reserve for falling price of inventories written off in the last year is RMB 56.02 million).

3. Financial expense

Item		Year 2006		Year 2005
Interest expenditure		23,071,544.77		32,310,316.47
Minus: interests income		4,245,461.40		3,162,400.48
Exchange loss		13,956,542.60		9,639,857.28
Minus: exchange gains		2,386,732.58		3,379,743.97
Other		790,751.74		962,079.65
Total		31,186,645.13		36,370,108.95

The financial expense as of this report period has decreased by 14.24% compared with the last period, which was mainly because that net exchange loss has increased by RMB 4.32 million due to fluctuations in exchange rates as of this report period, corresponding, the interest expenditure has decreased by RMB 9.24 million.

4. Investment income amounted to RMB 3.6 million, which has decreased by a big margin compared with the same period of last year, the details are as follows:

Items	Year 2006	Year 2005
Income from stock investment	4,519,295.90	69,753.49
Profit distributed by affiliated company and associated enterprises	1,559,962.49	1,660,097.38
Adjustment of equity of unconsolidated company	(1,104,150.84)	(1,278,060.58)
Amortization of equity investment	(1,397,348.64)	(1,397,348.64)
Income from disposal of equity and debt investment	--	46,507,481.54
Withdrawing long-term reserve for impairment of long-term investment	--	(3,069,704.88)

Other investment income	26,954.26	4,044,175.16
Total	3,604,713.17	46,536,393.47

Investment income as of this year has decreased by a larger margin compared with the last year, which was mainly because of income obtained from equity and debt investment of RMB 46,507,481.54 of Haerbin Jianfeng Technology Development Company, Jilin Pharmaceutic Co., Ltd. and Shenzhen Bamboo Garden Enterprise Co., Ltd. transferred by the Company.

5. Non-operating expense

Items	Year 2006	Year 2005
Three-system Reformation Economic Compensation funds*1	37,410,074.07	--
Expenditure of contractual fine and penalty	157,089.23	197,933.89
Losses due from lawsuit and arbitration	3,291,150.94	1,164,150.94
Net loss from disposal of fixed assets	167,335.28	1,385,716.78
Switching back of reserve for impairment of fixed assets	(1,268,763.04)	--
Donation expenditure	34,000.00	69,000.00
Other	495,025.56	81,473.49
Total	40,285,912.04	2,898,275.10

Non-operating expense as of this year has increased by a big margin compared with the last year, which was due to three-system reformation economic compensation funds as of this year of RMB 37.41 million, for which on the basis of the Opinion on Further Standardizing Labor Relationship in State-owned Enterprises (Shen SASAC [2006] No. 358) and the Circular on Doing Well and Deepen the Reform of Labor and Personnel Distribution System in State-owned Enterprises (Shen SASAC [2006] No. 359) issued by SASAC of Shenzhen Municipality, Labor and Social Security Bureau of Shenzhen Municipality, and Bureau of Personnel of Shenzhen Municipality, the Company came to an agreement with the staff, and agreed the staff dismissing the labor contract with the Company to withdraw the economic compensation in accordance with the provisions.

6. Net cash flow arising from operating activities was RMB 175.12 million, a decrease of RMB 91.15 million compared with RMB 266.27 million realized in the same period of last year, which was mainly because that cash received from selling commodities and providing labor services amounted to RMB 985.88 million, an increase of RMB 45.56 million compared with RMB 940.32 million realized in the same period of last year, by 4.85%; cash paid for purchasing commodities and receiving labor service amounted to RMB 715.4 million, an increase of RMB 215.52 million compared with RMB 499.88 million realized in the same period of last year,

by 43.11%. The growth range of cash inflow arising from operating activities was far less than one of cash outflow, thus, the Company's cash flow arising from operating activities showed a bad tendency over the last year. But the whole net increase of cash flow of RMB 144.54 million has increased by RMB 38.21 million compared with RMB 106.33 million realized in the same period of last year, with growing range of 35.97%, which was mainly because that bank loan returned by the Company was less than the same period of last year. In the whole, the Company's cash flow showed a good tendency, which is beneficial to development of the Company for the future.

VIII. The Company's outlook for the future development

The year 2007 is a struggle year that the Company quickened its development speed and promoted its raise. The uncertain influence from macro-control of real estate is main factor that the Company's operation environment gets direct impact, the Company will persist in market and benefit as guidance, in line with the guideline of "tamping foundation, standardizing management and slow not where we may quick", take to enlarge scale of main operation, perfect management and control system, convert operation mechanism and intensify implementation enforce as keys, deeply develop the activity of "development of management year", further enhance the competition capacity of the Company, strive to achieve the system innovation and new breakthrough of operation performance, which set a new aspect for SPG Group into the good roll development.

(I) To set up and perfect management control system, optimize management flow, tamp management foundation, improve run efficiency. Firstly, to build management and control system according with the fact in all around, the Company will further determine the key management relationship, partition of right and responsibility and key management flow with headquarter of the Group as well as each enterprise, advance the pertinence to business field, organization structure, so as to reach to an effect of enhancement of integration of resources. Secondly, to build and perfect each business flow in all around, the Company will take the flow management as creed to promote the improvement of integration management level, turn the effort and result that the Company upgrades management capacity as the system, establish standard for each operation management activity; highlight stress field, absorb some lesson in the recent years, reinforce quality management, progress management, cost management and marketing management, so at to promote the improvement of operation capacity of main operation.

(II) To slow not where we may quick, breakthrough bottleneck of project development to step up efficiency level and benefit level of main operation. In 2007, the main operation developed by the Group will stay in the investment phase of reproduction cycle, new development projects will be increased and investment scale will be enlarged, besides project of Shantou Jiyedao, the 3rd phase of Star Lake Garden, Di Jing Ming Garden of East Lake and dragon-phoenix villa will star formally.

The following investment projects will be planned to construct in 2007:

Name of project	Type of project	Station of project	Total investment
3# building of Star Lake Garden	High-rise Residential building	Within Nigang village of Shenzhen	RMB 25 million
Dragon-Phoenix Villa	Multi-Story Residential	Xinsheng Village,	RMB 490 million

	building, High-rise Residential building	Longgang District	
Di Jing Ming Garden of East Lake	High-rise Residential building	The cross of Buxin Road and Aiguo Road, Shenzhen	RMB 30 million
Shantou Jiyedao International Garden	Villa and Multi-Story Residential building and Less High-rise Residential building	Sea area of Xinjin River, Shantou City	RMB 70 million
Shantou Xinfeng Building	undecided	The cross of Zhongshan Road and Longyan South Road, Shantou	undecided

(III) To quicken financing capacity innovation, breakthrough capital bottleneck, advance resource reserve capacity. (1) to solid and innovate the financing channels, upgrade resource acquirement capacity; (2) to pay attention to grasp opportunity to increase resource reserve; (3) to change conception and increase reserve in the right field.

(IV) Possible changes in accounting policies and estimates subsequent to implementation of new accounting standard and the impact on the Company's financial status and financial performance

1. Analysis on difference in shareholders' equity calculated between the current accounting standard and the new accounting standard on Jan. 1, 2007, the day of the first time adoption of accounting standard for business enterprises

Item	Note	Title	Amount
		Shareholder's Equity as at Dec.31, 2006 (current Accounting Standards)	1,093,956,870.51
1		Balance of long-term equity investment	--
	2	Of which: balance of long-term equity investment formed in the merger of an enterprise under the same control	(1,503,986.27)
		Credit balance for long-term equity investment calculated based on equity method	--
2		Investment real estate measured based on fair value model	--
3		Depreciation over the past years supplemental withdrew due to dismantling cost of assets	--
4		Employee termination indemnity according with projected liability	--
5		Share based payments	--
6		Reorganization obligation according with projected liability	--
7		Business Combinations	--
		Of which: Book value of goodwill formed in the merger of an enterprise under the same control	--
		Reserve for impairment of goodwill withdrawn based on new accounting standards	--
8		Financial assets measured in line with fair value and its change amounts was recognized in profit or loss of current period and available-for sale financial assets	--
9		Financial liability measured in line with fair value and its change amounts was recognized in profit or loss of current period	--
10		Equity increased due to division of financial instruments	--

11		Derivative financial instruments	--
12	3	Income Tax	30,433,178.19
13	4	Minority interests	-12,705,986.19
14		Other	-4,960,550.27
		Shareholder Equity as at Jan. 1, 2007 (New Accounting Standard)	1,106,698,232.00

(1) The balance of long-term equity investment formed in the merger of an enterprise under the same control
In accordance with the provision of Accounting Standard for Business Enterprise No. 20 – Business Combinations, on Jan. 1, 2007, the debt balance of long-term equity investment unamortized formed in the merger of an enterprise under the same control amounting to RMB 1,503,986.27 would be written off in total, corresponding, the retained income would be deceased by RMB 1,503,986.27, of which, the owners' equity under the Company would be decreased by RMB 1,503,986.27.

(2) Income tax
In accordance with the provision of Accounting Standard for Business Enterprise No. 18 – income tax, on Jan. 1, 2007, the Company retroactively adjusted the effect of the temporary difference between the book value of asset and liabilities and its tax base on the income tax, and adjusted the retained income according to the said effect amount. Hereby, the effect amount of the book value of asset less than its tax base and the book value of liabilities more than its tax base on the income tax formed due to reserve for bad debt, reserve for falling price of inventory and accrued expense amounting to RMB 20,713,660.69 was adjusted into the retained income, of which, the owners' equity under the Company would be increased by RMB 20,713,660.69.

