

**SHENZHEN PROPERTIES & RESOURCES  
DEVELOPMENT (GROUP) LTD.**

**ANNUAL REPORT 2006**

**April, 2007**

**Important Notes:** Board of Directors, Supervisory Committee, directors, supervisors and senior executives of Shenzhen Properties & Resources Development (Group) Ltd. (hereinafter referred to as the Company) individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading.

Independent director Mr. Jiang Changlong was absent from the Board meeting due to business trip, but they examined the relevant information before the meeting, and they entrusted Independent Director Zhang Jianjun to vote on his behalf with the aye on all proposals involved. Director Mr. Guo Yuanxian was absent from the Board meeting due to some reasons and did not entrust other director to vote.

Wuhan Zhonghuan Certified Public Accountants had furnished a qualified Auditors' Report with emphasized issues; and the Board of Directors and the Supervisory Committee of the Company made the corresponding explanations in details for the relevant matters, the investors are suggested to notice the content.

Chairman of the Board of the Company Mr. Chen Yugang, Person in Charge of Accounting Work Mr. Zha Shengming and Manager of Financial Department Ms. Shen Xueying hereby confirm that the Financial Report enclosed in the Annual Report is true and complete.

This report has been prepared in Chinese version and English version respectively. In the event of difference in interpretation between the two versions, the Chinese version shall prevail.

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## I. COMPANY PROFILE

1. Name of the Company

In Chinese: 深圳市物业（发展）集团股份有限公司

Abbr. in Chinese: 物业集团

In English: ShenZhen Properties & Resources Development (Group) Ltd. (PRD)

2. Legal Representative: Tian Chenggang

3. Secretary of the Board: Guo Yumei

Securities Affairs Representative: Dong Wei

Tel: (86) 755-8221 1020

Fax: (86) 755-8221 0610, 8221 2043

Contact Address: 42<sup>nd</sup> Floor, International Trade Center, Renmin South Road, Shenzhen

E-mail: 0011@szwuye.com.cn

4. Registered Address and Office Address: 39<sup>th</sup> and 42<sup>nd</sup> Floor, International Trade Center, Renmin South Road, Shenzhen

Post Code: 518014

Internet Web Site of the Company: [www.szwuye.com.cn](http://www.szwuye.com.cn)

5. Media Designated for Disclosing Information of the Company:

A-Share: Securities Times, B-Share: Ta Kung Pao

Internet Web Site Designated by CSRC for Publishing the Annual Report:

<http://www.cninfo.com.cn>

Place Where the Annual Report is Prepared and Placed: Office of Board of Directors, on 42<sup>nd</sup> Floor, International Trade Center, Renmin South Road, Shenzhen

6. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of Stock and Stock Code: Shen Wuye A (000011)

Shen Wuye B (200011)

7. Registration data: Jan. 17, 1983

Address: Shenzhen Municipal Administration Bureau for Industrial and Commerce

Registration number of enterprise legal person's business license: 4403011027229

Registered number of taxation: 440301192174135

Name and address of Certified Public Accountants engaged by the Company:

Domestic: Wuhan Zhonghuan Certified Public Accountants Ltd.

Address: 16<sup>th</sup> - 18<sup>th</sup> Floor, Tower B, Wuhan International Mansion

International: BDO International Wuhan Zhonghuan Certified Public Accountants

Address: 16<sup>th</sup> - 18<sup>th</sup> Floor, Tower B, Wuhan International Mansion

## II. SUMMARY OF FINANCIAL HIGHLIGHTS AND BUSINESS HIGHLIGHTS

(I) Accounting data as of the year 2006(Unit: RMB)

Total profit	-45,165,869.75
Net profit	-46,054,221.12
Net profit after deducting non-recurring gains and losses	-67,283,745.29
Profit from main operations	55,618,300.47
Other operating profit	4,296,616.21
Operating profit	-28,853,510.55
Investment income	8,727,579.14
Subsidy income	0.00
Net non-operating incomes/expenses	-25,039,938.34
Net cash flow arising from operating activities	-118,610,560.96
Net increase in cash and cash equivalents	-148,712,854.70

Items of non-recurring gains and losses deducted and the relevant amount:

Unit: RMB

Items of non-recurring gains and losses	Amount
1. Gains/losses from disposal of long-term equity investment, fixed assets, project in construction, intangible assets and other long-term assets	3,746.67
2. Gains/losses from short-term investment	681,217.30
3. Various non-operating income after deducting daily reserve for impairment of assets in line with the regulations of Accounting System for Business Enterprise	872,586.28
4. Various non-operating expenses after deducting daily reserve for impairment of assets in line with the regulations of Accounting System for Business Enterprise	-25,916,271.29
5. Switching back various reserve for devaluation allotted over the previous years	45,547,589.52
Impact on income tax	40,655.69
<b>Total</b>	<b>21,229,524.17</b>

Adjustment statement on differences of financial statement

Unit: RMB'000

Items	Net profit as	Net assets as at
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	of year 2006	Dec. 31, 2006
As calculated in accordance with CAS		617,771
Switching back into fixed assets from amortization amount		-6,368
Adjustment of expenses amortization		-2,948
Other		-15,090
As calculated in accordance with IAS		593,364

(II) Major accounting date and financial indexes over the past three years ended the report period

Items	2006	Unit: RMB			
		2005		2004	
		Before adjustment	After adjustment	Before adjustment	After adjustment
Income from main operations	311,948,669.86	963,481,024.09	963,481,024.09	1,326,289,977.75	1,326,289,977.75
Net profit	-46,054,221.12	78,419,748.81	82,902,699.63	84,851,499.71	90,449,977.35
Total assets	1,643,924,822.20	1,812,640,711.92	1,792,535,811.46	2,323,270,093.81	2,302,935,990.54
Shareholders' equity (excluding minority interests)	583,920,212.60	629,910,751.72	650,258,392.78	556,862,596.76	567,128,809.36
Earnings per share	-0.085	0.145	0.153	0.157	0.167
Earnings per share after deducting the non-recurring gains and losses	-0.124	0.095	0.104	0.150	0.160
Net assets per share	1.078	1.163	1.200	1.028	1.047
Net assets per share after adjustment	0.785	0.928	0.965	0.770	0.789
Net cash flow per share arising from operating activities	-0.219	0.408	0.408	0.483	0.483
Return on equity	-7.89%	12.45%	12.75%	15.24%	15.95%
Weighted average return on equity after deducting the non-recurring gains and losses	-11.09%	8.19%	9.22%	15.76%	16.72%

Return on equity and earnings per share calculated based on Regulations on the Information Disclosure of Companies Publicly Issuing Shares (No. 9) published by CSRC

Year 2006

Unit: RMB

Profit in the report period	Return on equity (%)		Earning per share	
	Fully	Weighted	Fully	Weighted

	diluted	average	diluted	average
Profit from main operations	9.52	9.16	0.103	0.103
Operating profit	-4.94	-4.75	-0.053	-0.053
Net profit	-7.89	-7.59	-0.085	-0.085
Net profit after deducting non-recurring gains and losses	-11.52	-11.09	-0.124	-0.124

(III) Particulars about change in shareholders' equity in the report period

Unit: RMB

Items	Amount at the period-begin	Increase in this period	Decrease in this period	Amount at the period-end	Reason for change
Share capital	541,799,175.00			541,799,175.00	
Capital reserve	25,269,249.52	63,682.00		25,332,931.52	Note 1
Surplus reserve	62,919,127.11			62,919,127.11	
Including: Statutory welfare public funds	62,919,127.11		62,919,127.11		Note 2
Retained profit	-76,799.91		46,054,221.12	-46,131,021.03	Note 3
Total shareholders' equity	629,910,751.72	63,682.00	46,054,221.12	583,920,212.60	

Note 1: Reason for change of capital reserve: in the report period, the increment of capital reserve resulted from share equity investment reserve's increment of subsidiary.

Note 2: Reason for change of legal accumulation fund in surplus reserve: According to Notice Concerning to Related Enterprise Finance Settlement Problems after Company Law Fulfilled by Ministry of Finance (CQ [2006] No. 67), the balance of accumulation fund of Dec. 31, 2005 was transferred to surplus reserve for management and usage.

Note 3: Reason for change of retained profit: in the report period, net profit was loss for RMB 46,054,221.12 in item of decrease number.

### III. CHANGES IN SHARE CAPITAL AND PARTICULARS

#### ABOUT SHAREHOLDERS

(I) Particulars about changes in share capital as of the year 2005

##### 1. Statement of change in shares

Unit: Share

	Before the change		Change in this time (+,-)					After the change	
	Number of shares	Proportion (%)	Issuance of new shares	Bonus shares	Capitalization of public reserve	Others	Subtotal	Number of shares	Proportion (%)
<b>I. Nontradable shares</b>			Naught	Naught	Naught	Naught	Naught		
1. Sponsors' shares									
Including: Shares held by the State	323,747,713	59.75%						323,747,713	59.75%
Share held by domestic legal person	65,200,850	12.04%						65,200,850	12.04%
Share held by foreign legal person									
2. Raised legal person's shares									
3. Inner employees shares									
4. Preference shares or others									
Total nontradable shares	388,948,563	71.79%						388,948,563	71.79%
<b>II. Tradable shares</b>			Naught	Naught	Naught	Naught	Naught		
1. RMB ordinary shares	91,364,150	16.86%						91,364,150	16.86%

2. Domestically listed foreign shares	61,459,312	11.34%						61,459,312	11.34%
3. Overseas listed foreign shares									
4. Shares held by senior executives frozen	27,150	0.005%						27,150	0.005%
Total tradable share	152,850,612	28.21%						152,850,612	28.21%
III. Total shares	541,799,175		Naught	Naught	Naught	Naught	Naught	541,799,175	

## 2. Issuance and listing of shares

Over the previous three years as at end of the report period, the Company issued neither new shares nor derived securities; and there were changes in neither total shares nor the structure of shares due to bonus shares and rationed shares. The existent inner employees' shares of the Company were subscribed by senior executives when the Company initially issued the shares at the issuance price of RMB 3.6 per share; the issuance date is Oct. 31, 1991; the issuance quantity is 6.5 million shares.

3. In the report period, the Company started a work on equity division reform in Dec. 2005. Ended the disclosure date of this report, the Share Merger Reform examined and approved by the relevant shareholders' general meeting failed to implement, therefore, the Company's share capital remained unchanged.

## (II) About shareholders

### 1. Particulars about numbers of shareholders and shares held by shareholders

Unit: share

<b>Total number of shareholders</b>	By the end of the report period, the Company has 31,594 shareholders in total, including 24,475 ones of A-share, 7,119 ones of B-share.				
<b>Particulars about shares held by the top ten shareholders</b>					
Full name of Shareholder	Type of shareholders	Proportion (%)	Total number of shares held	Number of non-circulation shares held	Share pledged or frozen
SHENZHEN CONSTRUCTION INVESTMENT HOLDINGS	State-owned share	59.75	323747713	323747713	0
SHENZHEN INVESTMENT HOLDING CORPORATION	Directional corporate shares	10.45	56628000	56628000	0
LABOR UNION OF SHENZHEN INTERNATIONAL TRADE PROPERTY MANAGERMENT COMPANY	Directional corporate shares	0.46	2516800	2516800	0
YUNNAN YUNDIAN FINANCE FUNDS MANAGEMENT CO., LTD.	Tradable A shares	0.3	1806739	0	

SHENZHEN SPECIAL ZONE DUTY-FREE COMMODITY CO.	Directional corporate shares	0.29	1573000	1573000	0
XIA QIAN RU	B shares	0.28	1517501	0	0
SHANGHAI ZHAODA INVESTMENT CONSULTANT CO., LTD.	Directional corporate shares	0.19	1010000	1010000	0
CHINA EAGLE SECURITIES CO., LTD.	Directional corporate shares	0.15	786500	786500	786500 shares were frozen judicially
SHENZHEN HAOWANJIA INDUSTRY DEVELOPMENT CO., LTD.	Tradable A shares	0.13	692811	0	0
SHANGHAI KUNLING INDUSTRY & TRADE CO., LTD.	Directional corporate shares	0.12	629200	629200	0
Explanation on associated relationship among the above shareholders or consistent action	There exists no associated relationship or consistent action among the top three shareholders. For other shareholders, the Company was unknown whether there exists associated relationship or consistent action.				
<b>Particulars about shares held by the top ten shareholders of circulation share</b>					
<b>Name of shareholders</b>	<b>Numbers of circulation share held</b>		<b>Type of share</b>		
YUNNAN YUNDIAN FINANCE FUNDS MANAGEMENT CO., LTD.	1806739		Tradable A shares		
XIA QIAN RU	1517501		B shares		
SHENZHEN HAOWANJIA INDUSTRY DEVELOPMENT CO., LTD.	692811		Tradable A shares		
WANG SHAN	560000		Tradable A shares		
ZHOU GE	550039		Tradable A shares		
KGI ASIA LIMITED	500001		B shares		
GUANGZHOU HENGXUN BUSINESS CONSULTANT CO., LTD.	500000		Tradable A shares		
LI HE FANG	480000		Tradable A shares		
LI FAN	480000		Tradable A shares		
JI CHENG LI	478300		B shares		
Explanation on associated relationship among the above shareholders of circulation share or consistent action	The Company did not know whether there exists associated relationship among the top ten shareholders of circulating share and the top ten shareholders or not.				