In accordance with the provision of Accounting Standard for Business Enterprise No. 18 – income tax, on Jan. 1, 2007, the Company retroactively adjusted the effect amount which can be deducted pursuant to the tax law in the future years on the income tax, and adjusted the retained income according to the said effect amount. Hereby, the effect amount which can be deducted on the income tax amounting to RMB 10,980,628.58 was adjusted into the retained income, of which, the owners' equity under the Company would be increased by RMB 9,719,517.50, and the owners' equity of minority interests would be increased by RMB 1,261,111.08.

(3) Minority interests
In accordance with the provision of Accounting Standard for Business Enterprise No. 33 – Consolidated financial statement, the minority interest was separate presented according to the current accounting standard, while it was presented by minority interests under owners' equity in the consolidated balance sheet according to the new accounting standard. Thus, the minority interest of RMB 17,448,941.51 as at Jan. 1, 2007 was recorded into shareholders' equity, at the same time, owners' equity of minority interests increased of RMB 1,261,111.08 was also listed under shareholders' equity.
According to the regulations of Accounting Standard for Business Enterprises No. 33 - Consolidated financial statements, parent company should take all its subsidiaries in the consolidation scope of consolidated financial statements. On Jan. 1, 2007, the Company took the financial statements of subsidiaries into consolidation scope, which

increased RMB 3,481,844.24 belonged to minority shareholders' equity. While financial statements of subsidiaries were not taken into the consolidation scope in current policies. (4) Others According to the regulations of Accounting Standard for Business Enterprises No. 33 - Consolidated financial statements, parent company should take all its subsidiaries in the consolidation scope of consolidated financial statements. On Jan. 1, 2007, the Company took the financial statements of subsidiaries into consolidation scope, while financial statements of subsidiaries were not taken into the consolidation scope in current policies. Owing to the subtractive net assets of some special subsidiaries, retained income for RMB 4,960,550.27 was increased, including decrease of owns' equity belonged to parent company for RMB 4,960,550.27.

2. Possible changes in accounting policies and estimates subsequent to implementation of new accounting standard and the impact on the Company's financial status and financial performance

(1) In accordance with the provision of Accounting Standard for Business Enterprise No. 2 – Long-term equity investment, the long-term equity investment of subsidiary shall be measured based on equity method under the current accounting standard, while it shall be measured based on cost method under the new accounting standard, as a result, the impact on the current investment income of the parent company due to operating loss of subsidiary shall be reduced. There is no influence on the Company's consolidated statement due to change of such accounting policies.

(2) In accordance with the provision of Accounting Standard for Business Enterprises No. 3 – Investment properties, the investment properties shall be measured as inventory under the current accounting standard, while it shall be measured as investment properties based on cost method according to the new accounting standard. There is no influence on the Company's profit and shareholders' equity due to change of such accounting policies.

(3) In accordance with the provision of Accounting Standard for Business Enterprises No. 18 – Income tax, the Company shall change accounting treatment of income tax from the former taxes payable method under the current accounting standard to balance sheet approach. The difference between the book value of the asset or liability and its tax base, the deferred income tax asset or the deferred income tax liability shall be determined according to these Standards, the deferred income tax assets and deferred income tax liabilities recognized shall be recorded in the income tax expenses, as a result, the possible influence on the income tax expenses of the current period shall be occurred, corresponding, the Company's profit and shareholders' equity shall be affected.

(4) In accordance with the provision of Accounting Standard for Business Enterprises No. 33 – Consolidated Financial Statement, the minority interests shall be separate presented under item "minority interests" in the consolidated financial statement according to the current accounting standard, while it shall be presented under item "minority interest" under item "shareholders' equity" in the consolidated balance sheet according to the new accounting standard. The net profit in the consolidated financial statement consists of minority interest, and consolidated net assets also consist of minority interest. Such change shall affect the calculation standard of shareholders' equity and profit.

IX. Routine work of the Board of Directors

(I) In the report year, particulars about meeting of the Board and contents of the resolutions

In 2006, particulars about holding of meetings of the Board were as follows:

1. The 1st meeting was held at the meeting room of the Group on Mar. 6, 2006, 6 directors attended the meeting and 1 director entrusted another to vote. The meeting examined and approved the following proposals: *Proposal on Reelection of the Board of Directors, Proposal on Holding the 1st Extraordinary Shareholders' General Meeting 2006 and etc.*

The resolutions related with the Board meeting were published in China Securities Journal and Ta Kung Pao dated Mar. 8, 2006.

2. The 2nd meeting was held on Apr. 11, 2006, 6 directors attended the Board meeting and 1 director were absent from the meeting. The meeting examined and approved the following proposals: *Proposal on Electing the Chairman of the 5th Board of Directors, Proposal on Engaging Secretary of the Board and etc.*

The resolutions related with the Board meeting were published in China Securities Journal and Ta Kung Pao dated Apr. 12, 2006.

3. The 3rd meeting was held on Apr. 21, 2006, 6 directors attended the Board meeting and 1 director were absent from the meeting. The meeting examined and approved the following proposals: *Annual Report 2005 and its Summary, 2005 Profit Distribution Plan and the 1st Quarterly Report 2006 and etc.*

The resolutions related with the Board meeting were published in China Securities Journal and Ta Kung Pao dated Apr. 25, 2006.

4. The 4th meeting was held on May 29, 2006, 6 directors attended the Board meeting and 1 director entrusted other director to vote. The meeting examined and approved the following proposals: *the Report of the Board of Directors for 2005, Proposal on Engaging Certified Public Accountants, Articles of Association of the Company, Rules of Procedure for the Shareholders' General Meeting, Rules of Procedure for the Board of Directors, Proposal on Holding Annual Shareholders' General Meeting 2005 and etc.*

The resolutions related with the Board meeting were published in China Securities Journal and Ta Kung Pao dated May 30, 2006.

5. The 5th meeting was held on Aug. 21, 2006, 5 directors attended the Board meeting and 2 directors entrusted other directors to vote, at which examined and approved the following proposals: *Interim Report 2006 and its Summary, Proposal on Engaging Senior Executives, Proposal on Additionally Electing Directors, Proposal on Holding the 2nd Extraordinary Shareholders' General Meeting 2006and etc.*

The resolutions related with the Board meeting were published in China Securities Journal and Ta Kung Pao dated Aug. 23, 2006.

6. The 6th meeting was held on Sep. 7, 2006, 5 directors attended the Board meeting and 2 directors were absent from the meeting, at which examined and approved the resolution on Jointing Auction of Land Use Right for Plots of G02113-0019, G01064-0259, A104-0111, A412-0045.

7. The 7th meeting was held on Oct. 25, 2006, 7 directors attended the Board meeting and 2 directors entrusted other directors to vote, in which examined and approved the *proposal on 3rd Quarterly Report 2006*

(II) The Board's implementation of the resolutions made by the Shareholders' General Meeting

1. The Company held the shareholders' general meeting related with the share merger reform of A-share market on Jan. 23, 2006, and successfully implemented the share merger reform plan.
2. The 1st Extraordinary Shareholders' General Meeting 2006 of the Company was held on Apr. 11, 2006, at which examined and approved the proposals such as proposal on reelection of the Board of Directors and proposal on reelection of the Supervisory Committee, and elected new directors and supervisors by means of accumulative voting system.
3. The 14th Shareholders' General Meeting of the Company held on June 30, 2006 had formed such resolutions concerning annual report 2005, the profit distribution plan of 2005, amendment of the Articles of Association and establishing Rules of Procedure for the Shareholders' General Meeting, Rules of Procedure for the Board of Directors, Rules of Procedure for the Supervisory Committee and Reengagement of Certified Public Accountants and so on. Authorized by the Shareholders' General Meeting, the Board had strictly carried out the aforesaid resolutions. In the report period, the Company had no plans of profit appropriation or conversion of public reserve into share capital, nor was there any rationed share or issuance of new share.
4. The 2nd Extraordinary Shareholders' General Meeting 2006 of the Company was held on Sep. 8, 2006, at which examined and approved the proposal on additionally electing directors, and additionally elected 3 directors by means of accumulative voting system.

X. Profit distribution preplan for the year 2006

The Company's financial settlement for the year 2006 has been audited by Shenzhen Nanfang Minhe Certified Public Accountants, as calculated according to Chinese Accounting Standards, the Company's net profit for the year 2006 after auditing was RMB 19,259,485.35, while as calculated according to International Accounting Standards, the Company's net profit was RMB 42,069,000. Thus, the profit available for distribution for the year 2006 was RMB -1,022,454,478.17. In accordance with the relevant rules and the regulations of the Articles of Association of the Company, there was no profit distribution condition, thus, the Board of Directors decided that the Company would not distribute profit for the year 2006 after discussion.

XI. The newspapers chosen by the Company for information disclosure remained unchanged, namely China Securities Journal (domestic) and Ta Kung Pao (overseas).