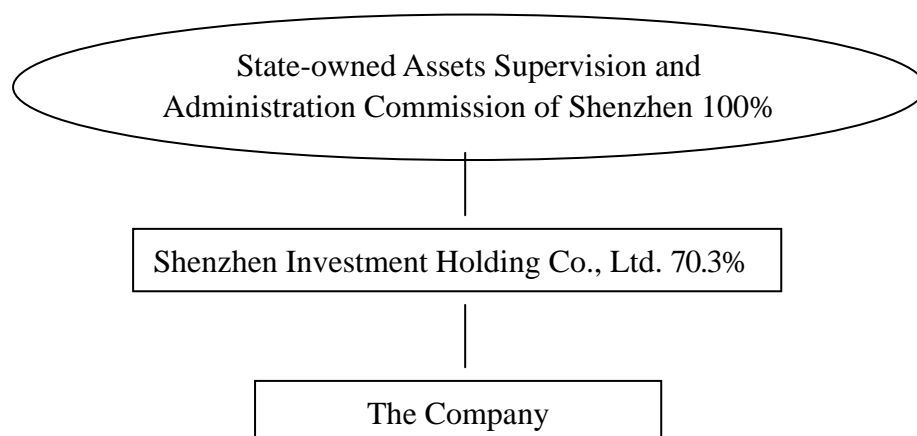
Note:

Shenzhen Construction Investment Holdings still holds 485,899 corporate shares of the company.

Shares held by Shenzhen Construction Investment Holdings was neither pledging or freezing in the report period.

## 2. About the controlling shareholder of the Company

At the end of report period, the controlling shareholder of the Company is still Shenzhen Construction Investment Holdings (“the holding company”) in register book. In 2004, Shenzhen Municipal Government incorporated Shenzhen Construction Investment Holdings with the other two municipal companies, namely Shenzhen Investment Holding Corporation and Shenzhen Trade and Business Corporation, and established Shenzhen Investment Holding Co., Ltd.. Thus, the Company’s actual controlling shareholder is Shenzhen Investment Holding Co., Ltd., a sole state-funded limited company, who was established in Oct. 13, 2004; its legal representative is Mr. Chen Hongbo and the registered capital is RMB 4 billion. Main business scope: providing guarantee to municipal state-owned enterprises, management of state-owned equity, assets reorganization of enterprises, reformation and assets operation, and equity investment and etc.. As a government department, State-owned Assets Supervision and Administration Commission of Shenzhen implemented management for Shenzhen Investment Holding Co., Ltd. on behalf of Shenzhen municipal government. Thus, the final controller of the Company is State-owned Assets Supervision and Administration Commission of Shenzhen with locating at Investment Bldg., Shen Nan Av., Futian District, Shenzhen and postcode of “518026”. The controlling relationship between the Company and the actual controller is as follows:



3. The second largest shareholder of the Company is Shenzhen Investment Holding Corporation (holding 10.45% equity of the Company), who was established in Feb. 1988, and its legal representative is Mr. Li Heihu, as well as registered capital of RMB 2 billion. It is an assets management company owned by the whole people. In accordance with the document of SGZW [2004] No. 223 “Decision on establishing

Shenzhen Investment Holding Co., Ltd.”, in 2004, Shenzhen Investment Holding Corporation incorporated with Shenzhen Construction Investment Holdings and Shenzhen Trade and Business Corporation. The corporate shares of the Company held by Shenzhen Investment Holding Corporation were held by new company after incorporation — Shenzhen Investment Holdings Co., Ltd..