XII. Special explanation of independent directors on the Company's guarantee and performing the regulations of Circular Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties and independent opinions

We checked and approved the external guarantee, capital occupied by related parties disclosed in Annual Report 2006 and Financial Report of SHENZHEN Special Economic Zone Real Estate & Properties (Group) Co., Ltd. and the relevant information, and made the following explanation on the external guarantee and capital occupied by related parties:

1. No external guarantee occurred in the report period. There was the balance of mortgage guarantee amounting to RMB 38.59 million the Company did not settle yet in the report period. The said guarantee belongs to a general situation in the industry. Within the guarantee period, namely from the date of money set out by mortgage banker to certificate of real estate of house buyers was transacted by mortgage banker, if house buyer did not perform the debtor's duties, the Company can take back the property sold, thus, there was no actual losses occurred to the Company, and possibility of jointly discharging responsibility borne by the Company due from the said guarantee is little.

2. The largest shareholder of the Company did not occupy capital of the Company. Some existing accounts receivable from related parties are due to loan that the Company invested subsidiaries over the past years.

Thus, we believed that the Company could quite perform Circular Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties and Listed Companies' Provision of Guaranty to Other Parties.

Section IX. Report of the Supervisory Committee

In 2006, the Supervisory Committee had dutifully performed the supervisory obligations endowed by laws and regulations in accordance with regulations of Company Law, Securities Law, and Articles of Association of the Company and with the support of the Board, the management team and the vast shareholders, In the report period, the Supervisory Committee had held 6 meetings, presented at 4 shareholders' general meetings and attended 7 meetings of the Board as non-voting delegates.

I. Meetings held in the report period

1. The 1st meeting was held on Mar. 6, 2006, at which examined and approved the proposal on reelection of the Supervisory Committee. Zhuang Chuanghui, Xiong Xingnong, Zhang Xuxi and Deng Kangcheng were nominated the supervisor candidate of the 5th Supervisory Committee; Chen Junyi was nominated the employee supervisor candidate by the Labor Union Committee.

2. The 2nd meeting was held on Apr. 11, 2006, at which Zhuang Chuanghui was elected as the Chairman of the Supervisory Committee.
3. The 3rd meeting was held on Apr. 21, 2006, at which examined and approved the following proposals on Annual Report 2005 and its Summary, Report 2005 of the Supervisory Committee, Financial Report and Profit Distribution Plan and the 1st Quarterly Report 2006.
4. The 4th meeting was held on May 29, 2006, at which examined and approved the proposal on Rules of Procedure for the Supervisory Committee and Work Report 2005 of the Supervisory Committee.
5. The 5th meeting was held on Aug. 21, 2006, at which examined and approved the Interim Report 2006 and its Summary.
6. The 6th meeting was held on Oct. 25, 2006, at which examined and approved the 3rd Quarterly Report 2006.

II. Independent opinions of the Supervisory Committee
1. In the report period, the decision-making procedure of the Company was legal, and the inner management and control system further perfected, strictly performed policies and each law and rule of the State. While performing their duties, the directors and senior executives of the Company had no deeds that were against the Articles of Association of the Company, or had done harm to the interests of the shareholders or the Company.
2. In the report period, the Company's economic benefit improved obviously, assets quality was further optimized, capital strength strengthened gradually over the last year, cost control obtained outstanding effect, auditing work obtained further standardization, internal management mechanism was strengthened and perfected further, especially, under the situation of "three-system reformation", eliminated the factor of employee's compensation, the whole benefit was still remarkable improvement, ensured reform and operation. In the report period, the unqualified report issued by Nanfang Minhe Certified Public Accountants had been true and accurate, and its analyses practical. It had objectively reflected the financial status and the present operation of the Company.
3. The related transactions occurred in the report period were fair, and no harm had been done to the interests of the Listed Company. In the report period, the Company had not purchase and sell any assets, nor raise any funds.

Section X. Significant Events

I. Significant lawsuits and arbitrations
As to the significant lawsuits and arbitrations in which the Company had been involved in the report period, please refer to Note 8 of the Financial Statements.
II. The Company had not made any significant purchases or sales of assets in the report period.
III. Please refer to Note 7 of the Financial Statements for related parties of and related transactions of the Company.

IV. The Company had not signed any important contracts of entrustment, contracting or leasing in the report period, nor had it entrusted others with assets management.

V. Guarantees

Unit: RMB’0000

<table>
<tr><th colspan="7">External guarantees of the Company (excluding guarantees for holding subsidiaries)</th></tr>
<tr><th>Name of the guarantee</th><th>Date of happening (the agreement-signing day)</th><th>Amount of guarantee</th><th>Type of guarantee</th><th>Guarantee term</th><th>Accomplished or not</th><th>For related parties or not</th></tr>
<tr><td>Naught</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="3">Total guarantee amount in the report period</td><td colspan="4"></td></tr>
<tr><td colspan="3">Total guarantee balance at the end of the report period</td><td colspan="4"></td></tr>
<tr><td colspan="7">Guarantees for holding subsidiaries of the Company</td></tr>
<tr><td colspan="3">Total guarantee amount for holding subsidiaries in the report period</td><td colspan="4">2600</td></tr>
<tr><td colspan="3">Total guarantee balance for holding subsidiaries at the end of the report period</td><td colspan="4">2600</td></tr>
<tr><th colspan="7">Total guarantee amount of the Company (including guarantees for holding subsidiaries)</th></tr>
<tr><td colspan="3">Total guarantee amount</td><td colspan="4">2600</td></tr>
<tr><td colspan="3">Total guarantee amount taking up the net assets of the Company</td><td colspan="4">2.38%</td></tr>
<tr><th colspan="7">Irregular guarantees of the Company</th></tr>
<tr><td colspan="3">Amount of the guarantees for holding shareholders and other related parties of which the Company held less than 50% shares</td><td colspan="4">0.00</td></tr>
<tr><td colspan="3">Amount of the debt guarantees directly or indirectly for guarantees with an asset-liability ratio exceeding 70%</td><td colspan="4"></td></tr>
<tr><td colspan="3">Guarantee amount exceeding 50% of the net assets or not (yes or no)</td><td colspan="4">No</td></tr>
<tr><td colspan="3">Total irregular guarantee amount</td><td colspan="4">0.00</td></tr>
</table>

In the report period, there was a balance of mortgage guarantee for the owner’s building amounting to RMB 38.59 million still remaining unaccomplished. The kind of guarantee belongs to a general situation in the industry. Within the guarantee period, namely from the date of money set out by mortgage banker to certificate of real estate of house buyers was transacted by mortgage banker, if house buyer did not perform the debtor’s duties, the Company can take back the property sold, thus, there was no actual losses occurred to the Company, and possibility of jointly discharging responsibility borne by the Company due from the said guarantee is little.

VI. Commitments made by the controlling shareholder of the Company in the share merger reform and performance

1. The controlling shareholder of the Company promised on the relevant matters related with the share merger reform plan of SPG: “1. the company would abide by the relevant laws, regulations and rules, and fulfilling the legal responsibilities promised obligation; 2. the company declared: “The Promisor would dutifully fulfill its commitments and shoulder corresponding legal responsibilities. Only if the assignee agree and have the ability to shoulder the commitment responsibility, the Promisor would never transfer the shares held by it.”; and, 3. the company made the commitment: “The Promisor hereby promises that, should the Promisor failed to fulfill its commitment or not fully fulfill its commitment, it would compensate other shareholders for their losses suffered thereafter”. At present, the company did not touch the conditions of commitments.

2. Commitments of consideration paid in course of shares transfer: herein Shenzhen Construction Investment Holdings Corporation, the controlling shareholder of SPG, did not transfer its shares of SPG to Shenzhen Investment Holdings Co., Ltd., and share transfer procedure was in handling, if shares transfer procedure would finish before the date of accomplishment of share merger reform plan of SPG, then the consideration would be arranged by Shenzhen Investment Holdings Co., Ltd., while, if shares transfer procedure would finish after the date of accomplishment of share merger reform plan of SPG, then the consideration would be arranged by Shenzhen Construction Investment Holdings Corporation. Shenzhen Investment Holdings Co., Ltd. promised that it would continue to perform the commitments made by Shenzhen Construction Investment Holdings Corporation in share merger reform after accomplishment of share transfer procedure. On Feb. 15, 2006, the commitments were performed over.
3. Commitments of conditional sale: Nontradable shares held by it would not be traded or transferred within 12 months from the date the Share Merger Reform Plan was implemented; after the expiration of the aforesaid promise, the proportion in the total shares of the Company taken up by the originally nontradable shares sold through listing and trading at Stock Exchange would not exceed five percent within 12 months, and not exceed ten percent within 24 months. In the report period, the commitment condition was not reach. (According to the share merger reform plan, 50583000 shares subject to moratorium of the Company was freed from the trading moratorium on Feb. 26, 2007.)

VII. The Company engaged Shenzhen Nanfang Minhe Certified Public Accountants to take care of the auditing work for the year 2006 of the Company. The said Certified Public Accountants had provided annual auditing services to the Company since 2001. According to agreement, the Company would pay RMB 0.88 million to Shenzhen Nanfang Minhe Certified Public Accountants as the auditing fee.

VIII. In the report period, the board of directors of the Company and its directors were not investigated by CSRC, administratively punished or publicly criticized by CSRC or publicly condemned by Shenzhen Stock Exchange.

IX. Reception of investigation and news interviews
In the report period, the Company receipted the interviews, investigations and factory visits from investors. In the process of reception, the Company and the obligor related with the information disclosure strictly obeyed the principle of fair information disclosure in accordance with the requirements of *Guidelines on Fair Information Disclosure of Companies Listed*, and safeguard the right of investors obtaining information in fair. The Company is failed to disclose or let out nonpublic significant information to specifically investors in advance.

Section XI. Financial Report

(Accounting Statements and Auditors' Report attached at the back)

Section XII. Documents Available for Reference

1. Accounting Statements carrying the signatures and seals of the Legal Representative, person in charge of accounting work, and person in charge of accounting sections;
2. Original of the Auditors' Report carrying the seal of the Certified Public Accountants, as well as the signatures and seals of the CPAs;
3. All originals of notifications and original copy of all the documents of the Company ever disclosed in China Securities Journal and Ta Kung Pao in the report period.

Board of Directors of
SHENZHEN SPECIAL ECONOMIC ZONE
REAL ESTATE & PROPERTIES (GROUP) CO., LTD.
Apr. 20, 2006

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE
& PROPERTIES (GROUP) CO., LTD.
Report and Financial Statements
for the year ended December 31, 2006

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.
(Incorporated in the People's Republic of China with limited liability)

We have audited the accompanying consolidated financial statements of Shenzhen Special Economic Zone Real Estate & Properties (Group) Co., Ltd. (the "Company") and its subsidiaries (together with the Company referred to as the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Moore Stephens Shenzhen Nanfang Minhe
Certified Public Accountants

April 18 , 2007

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 RMB'000	2005 RMB'000
Turnover	4	943,464	813,405
Cost of sales		(724,332)	(610,776)
Gross profit		219,132	202,629

Other operating income		17,349	3,823
		236,481	206,452
General and administrative expenses		(129,602)	(138,356)
Other operating expenses		(19,541)	(16,090)
(Loss) / profit from operations	5	87,338	52,006
Finance costs	8	(45,032)	(38,885)
Share of (losses) / profits of non-consolidated subsidiaries, associates, and contractual joint ventures		954	48,227
(Loss) / profit before taxation		43, 260	61, 348
Taxation	9	(955)	(2,587)
(Loss) / profit after taxation		42,305	58,761
Minority interests		(236)	3,681
Net (loss) / profit for the year		42,069	62,442
(Loss) / earnings per share			
Basic	10	RMB0.04	RMB0.06
Diluted	10	N/A	N/A

The notes on pages 6 to 35 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, 2006

	Note	2006 RMB'000	2005 RMB'000
ASSETS			
Non-current assets			
Property, plant & equipment	11	69,231	84,522
Investment properties	12	682,899	583,962
Non-consolidated subsidiaries	13	110,723	126,560
Associates	14	31,376	24,191
Contractual joint ventures	15	70,683	80,302
Long term investments	16	10,184	10,420
Intangible assets	17	4	35
		975,100	909,992
Current assets			
Properties under development for sale	18	492, 459	270, 622
Completed properties for sale	19	139,462	471,986
Inventories	20	22,420	27,159
Short term investments		--	3,422
Accounts receivable		14,623	30,692
Prepayments, deposits and other debtors		165,248	109,393
Cash and bank balances		461,311	310,857
		1,295,523	1,224,131
Current liabilities			
Customers' deposits		285,510	302,260
Accounts payable and accrued expenses	21	601,298	417,110
Tax payable	22	4,577	8,585
Bank loans	24	275,425	317,974
		1,166,810	1,045,929
Net current Assets/(liabilities)		128,713	178,202
Total assets less current liabilities		1,103,813	1,088,194
Non-current liabilities	23	(85,796)	(130,659)
Minority interests		17,449	18,136
NET ASSETS		1,035,466	975,671
CAPITAL AND RESERVES			
Share capital	25	1,011,660	1,011,660
Reserves		23,806	(35,989)
		1, 035, 466	975, 671

The notes on pages 6 to 35 form part of these financial statements.

Approved and authorized for issue by the board of directors on April 18, 2007

DIRECTOR DIRECTOR

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006	2005
		RMB'000	RMB'000
OPERATING ACTIVITIES			
Cash received from sales of goods or rendering of services		985,879	940,323
Other cash received relating to operating activities		137,228	71,400
Cash paid for goods and services		(715,401)	(481,452)
Cash paid to and on behalf of employees		(77,834)	(81,798)
Taxation paid		(52,553)	(54,955)
Cash paid relating to other operating activities		(115,090)	(141,467)
Interest paid		(23,334)	(37,592)
Net cash (used in) / generated from operating activities		138,895	214,459
INVESTING ACTIVITIES			
Cash received from disposal of investments		402	145,543
Dividends received and interest received		4,089	2,073
Net cash received from the sale of fixed assets, intangible assets and other long-term assets		320	190
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(5,379)	(3,974)
Net cash generated from investing activities		(568)	143,832
FINANCING ACTIVITIES			
Proceeds from borrowings		244,472	482,824
Repayments of borrowings		(230,741)	(732,198)
Net cash generated from / (used in) financing activities		13,731	(249,374)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		152,058	108,917
Cash and cash equivalents at beginning of year	26	270,341	161,424
Cash and cash equivalents at end of year	26	422,399	270,341

The notes on pages 6 to 35 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2006

	Share capital	Capital reserve	Cumulative translation reserve	General reserve	Staff welfare fund	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at December 31, 2004	1,011,660	686,308	9,940	3,317	115,594	(934,804)	892,015
Profit for the year	--	--	--	--	--	62,442	62,442
Others	--	--	21,214	--	--	--	21,214
Balance at December 31, 2005	1,011,660	686,308	31,154	3,317	115,594	(872,362)	975,671
Profit for the year	--	--	--	--	--	42,069	42,069
Others	--	--	17,726	115,594	(115,594)	--	17,726
Balance at December 31, 2006	1,011,660	686,308	48,880	118,911	--	(830,293)	1,035,466

PRC laws and regulations require PRC companies to provide statutory reserves. General reserve is appropriated at 10% and staff welfare fund at within 10% from net profits after taxation as reported in the financial statements prepared under the Accounting Standards for Business Enterprises of PRC. Provision for the general reserve ceases when the accumulated general reserve amounts to 50% of the share capital. All statutory reserves, including the general reserve fund and staff welfare fund, are for specific purposes and are not distributed in the form of cash dividends.

Based on the corporation law implemented in China on January 1st, 2006, the company has not provided staff welfare fund this year. And for the balance (BMB 115,594,426.18) of 2005, the company made an adjustment into general reserve.

The Company declares dividends based on the lower of net profit after appropriation to reserves as reported in the financial statements prepared under the Accounting Standards for Business Enterprises and Accounting Systems for Business Enterprises in PRC and as reported in the financial statements prepared under IFRS. For the year ended December 31, 2006, the directors have not declared any dividends to its shareholders.

The notes on pages 6 to 35 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

GENERAL

Shenzhen Special Economic Zone Real Estate and Properties (Group) Co., Ltd. (the "Company") was incorporated in January 1980 in the People's Republic of China (the "PRC") and was reorganized as a joint stock limited company in July 1993. A and B shares were issued by the Company on September 15, 1993 and January 10, 1994 respectively.

In 2004, this company original major stockholder -- Shenzhen Constructs Investment Holding company to set up Shenzhen with other two cities property management consolidation of corporation to Investment Shareholding Limited Company. This issue of consolidated has been authorized and the registration changing has been done at 15th of Feb 2006.

This period, this company entered the stockholder's rights minute to set at the reform procedure, the reform plan main point is: This company only non-circulation stock shareholder to circulate a share of shareholder to have 10 to circulate A every time to pay 4.8 to the price stock; And to this corporate management level implementation stockholder's rights drive plan. It has been authorized by State-owned Assets Supervision and Administration Commission of ShenZhen Municipal Government, and has been passed though 'A market shareholder's minute set at the reform related shareholder conference' of this company, implements in February 16, 2006. Only this company's management level stockholder's rights in drove the plan the detailed plan still at formulates at present.

The Company and its subsidiaries (the "Group") are principally engaged in property development, investment and management, hotel operations, construction, fitting-out, equipment installation and maintenance, retail operations and trading.

BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board under the historical cost basis except for the revaluation of investment properties. The accounting policies adopted by the Company under IFRS differ from the accounting policies used in the financial statements of the Group which were prepared in accordance with Accounting Standards for Enterprise

Business and Accounting Systems for Enterprise Business in the PRC. Adjustments to restate the results of operations and the net assets in compliance with IFRS will not be taken up in the accounting books of the companies in the Group. Details of impacts of such adjustments on the net assets as at 31 December 2003 and net profit for the year then ended are included in note 35 to the financial statements.

PRINCIPAL ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the

Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The results of operations of subsidiaries are included in the consolidated income statement and the share attributable to minority interests is excluded from the consolidated net profit. All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group’s share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries:

For acquisitions before January 1, 2001, positive goodwill is eliminated against reserves.

For acquisitions on or after January 1, 2001, positive goodwill is amortized on a straight-line basis over its estimated useful life. Positive goodwill is stated in Consolidated Balance Sheet at cost less any accumulated amortization and any impairment losses.