#### IV. PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR EXECUTIVES AND EMPLOYEES

(I) About director, supervisor and senior executives

##### 1. Basis information

Name	Title	Sex	Age	Office term	Holding shares at the year-begin	Holding shares at the year-end
CHEN YU GANG	Chairman of the Board	Male	49	June 2006 – June 2007		
ZHA SHENG MING	Director, Deputy GM	Male	59	June 2004 – June 2007	18150	18150
YANG SHUN CHENG	Director, Deputy GM	Male	59	June 2004 – June 2007	0	0
GUO LI WEI	Director	Male	32	June 2006 – June 2007		
LI ZHEN	Director	Male	44	June 2004 – June 2007	4000	4000
WANG HIU MIN	Director	Female	40	June 2004 – June 2007	0	0
WANG PENG	Director	Male	40	June 2006 – June 2007	0	0
ZHANG JIAN JUN	Independent Director	Male	43	June 2004 – June 2007	0	0
JIANG CHANG LONG	Independent Director	Male	42	June 2004 – June 2007	0	0

LI XIAO FAN	Independent Director	Male	54	Nov. 2006 – June 2007	0	0
CAO ZI YANG	Chairman of the Supervisory Committee	Male	56	June 2004 – June 2007	0	0
LIU JIA KE	Supervisor, Director of Discipline Inspection Office	Male	58	June 2004 – June 2007	5000	5000
JIN CHEN GUI	Supervisor, Deputy GM of Audit Department	Male	59	June 2004 – June 2007	0	0
MA DE QIN	Supervisor, Cadre of Trade Union	Female	53	June 2004 – June 2007	0	0
LUO RU RONG	General Manager	Male	50	Apr. 2005 -	0	0
WEI YU XIN	CFO	Female	47	Apr. 2005 -	0	0
LUO JUN DE	Deputy GM	Male	57		0	0
LIU YING HUA	Engineer-in-Chief	Male	47		0	0
GUO YU MEI	Secretary of the Board, Director of the Board Office	Female	47	June 2004 – June 2007	0	0

## 2. Working experience of Directors, Supervisors and Senior Executives

### Members of the Board of Directors

**Mr. Chen Yugang**, 49-year old, senior Political Worker, was the master of Party Construction major. He held some important posts in many municipal departments. He served as GM and Secretary of the Party Committee in Shenzhen Shenhua Group Company. Also, he served as GM and Vice Secretary of the Party Committee in Shenzhen Xianke Enterprise Group. Now, he holds a post in Shenzhen Investment Co., Ltd. as Deputy GM. From May 2006, he has served as Secretary of the Party Committee in Shenzhen Properties & Resources Development (Group) Ltd.. And in June 2006, he was elevated to be Chairman of the Board of Shenzhen Properties & Resources Development (Group) Ltd..

**Mr. Zha Shengmin**, was born in Feb. 1948, three years college, Economist. He has experience in enterprise administration, personnel management and enterprise economic management over 20 years. He's experienced in serving in the army. He was transferred to the Company in Aug. 1988 and ever took the post of Division Chief of Personnel Division, Director of Office of the Board. He now acts as Director and Deputy General Manager of the Company.

**Mr. Yang Shuncheng**, was born in Sep. 1948, three years college. He has management experience in construction enterprise and real estate development enterprise. From 1997 to 1998, he took the post of Manager of Real Estate Development Dept. in Shenzhen Construction Investment Holdings; from 1999 to

now, he took the posts of Deputy General Manager and Director of the Company.

**Mr. Guo Liwei**, was born in Dec. 1974, Master of Law M.L. In the past, he successively held a post in General Department of Ping An Insurance (Group) Company of China as legal consultant, and Shenzhen Investment Management Company as Business Manager of Legal Affairs Department. Now, he holds posts in Shenzhen Investment Holding Company as Deputy GM of Legal Affairs Department and Director of the Company.

**Mr. Li Zhen**, was born in Apr. 1963, Senior Engineer, double bachelor degrees. He has experience in enterprise management and administration over 20 years. He worked in Shenzhen Investment Holdings Corporation from 1997 to 2004 and ever took the posts of Deputy Director of Secretariat of the Board of Directors, Manager of General Office, Manager of the 1st Dept. of Industry, Assistant President and Director of Office. He took the posts of Chairman of the Board of Shenzhen Tongchan Industrial Co., Ltd. from Oct. 2004 to now. Now he acts as Director of the Company.

**Mr. Wang Huimin**, was born in Oct. 1967, Master degree, Economist. She has experience in enterprise management over 10 years. She took the post of Manager of Human Resource Dept. of Shenzhen Construction Investment Holdings (the controlling shareholder of the Company) from 2002 to 2004. She took the posts of Manager of Department of Personnel of Shenzhen Investment Holding Co., Ltd. (the actual controller of the Company) from Oct. 2004 to now. Now, she acts as Director of the Company.

**Mr. Wang Peng**, was born in 1967 and he got the master degree. In the past, he held posts in Shenzhen Construction Investment Holdings as Economist of Investment Department and Manager Assistant of Assets Sales Department. Also, he served as Deputy GM of Enterprise Reform Department in Shenzhen Investment Holding Company. From Oct. 2004, he has taken a job in Shenzhen Investment Holding Company. Now, he holds posts in Shenzhen Investment Holding Company as Vice Minister of Property Right Management Department and Director of the Company.

#### **Members of Independent Directors:**

**Mr. Zhang Jianjun**, was born in 1964, Doctor degree. He gains experience in teaching, scientific research and administration in university over 10 years. He took the post of standing vice-president in Shenzhen Sino-hawk Credit Rating Co., Ltd., Deputy Director of Shenzhen Enterprise Credit Ratings Committee and Subeditor in journal of Credit Ratings from 1999 to 2001; he took the posts of Dean and Professor in Economy College of Shenzhen University from 2001 to now. Now he acts as Independent Director of the Company.

**Mr. Jiang Changlong**, was born in 1965, Master-degree of economics in Beijing University. He gains experience in state organs and finance & securities management of enterprise over 10 years. He was engaged in business work in the fields of finance and securities in the State Development Planning Commission RRC and the Securities Commission of the State Council and ever took the post of Deputy Division Chief of the Securities Commission of the State Council; he took the posts of Assistant President of Shenzhen Guosen Securities Co., Ltd., General Manager of Investment

Bank Dept of Guosen Securities and Vice-president of Guosen Securities from 1996 to 2002; he held the posts of Director and Deputy General Manager of Shenzhen International Trust & Investment Co., Ltd. from 2002 to 2003; he occupied the post of President of Datong Securities Co., Ltd. from 2003 to 2004; he took the posts of Vice-president of West China Securities Co., Ltd. from May 2004 to now. Now he acts as Independent Director of the Company

Mr. Li Xiaofan, was born in 1953. He got Master-degree of economics with register management consultant and international professional training officer. In the past, he successively held posts in Shenzhen System Restructuring as Vice Section Director of Enterprise Office, Chief Officer of Macro-control Office, Chief Officer of Market System Office, and Director of European office of shenzhen Government in Nurnberg, inspector of Economic & Trade Bureau. From 2002 to now, he has held posts in Shenzhen Urban Development Research Center (Research Center of Development & Reform Bureau) as researcher; China Consultants of Accounting and Financial Management Co. Ltd. as researcher; in China Productive Power Commission as Administrative Syndic and Deputy Secretary-general, also, the Independent Director of the Company.

#### **Members of the Supervisory Committee**

**Mr. Cao Ziyang**, was born in Mar. 1951, Senior Political Worker. He has experience in political work, human resource and economic management in enterprises over 30 years. He's experienced in serving in the army. He took the post of Director of Party Committee Office of Shenzhen Construction Investment Holdings since Feb. 1997; he was transferred to the Company in Apr. 1998 and ever took the posts of Director and Deputy General Manager of the Company. He now acts as Deputy Secretary of Party Committee and Chairman of the Supervisory Committee of the Company.

**Mr. Liu Jiake**, was born in June 1949, three years college, Senior Political Worker. He has experience in management of political work in enterprises over 30 years. He was transferred to the Company in Nov. 1994 and took the posts of Director of General Office of Shanghai Branch and Section Chief of Organization Dept. of Party Committee Office early and late. He now acts as Deputy Director of the Office for Discipline Inspection Office and Supervisor of the Company.