On disposal of a subsidiary, any attributable amount of purchased goodwill not previously amortized through the Consolidated Income Statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision, if necessary, for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Subsidiaries not consolidated

In the consolidated balance sheet the unconsolidated subsidiaries are recorded at cost less provision for impairment losses. The consolidated income statement reflects the Group's share of the results of operations of the subsidiaries.

Investments in subsidiaries excluded from consolidation are stated at cost less provision for any impairment losses and the results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. PRINCIPAL ACCOUNTING POLICIES - (continued)

Associates

An associate is a company over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee.

The consolidated income statement includes the Group's share of the post-acquisition results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates plus the unamortized goodwill less capital reserves on acquisition of the associates.

In the Company's balance sheet the investment in associates are stated at cost less provision, if necessary, for impairment losses.

Contractual joint ventures

A contractual joint venture is a venture that operates under a contractual agreement whereby the Group or Company and at least one other party undertake an economic activity that is subject to control and none of the parties involved unilaterally has control over the economic activity.

Contractual joint ventures

The consolidated income statement includes the Group's share of the post-acquisition results of its contractual joint venture for the year. In the consolidated balance sheet, interests in contractual joint venture are accounted under the equity method and are stated at cost, less goodwill, and adjusted for the post acquisition change in the Group's share of the contractual joint venture's net assets.

Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, bank balances and time deposits within three months of maturity when acquired.

Property, plant & equipment

Property, plant & equipment except investment properties is stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the year in which it is

3. PRINCIPAL ACCOUNTING POLICIES - (continued)

Property, plant & equipment - (continued)

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 the asset, the expenditure is capitalized as an additional cost of the asset. When an asset is sold, its cost and accumulated depreciation are removed from the financial statements and any gain or loss resulting from the disposal, being the difference between the net disposal proceeds and the carrying amount of the asset, is included in the profit and loss account.

Depreciation is provided to write off the cost of property, plant & equipment over their estimated useful lives on a straight-line basis. Estimated useful lives are summarized as follows:

Land use rights and buildings in the PRC	25 – 30 years
Plant and machinery	7 years
Motor vehicles	6 years
Furniture, fixtures and office equipment	5 years

Construction-in-progress represents plant and properties under construction and includes the costs of construction plus interest charges arising from borrowings used to finance the construction during the construction period. No depreciation is provided for construction-in-progress until they are completed and put in use.

Investment properties

Investment properties are completed properties that are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their fair value based on independent professional valuations or directors' valuations at the balance sheet date. Any gain or loss arising from a change in the fair value of investment property should be included in the income statement. Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognized as an income or expense in the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3. PRINCIPAL ACCOUNTING POLICIES - (continued)

Impairment of assets – (continued)

Recoverable amount is the greater of net selling price and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Completed properties and properties under development

Completed properties and properties under development held for sale are stated at the lower of cost and net realizable value. Cost includes the cost of land, development expenditure, borrowing costs capitalized in accordance with the Group's accounting policy and other attributable expenses. Net realizable value is determined by the management based on prevailing market conditions.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, which comprises all costs of purchase and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first in first out method. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Long-term investments

Long-term investments where the Group is not in a position to exercise significant influence or exert control are stated at cost less provision for impairment losses, where the investment's carrying amount exceeds its estimated recoverable amount.

3. PRINCIPAL ACCOUNTING POLICIES - (continued)

Short-term investments

Short-term investments are stated in the balance sheet at fair value. Changes in fair value are recognized in the income statement.

Revenue recognition

Turnover comprises (i) proceeds from sales of properties, (ii) revenue from retail sales of merchandise, (iii) revenue from hotel services, (iv) revenue from sales of goods, (v) billings related to construction, fitting-out, equipment installation and maintenance contracts, and (vi) rental income from investment properties.

Income from sales of properties together with the interest earned on deposits from the installment sales of flats are recognized upon the execution of a binding sales agreement or upon the issuance of an occupation permit completion certificate by the relevant authority, whichever is the later. Deposits received from forward sales of properties are carried in the balance sheet under current liabilities.

Installment sales of developed properties are recognized to the extent that installments are received or become due under the relevant sales contracts.

Revenue from hotel services, property management services and taxi services is recognized when the services are rendered.

Revenue from the sale of goods, other than merchandise, is recognized upon delivery of the goods to customers and entitlement to the sales consideration is obtained.

Profit from construction, fitting-out, equipment installation and maintenance contracts, which are mainly short-term in nature, is recognized under the completed-contract method, whereby billings and costs are accumulated and deferred, together with the related profit, until completion of the work.

Rental income, including rental invoiced in advance from properties under operating leases, is recognized on a straight-line basis over the terms of the relevant leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Retirement benefit costs

In accordance with local government regulations, the Group is required to make contributions to a retirement insurance fund which is administered by the local social security bureau in accordance with government regulations. The amount of contributions is determined at a fixed percentage of the basic salaries of the Group's existing PRC staff.

Retirement benefits are paid directly from the fund and are calculated based upon a retired employee's basic monthly salary and their number of years' service.

3. PRINCIPAL ACCOUNTING POLICIES - (continued)

Retirement benefit costs- (continued)

The amount charged to the income statement represents the amount of contribution payable to

the scheme by the Group.

Deferred income tax

Deferred taxation is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. It is recognized in the financial statements to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Intangible assets

Intangible assets represent the cost of acquisition of taxi licenses and computer software and are stated at cost less amortization and provision, if any, for impairment losses. Amortization is provided to write off the cost of taxi licenses over the license period granted by relevant authorities, namely 10 years, by equal installments. Amortization is provided to write off the cost of computer software over 5 years.

Foreign currency translation

Foreign currency transactions are converted at exchange rates ruling at January 1 of the current year. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these transactions are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries maintained in foreign currencies are translated at exchange rates ruling on the balance sheet date. Exchange difference arising on consolidation, if any, are dealt with in reserves.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs eligible for capitalization.

All other borrowing costs are recognized in net profit or loss in the period in which they are incurred.

3. PRINCIPAL ACCOUNTING POLICIES - (continued)

Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

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 recognized 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 recognized 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 recognized 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 recognized 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 recognized.

BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is organized into five major operating divisions – property, retailing and trading, transportation and catering services, construction technical support and others. The divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Property	- construction and development, sales, leasing and management of properties
Retailing and trading	- sale of general merchandise
Transportation and catering service	- hotel and restaurant operation and provision of taxi services
Construction technical support	- construction, fitting out and equipment installation and maintenance
Others	- corporate financing, etc.

4. **BUSINESS AND GEOGRAPHICAL SEGMENTS - (continued)**

The Group’s business is principally conducted in the mainland of People’s Republic of China (PRC) with its turnover for the year ended December 31, 2006 identified by geographical segments as follows:

	RMB'000
PRC	939,938
Hong Kong	2,781
The United States of America	745
	943,464

Segment information relating to the businesses for the year ended December 31, 2006 is presented below:

	Properties	Retailing and trading	Transportation and catering services	Construction technical support	Others	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE							
External sales	569,712	57,888	104,034	168,553	43,277	--	943,464
Inter-segment sales	--	--	5,000	--	--	(5,000)	--
Total revenue	569,712	57,888	109,034	168,553	43,277	(5,000)	943,464

Inter-segment sales are charged at prevailing market rates.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - (continued)

	Properties	Retailing and trading	Transportation and catering services	Construction technical support	Others	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS							
Segment results	132,704	（587）	4,567	(36,212)	(47)	12,122	88,303
Unallocated corporate expenses							(965)
Profit from operation							87,338
Finance costs							(45,032)
hare of losses of non-consolidated subsidiaries, associates, and contractual joint ventures							954
Profit before tax							43,260
Taxation							(955)
Profit after tax							42,305
Minority interests							(236)
Net profit for the year							42,069
OTHER INFORMATION							
Segment assets	1,876,073	1,376	141,409	28,792	7		2,047,657
Non-consolidated subsidiaries	97,637	49	8,896	(3,752)	7,893		110,723
Associates	13,485	--	--	1,928	15,963		31,376
Contractual joint ventures	20,249	2,851	--	--	47,583		70,683
Unallocated corporate assets							10,184
Consolidated total assets							2,270,623
Segment liabilities	1,199,651	2,778	20,734	22,520	3,617		1,249,300
Unallocated corporate liabilities							3,306
Consolidated total liabilities							1,252,606
Capital expenditure	1,414	10	895	3,163	--		
Depreciation	9,482	20	2,072	547	74		
Non-cash expenses other than depreciation	31,164	--	4,355	17,875	--		

4. BUSINESS AND GEOGRAPHICAL SEGMENTS - (continued)

The Group's business is principally conducted in the mainland of People's Republic of China (PRC) with its turnover for the year ended December 31, 2005 identified by geographical segments as follows:

	RMB'000
PRC	788,201
Hong Kong	24,417
The United States of America	787
	813,405

Segment information about these businesses for the year ended December 31, 2005 is presented below:

	Properties	Retailing and trading	Transportation and catering services	Construction technical support	Others	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE							
External sales	559,815	87,360	79,940	79,350	6,940	--	813,405
Inter-segment sales	--	--	5,300	16,541	--	(21,841)	--
Total revenue	559,815	87,360	85,240	95,891	6,940	(21,841)	813,405

Inter-segment sales are charged at prevailing market rates.

	Properties	Retailing and trading	Transportation and catering services	Construction technical support	Others	Eliminations	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS							
Segment results	82,950	(8,663)	(2,615)	(290)	1,135	14,467	58,050
Unallocated corporate expenses							(6,044)
Profit from operation							52,006
Finance costs							(38,885)
Share of profit of non-consolidated subsidiaries, associates, and contractual joint ventures							48,227
Profit before tax							61,348
Taxation							(2,587)
Profit after tax							58,761
Minority interests							3,681

Net Profit for the year	62,442

6. BUSINESS AND GEOGRAPHICAL SEGMENTS - (continued)

	Properties RMB'000	Retailing and trading RMB'000	Transportation and catering services RMB'000	Construction technical support RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated RMB'000
OTHER INFORMATION							
Segment assets	1,498,964	16,629	155,570	42,908	5,243		1,719,314
Non-consolidated subsidiaries	60,729	11,212	42,323	(598)	12,894		126,560
Associates	8,438	--	--	449	15,304		24,191
Contractual joint ventures	33,314	13,316	--	--	33,672		80,302
Unallocated corporate assets							183,756
Consolidated total assets							2,134,123
Segment liabilities	1,011,450	46,680	83,772	22,955	3,355		1,168,212
Unallocated corporate liabilities							8,376
Consolidated total liabilities							1,176,588
Capital expenditure	406	--	1,300	323	1,945		
Depreciation	4,780	100	6,709	599	529		
Non-cash expenses other than depreciation	(1,749)	7,023	(368)	(370)	--		

The average number of employees for the year for each of the Group's principal divisions was as follows:

	2006	2005
Properties	1, 644	, 644
Retailing and trading	47	47
Transportation and catering services	289	241
Construction technical support	263	213
Others	80	33

	2, 323	2,178

(LOSS) / PROFIT FROM OPERATIONS

	2006 RMB' 000	2005 RMB'000
(Loss) / profit from operations is stated after crediting and charging the following:		
Crediting:		
Interests	4, 245	3, 162
Rental income	45,452	55,377
Exchange gain	2,387	3,380
Gain on disposal of property, plant & equipment	303	1,304
Charging:		
Depreciation	12,195	12,717
Amortization	837	1,377
Staff costs (note 6)	115,244	91,580
Exchange loss	13, 956	9, 640
Provision for impairment losses of assets (note 7)	(2, 792)	27, 297

STAFF COSTS

	2006 RMB' 000	2005 RMB'000
Salaries and bonus	77,834	83,338
Retirement benefit costs and provision for other welfare	37,410	8,242
	115,244	91,580

PROVISION FOR IMPAIRMENT LOSSES OF ASSETS

	2006 2005 RMB' 000	RMB'000
Completed properties for sale	(3,651)	(8,400)
Accounts receivable, other debtors and amount due from non-consolidated subsidiaries	859	35,697
	(2,792)	27,297

FINANCE COSTS

	2006 RMB' 000	2005 RMB'000
Interest expenses		
- bank loans	23,071	32,625

TAXATION

	2006 RMB' 000	2005 RMB'000
The charge comprises:		
PRC income tax for the year	955	2,587

Domestic income tax is calculated in accordance with applicable income tax regulations and at 15% (2005: 15%) of the estimated assessable profit determined in accordance with the accounting principles and the relevant financial regulations applicable to enterprises in the PRC. Taxation for other jurisdictions is calculated at rates prevailing in the respective jurisdictions, details of which are as follows:

	2006 2005 RMB' 000	RMB'000
PRC enterprises income tax		
- enterprises in Shenzhen	15%	15%
- enterprises outside Shenzhen	33%	33%
Hong Kong profits tax	17.50%	17.50%

Reconciliation to the domestic tax expense as follows:

	2006 2005 RMB' 000	RMB'000
Accounting profit under IFRS	43,260	61,348
Difference arising from accounting policies based on IFRS	(22, 811)	(50, 342)
Accounting profit under Accounting Standards for Enterprise Business of the PRC	20,449	11,006

Tax at the domestic rate of 15%	3,067	1,650
Net tax effect of expenses not deductible for tax purposes and other factors	(2,112)	937
Tax expense	955	2,587

EARNINGS PER SHARE

（a） The calculation of basic earnings per share is based on the consolidated profit of RMB42, 069,000 (2005: profit of RMB62,442,000) and 1,011,660,000 shares (2005: 1,011,660,000 shares) in issued during this year.

（b） During the year ended 31 December 2006 and 2005, there were no dilutive potential shares. Fully diluted earnings per share are not applicable.

PROPERTY, PLANT & EQUIPMENT

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor Vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At January 1, 2006	43,607	31,417	33,066	57,920	--	166,010
Additions	2,608	21	1,531	1,322	--	5,482
Disposal of assets	19,559	--	2,143	384	--	22,086
At December 31, 2006	26,656	31,438	32,454	58,858	--	149,406
Depreciation						
At January 1, 2006	22,661	7,691	26,288	23,448	--	80,088
Charge for the year	10,100	17	1,151	926	--	12,194
Disposal of assets	10,307	--	1,844	88	--	12,239
At December 31, 2006	22,454	7,708	25,595	24,286	--	80,043
Provision for impairment losses						
At January 1, 2006	1, 269	68	48	15	--	1,400
Additions	--	--	--	--	--	--
Disposal	1,269	--	--	--	--	1,269
At December 31, 2006	--	68	48	15	--	131
Net book value						
At December 31, 2006	4,202	23,662	6,811	34,557	--	69,231
At December 31, 2005	19,677	23,658	6,730	34,457	--	84,522

The Group' s leasehold land and buildings including investment properties (see note 12) are located in the People' s Republic of China under medium term leases. Certain properties have been pledged as security for the Group' s bank borrowings (see note 27).

INVESTMENT PROPERTIES

	2006	2005
Opening	583, 962	686, 957
Disposal of properties	(1,614)	(105,794)
Additions	100,551	2,799
Closing	682,899	583,962

The investment properties have been revalued as at 31 December 2006 by the directors and certain investment properties have been pledged as security for the loans group's bank (see note 27).

SUBSIDIARIES

At December 31, 2006, the Company had interests in the following principal subsidiaries which have been included in the consolidated financial statements:

Subsidiaries	Place of equity establishment/incorporation	Principal activities	Interest held Direct %	Indirect %
Great Wall Estate Co., Inc.	U.S.A.	Property development	70	--
Shenzhen Special Economic Zone Real Estate (Group) Guangzhou Property and Estate Co., Ltd.	PRC	Property development, decorationand construction design	100	--
Skill Elite Ltd.	Hong Kong	:orporate financing	--	100
Shenzhen City Shenfang Free Trade Trading Ltd.	PRC	Trading of construction materials	95	5
Shenzhen City Shenfang Investment Ltd.	PRC	Investment and management	90	10
Shenzhen City Bamboo Garden Car Rental Ltd.	PRC	:ar rental	100	--
Shenzhen City Wa Gen Construction Management Ltd.	PRC	Construction project management	75	25

Barenie Co. Ltd.	Hong Kong	Properties investment	--	80
Openice Ltd.	Hong Kong	Investment holding	20	80
Shantou SEZ Wellam Fty Bldg., Dev. Co.	PRC	Factory building, sales and rental	--	82
Xin-Feng Real Estate Dev. Construction (Wuhan) Co. Ltd.	PRC	Real estate management and rental service	--	55
Fresh Peak Investment Ltd.	Hong Kong	Properties investment	--	55
Wellam Ltd.	Hong Kong	Investment holding	--	82
Shenzhen Petrel Hotel Co. Ltd.	PRC	Hotel operations	68	32
Shenzhen City Property Management Ltd.	PRC	Property management	95	5

13. SUBSIDIARIES - (continued)

Subsidiaries	Place of equity establishment/incorporation	Principal activities	Interest held Direct %	Interest held Indirect %
Shenzhen Zhen Tung Engineering Ltd.	PRC	Fitting-out contracting and maintenance	73	27
Fresh Peak Holdings Ltd.	Hong Kong	Investment, management and consultation	100	--
Fresh Peak Enterprise Ltd.	Hong Kong	Investment holding	82	--
Guangzhou Huangpu Xizun real estate limited company	PRC	Property development and sale	--	100
Keyear Development Ltd.	Hong Kong	Investment holding	--	100
Beijing fresh peak property development management limited company	PRC	Property development and management	75	25

The non-consolidated subsidiaries involved have either been terminated or liquidated, are in the process of liquidation or not intended to be held for long term. The Group already made appropriate provision therefore and consequently they have not been consolidated in the Group's financial statements for the year but included as non-consolidated subsidiaries as follows:

	2006 RMB' 000	2005 RMB'000
Unlisted Investments, at cost	416,574	420,599
Share of post-acquisition losses	(167,616)	(163,799)
	248,958	256,800
Less: Provision for impairment losses	(104,835)	(108,568)
	144,123	148,232
Add: Amounts (due to) / due from non-consolidated subsidiaries	(33,400)	(21,672)
	110,723	126,560

13. SUBSIDIARIES - (continued)

Details of the non-consolidated subsidiaries are summarized in the following:

Subsidiaries	Place of Establishment/ incorporation	Principal activities	Equity interest held Direct	Indirect
			%	%
Shenzhen City SPG Bao An Development Ltd.	PRC	Property development and sales	95	5
Shenzhen Shenfang Department Store Co. Ltd.	PRC	Commercial goods supplier	95	5
Shenzhen Shenfang Car Park Ltd.	PRC	Develop and operate car park	70	30
Shenzhen Cyber Port Co.,Ltd	PRC	Property investment and information technology consultancy	70	--
Shenzhen Shen Fang Industrial Development Co., Ltd.	PRC	Property management, investment holding	100	__
Shenzhen Real Estate Consolidated Service Co., Ltd.	PRC	Construction material, consume goods	100	--
Shenzhen Tefa Real Estate Consolidated Service Co., Ltd.	PRC	Construction and decoration	100	--
Guangdong Province Fengkai Lian Feng Cement Manufacturing Co., Ltd.	PRC	Manufacturing and trading in cement products	--	90

13. SUBSIDIARIES - (continued)

Subsidiaries	Place of equity establishment/ incorporation	Principal activities	Equity interest held Direct %	Equity interest held Indirect %
Fidelity Development Limited	Canada	Property Development	75	--
Bekaton Property Limited	Australia	Property Development	60	--
Beijing SPG Property Management Limited	PRC	Property management	100	--
Shenzhen City Shenfang Construction and Decoration Materials Ltd.	PRC	Retailing/trading of construction materials	100	--
Shenzhen City SPG Long Gang Development Ltd.	PRC	Property development, sales, management and rental	100	--
Shenzhen Lian Hua Industry and Trading Co. Ltd.	PRC	Trading of equipment and provision of renovation material	100	--
Paklid Limited	HK	Property construction and trading of construction materials	100	--
ShenYang Tongxin real estate development limited company		Property Development	--	93

ASSOCIATES

	2006 RMB'000	2005 RMB'000
Unlisted investments, at cost	57,185	57,824
Share of post-acquisition losses	(9,129)	(9,138)
	48,056	48,686
Less: Provision for impairment losses	(22,303)	(23,088)
	25,753	25,598
Add: Amounts due from/(due to) associates	5,623	(1,407)
	31,376	24,191

14. ASSOCIATES - (continued)

At December 31, 2006 the Company had interests in the following principal associates:

Associates	Place of Establishment/ incorporation	Principal activities	Equity interest held Direct %	Equity interest held Indirect %
Yunnan Kun Peng Aviation Service Ltd.	PRC	Aviation service	25	--
Tung Yick Property Co., Ltd.	Hong Kong	Property development	20	--
Shenzhen Fresh Peak Real Estate Trading and Revaluation Co. Ltd.	PRC	Property trading agency	30	--
Shenzhen City Wing Wah Engineering Ltd.	PRC	Repairs and maintenance of machinery	25	--
Shenzhen BaFangTong Railway Co.Ltd	PRC	Transportation	35	--

CONTRACTUAL JOINT VENTURES

	2006 RMB' 000	2005 RMB'000
Unlisted Investments, at cost	112,225	201,500
Share of post-acquisition losses	914	(86,065)
	113,139	115,435
Provision for impairment losses	(42,456)	(43,221)
	70,683	72,214
Amounts due from contractual joint ventures	--	8,088
	70,683	80,302

15. CONTRACTUAL JOINT VENTURES - (continued)

Particulars of the principal contractual joint ventures are set out as follows:

Contractual Joint venture		Joint venture registered capital ('000)	Group committed capital contribution ('000)	Principal activity	Method of Participation in earnings
Xian Fresh Peak Building Co. Ltd.	30 years from 6 July 1993	RMB20,000	RMB600,000	Construction and sales of properties	All profits after tax and appropriation commercial buildings to statutory reserves are to be used first to repay the capital contributions and interest on capital. Thereafter 67% of net profits.
Jiangmen Xinjian Real Estate Co. Ltd.	10 years from 19 May 1993	US$6,600	US$6,000	Property development	33% of net of Jianmen profits, Xinjian commercial building.
Kunshan Diao Feng Electricity Power Co. Ltd.	20 years from 29 November 1993	US$7,200	US$9,000	Supply of electricity	Profit distributions and appropriation to statutory reserves are to be determined by the board of directors annually.

16.LONG TERM INVESTMENTS

	2006 RMB' 000	2005 RMB'000
PRC legal entity shares, at cost	68,731	183,350
Unlisted equity investments, at cost less provision for impairment losses	(58,547)	(172,930)
	10,184	10,420

17. INTANGIBLE ASSETS

	Computer software RMB' 000	Total RMB' 000
At January 1, 2006	35	35
Amortization for the year	(31)	(31)
At December 31, 2006	4	4

18. PROPERTIES UNDER DEVELOPMENT FOR SALE

	2006 RMB' 000	2005 RMB'000
Cost	591,350	373,163
Less: Provision for impairment losses	(98,891)	(102,541)
	492,459	270,622

Included in properties under development for sale is a piece of land awaiting development held in the United States at a cost of RMB124,937,052 against which provision for impairment of RMB102,541,667.97 was made in prior years.

19. COMPLETED PROPERTIES FOR SALE

	2006 RMB' 000	2005 RMB'000
Cost	163,242	674,117
Less: Provision for impairment losses	(23,780)	(202,131)
	139,462	471,986

20. INVENTORIES

	2006	2005
	RMB' 000	RMB'000
Raw materials	4,084	4,410
Work-in-progress	17,765	22,226
Finished goods	821	736
Less: Provision for impairment losses	(258)	(258)
Consumables	8	45
	22,420	27,159

21. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2006	2005
	RMB' 000	RMB'000
Accounts payable	501, 283	323, 099
Accrued expenses		
Project cost	60,225	84,772
Losses for litigation and arbitration	5,808	5,808
Interests for bank borrowings	1,966	2,050
Unemployment compesation	30,103	--
Other	1,913	1,381
	601,298	417,110

22. TAX PAYABLE

	2006	2005
	RMB' 000	RMB'000
Corporation income tax	566	448
Personal income tax	265	889
Business tax	2,134	4,911
Value added tax	(2,102)	(1,523)
Property tax	3,158	2,955
Land increment tax	287	718
Others	269	187
	4,577	8,585

23. NON-CURRENT LIABILITIES

	2006	2005
	RMB' 000	RMB'000
Bank loans (note 27)	65,000	110,000

Other liabilities	20,796	20,659
	85, 796	130, 659

Included in other liabilities was RMB12, 210,000 borrowed from minority shareholders of a subsidiary of the Company and the remaining balance is the accruals for property management and maintenance fees. These liabilities are non-interest bearing and do not have fixed terms for repayment.

24. BANK LOANS

	2006 RMB' 000	2005 RMB'000
Bank loans		
Secured	300,425	313,974
Guaranteed	--	94,000
Credit	40,000	20,000
	340,425	427,974
Bank loans repayable:		
Within one year or on demand	275,425	317,974
In the second year	65, 000	110, 000
In the third to fifth years, inclusive	--	--
	340,425	427, 974
Portion classified as current liabilities	275,425	317,974
Long term portion	65,000	110,000
	340,425	427,974

Particulars of assets which are pledged to secure bank loans and other facilities are set out in note 27. The guarantees are provide by third parties and certain group companies.

25. SHARE CAPITAL

	2006 RMB' 000	2005 RMB'000
Registered, issued and paid-in 891,660,000 A shares par value	891,660	891,660
120,000,000 B shares	120,000	120,000
	1,011,660	1,011,660

'A' shares are issued to Chinese national investors resident in the PRC and 'B' shares are issued to foreign investors. Chinese national investors resident in the PRC have been entitled to purchase and sell 'B' shares since June 2001. 'A' and 'B' shares have a par value of RMB 1 per share and is the same level status.

26. CASH AND CASH EQUIVALENTS

	2006	2005
	RMB' 000	RMB'000
Cash and bank balances	461,311	310,857
Less: deposits secured over 3 months	(36,946)	(38,821)
	424,365	272,036
Effect of foreign exchange rate changes	(1,966)	(1,695)
Restated cash and cash equivalents	422,399	270,341

27. PLEDGE OF ASSETS

At December 31 2006, certain of the Group's investment properties, leasehold land and buildings, properties under development and properties held for sale with an aggregate net carrying value of RMB253, 219,900 and fixed deposits amounting to HKD15, 000,000 and USD2, 700,000 were pledged to secure bank loans of RMB221,000,000yuan, HKD58,000,000 and USD2,700,000.

28. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

In addition to subsidiaries, associates and contractual joint ventures stated in notes 13, 14 and 15 respectively, the following entities have also been defined as related parties with whom the Group has had significant transactions during the year or with whom a significant balance exists at the year end.

	Nature of relationship
Shenzhen Investment Shareholding Limited Company	Ultimate holding company

RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - (continued)

The following is a summary of the significant transactions with related parties during the year.

The following is the important transactions with the related party in this year,

The name of the related party	2006		2005	
	RMB	% of the product sales	RMB	% of the product sales
Shenzhen Investment Shareholding Co., Ltd	--	--	118,760,002.00	13.94%

Shenzhen Investment Shareholding Limited Company	2006	2005
	RMB' 000	RMB'000
Loan	86,849,000	--

Shenzhen Investment Shareholding Limited Company	2006	2005
	RMB' 000	RMB'000
Interest of loan	504	--

Interest rate: Loan agreement signs which according to both sides, interest rate for 6.3 ‰ monthly

28. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS- (continued)

Shenzhen Investment Shareholding Limited Company

	2006	2005
	RMB' 000	RMB'000
Guarantees accepted for banking and credit facilities	--	80,000

Shenzhen Investment Shareholding Limited Company

	2006	2005
	RMB' 000	RMB'000
Fee of guarantee	--	720

Some net balances due from / (due to) related parties at December 31, 2005 and 2004 are stated in notes 13, 14 and 15, and included in the balance sheet of the Group as non-consolidated subsidiaries, associates and contractual joint venture, the remaining balances are summarized as follows:

	2006	2005
	RMB' 000	RMB'000

Shenzhen Investment Shareholding Limited Company	--	(10,000)

The above amounts are included in the balance sheet of the Group in the following classifications:

	2006	2005
	RMB' 000	RMB'000
Accounts payable and accrued expenses	--	(10,000)
Dividends payable	--	--
	--	(10,000)

Both these balances are unsecured and non-interest bearing.

Directors' emoluments

There are ten directors in the Company. Four of the directors received emoluments totaling RMB788,000 for the year ended December 31, 2006. Four directors did not receive any salary or other benefits from the Company.

29. CONTINGENT LIABILITIES

	2006	2005
	RMB' 000	RMB'000
Guarantees given for banking and credit facilities granted to:		
- contractual joint ventures	--	--
- third parties	38,596	201,420
	38,596	201,420

30. LITIGATION AND ARBITRATION

(1) On March 21 1997,the company executed an agreement with Baoxin real Estate Development (Shenzhen) Company limited (called Baoxin below) to sell its share of 68% interest in Guoxin Building at a consideration of RMB145,000,000.In addition, the construction cost for the building of RMB15,000,000 was undertaken by Baoxin. Baoxin has paid a deposit of RMB45, 000,000. But outstanding purchase consideration of RMB100, 000,000 and the construction cost of RMB15, 000,000 have still not been settled while the property right of Guo Xin building has been transferred to Baoxin. So the company lodged a claim. As sentence by the Guangdong High People's Court on September 28 2002, Baoxin should pay the outstanding purchase consideration of RMB 98,948,060 and the interests to the company. Upon a second sue of the case, the outcome remained unchanged and in the favour of the company. Up to December 31 2004, part of outstanding purchase consideration has been received. In 2005, according to the document of Guangdong People's High Court on July 7 2005, it has stipulated that the Guangdong Shanwei urban People's Court is responsible for executing the court result. Because no property is available from Baoxin for execution this

year, for prudence purpose, the company has not recognized any income, cost for the above transaction. Given that the property of Guoxin has been under the title of Baoxin, the company has transferred the book value of this real estate to other receivable account, which amounted to RMB166, 109,047. This amount, after being offset with the advanced receipt of RMB68, 720,773.33, is subject to the bad debt provision. Therefore the company has made a full provision for this outstanding receivable balance of RMB27,481,166.67.

(2) A subsidiary, Fresh Peak Holding limited company (called Fresh Peak below),entered into a joint venture agreement with a third party to establish a contractual joint venture, Xi'an Fresh Peak Estate Commercial limited company (Xi'an Fresh Peak Estate) in Xi'an. Its principal activities are the development and management of commercial buildings in Xi'an. Pursuant to the aforesaid agreement, Fresh Peak hold 84% of Xi'an Fresh Peak and the third party provide the land for development and hold 16% of Xian Fresh Peak. The development of the commercial building started in November 1995 and suspended in 1996 due to disagreement between Fresh Peak and the third party. In 1997, the Xi'an government decided to receive the project and transferred to an enterprise under a department of the Xi'an government. Xi'an Fresh Peak then lodged a litigation regarding the compensation. Subsequently, the court judgment in Xi'an was that 1: the enterprise of the department of Xian government has to pay compensation to Xian Fresh Peak of RMB36, 620,000 plus interest and 2: the development of Xian government is jointly liable for the interest payment. During 2005, RMB11, 500,000.00 have been received. On May 30 2005, the Xi'an People's High Court issued the <Warrant of creditor's right> to confirmed that the two company of been sued still owe RMB21, 540,000.00 of principal and interest to Fresh Peak. The company negotiates with Xi'an government to make a solution currently. Up to December 31 2006, RMB 41, 259,993.48 was included in contractual joint ventures and a provision for impairment losses of RMB20,673,831.77 has been made in account.

30. LITIGATION AND ARBITRATION- (continued)

(3) On June 23 1993, the Shantou branch of the Company ("Shantou Branch") signed a cooperation contract with Shantou Special Economic Zone Songshan Workshop Development Co., Ltd("Songshan Company"). Subsequently, on May 8 1996, the Company signed with Songshan Company a supplement on the implementing of the contract. Because this object had not been put into practice yet , the Company and the Songshan Company came to an agreement on January 20 2000 to build a temporary market which in fact has being in operation till now. On August 16 2004, Songshan Company took an claim against Shantou Branch to the Shantou Intermediate People's Court to claim that 1) to terminate the contract, 2) Shantou Branch should pay it the compensation of about RMB7,510,000 and 3) Shantou Branch should transfer to it all the licenses and management rights of the Fresh Peak Building and the temporary market authorized by the government. Subsequently, on October 15,2004, Shantou Branch took a counter-claim against Songshan Company to the Shantou Intermediate People's Court to claim that 1) the relative contracts and agreements have no legal effect and 2) Songshan Company should pay back the amount of HKD41,774,110.00, RMB1,000,000.00 and the interests bearing. On November 15 2005, adjust through the

ShanTou intermediate people's court's paper of civil mediation: Shantou Branch signed a mediation agreement with Songshan Company in November 14 2005, the court confirm for agreement, thus forming lawful contract. The agreement is now being performs. Pursuant to the agreement, Shantou Branch purchases the whole interests of Songshan Company, which means Shantou Branch holds the whole interests of the Xinfeng building. Up to December 31 2006, RMB 68,731,560.43 was included in long term investment in the ledger and a provision for impairment losses of RMB58, 547,652.25 has been made in account.

(4) The subsidiary, HK Fresh Peak Holding limited company (called Fresh Peak below), entered into a equity control agreement with a third party to establish a equity controlled company—ShenYang Tongxin Real Estate Development Limited Company (called ShenYang TongXin below), its principal activities are the development and development of Xinfeng mall in ShenYang. January 5 2005, the company signed <confirm the creditor and debtor and repayment agreement> with Fresh peak, ShenYang TongXin. Our company RMB87, 181,320.88 of principal in a loan by the Fresh Peak to confirm and promises repayment before January 30 2005; The ShenYang TongXin to discharge a debt and an obligation, RMB59, 026,688.18 of principal and interest of Fresh Peak liabilities limitation. Due to agreement can't compliance with the period. In 2005 the company sued to Shenzhen intermediate people's court. The company manages to reconciliation agreement with Fresh Peak and ShenYang TongXin, continue the above confirmed to jointly liability of principal and interest; though ShenZhen intermediate people's court confirmed for adjust agreement and having the force of law. But due to unfulfilled of obligation by both parties, the company applies of forcible execution toward the court in June 21 2005. On October 9 2005, after carries out the court Shenzhen intermediate people's court to entrust Shenzhen country audiences to unite the property to appraise The Real State Estimate consultation Limited Company may supply to this case to carry out (Shenyang which the property Fresh Peak

30. LITIGATION AND ARBITRATION- (continued)

company has with ShenYany Tongxin company 93.1% stockholder's rights) the value carries on the appraisal, carries out the auction basis as Shenzhen intermediate people's court. On November 23, 2005, after Shenzhen intermediate people's court the civil written verdict to rule: Auctions Shenyang which the Fresh Peak company has with Tongxin company 93.1% stockholder's rights, the first auction base price (after competes for the RMB65,640,630.61 Yuan buys human to compete the above stockholder's rights, Fresh Peak company will give up it to Shenyang Tongxin company's all creditor's rights); Above carries out the measure by RMB87,181,320.88 Yuan , the interest, punishes the rest, the legal fee, the execution spends and so on to be limited to. On January 22 2006, this 93.1% stockholder's rights by compete patting to compete by RMB 89,200,000 Yuan. The transfer procedure of the 93.1% stockholder's rights still carries out at present.

31. COMMITMENTS

At December 31, 2006, the Group also has outstanding capital commitments for property development projects as follows:

	2006 RMB'000	2005 RMB'000
Authorized but not contracted	20,119	21,739
Contracted for	82,019	40,739
	102,138	62,478

32. IMPACT OF IFRS AND OTHER ADJUSTMENTS ON NET PROFIT AND SHAREHOLDERS' EQUITY

	Net profit for the year RMB'000	Net assets RMB'000
As reported in the consolidated financial statements prepared in accordance with Accounting Standards for Enterprise Business in the PRC	19,259	1,093,956
Reversal of depreciation charges in respect of investment properties	23,131	135,354
Adjustment for market value of short-term investments	(1,718)	--
Expenses accrued in previous year	1,397	11,205
Difference in recognition of cost of fixed assets	--	(202,148)
Profit arising from troubled debt restructuring	--	(2,901)
As reported in the consolidated financial statements prepared in accordance with IFRS	42,069	1,035,466