**Mr. Jin Chenggui**, was born in July 1948, Accountant. He has experience in financial management of enterprise over 30 years. He was transferred to the Company in May 1990 and took the posts of Financial Manager of Foods Branch and Shanghai Branch early and late; he now acts as Deputy Manager of Auditing Dept. and Supervisor of the Company.

**Ms. Ma Deqin**, was born in Sep. 1954, Political Worker. She has experience in enterprise's political work and labor union over 20 years. She was transferred to the Company in Sep. 1988 and took the posts of Carder and Director of Labor Union-Workwoman Committee early and late. She now acts as Chairman of Labor Union and Supervisor of the Company.

#### **Members of Senior Executives:**

**Mr. Luo Rurong**, was born in Oct. 1956, MBA. Mr. Luo has management experience in real estate industry for many years, has solid qualified experience in enterprise operation and financial management, and is familiar with the development and operation of land project in Hong Kong and Chinese Mainland. Mr. Luo ever took the post in HongKong Land for nearly twenty years. Now he serves in HongKong Kowloon Development Company Limited and acts as of Market and Sale General Manager. In Apr. 2005, he took the post of General Manager of the Company in a period of transition according to the relevant regulations of the Agreement on Shares Transfer of ShenZhen Properties & Resources Development (Group) Ltd. and its attachment signed.

**Ms. Wei Yuxin**, 46 years of age, holds bachelor degree of business awarded by Australian Melbourne Monash University. She is Associate Member of Hong Kong Institute of Certified Public Accountants, Fellow Member of the Association of Chartered Certified Accountants and Associated Member of Australian Society of Certified Practising Accountants. Ms. Wei has rich experience in financial management and company management for many years, and ever took the post in Association of International Accountants for eight years; during eight years, Ms. Wei provided the professional service for many Multi National Corporations and companies listed in Hong Kong. Now, Ms. Wei served in Hong Kong Kowloon Development Company Limited and took the posts of Assistant General Manager, Company Secretary, which is in charge of daily financial management work. In Apr. 2005, she took a post as CFO of the Company in the interim.

**Mr. Luo Junde**, was born in Mar. 1950, three years college, Senior Economics. He has administration experience in industry, construction and real estate development. He took the posts of Deputy Manager and Manager of Overseas Dept. of Shenzhen Construction Investment Holdings early and late from 1997 to 2003. He took the post of Deputy General Manager of the Company from Jan. 2003 to now.

**Mr. Liu Yinhua**, was born in May 1960, Doctor Degree of Tongji University, Senior Engineer. He has experience in technology and administration in the field of construction. He was transferred to the Company in Sep. 1996 and took the posts of Deputy Head of Engineering Dept., General Manager of Property Management Company and Vice-Chief Engineer of the Company early and late. He now acts as Chief Engineer of the Company.

**Ms. Guo Yumei**, was born in Oct. 1959, Bachelor degree, and held the title of interpretation. She gains experience in enterprise management over 20 years. She ever worked in Shannxi Management Bureau of CAAC; she worked in the Company since 1985 and took the posts of Secretary of Office, Translator, Section Chief and Deputy Manager of Capital Dept. early and late. She now acts as Secretary of the Board and Director of Office of the Board in the Company.

3. Particulars about the annual remuneration of the Company's directors, supervisors and senior executives

Particulars about the annual remuneration of the Company's directors, supervisors and senior executives are as follows (deducted part remuneration of the year 2005):

Order	Name	Annual remuneration (RMB'0000)
1	Chen Yugang	Drawing remuneration from Investment Holding Co., Ltd.
2	Zha Shengming	17.8
3	Yang Shuncheng	17.8
4	Guo Liwei	Drawing remuneration from Investment Holding Co., Ltd.
5	Li Zhen	Drawing remuneration from Tongchan Industrial Co., Ltd.
6	Wang Huimin	Drawing remuneration from Investment Holding Co., Ltd.
7	Wang Peng	Drawing remuneration from Investment Holding Co., Ltd.
8	Jiang Changlong	Allowance of independent director of RMB30,000
9	Zhang Jianjun	Allowance of independent director of RMB30,000
10	Li Xiaofan	Allowance of independent director of RMB30,000
11	Cao Ziyang	24.17
12	Ma Deqin	14.55
13	Liu Jiake	12.65
14	Jin Chengui	12.65
15	Luo Rurong	Drawing remuneration from Kowloon Development Company Limited
16	Wei Yuxin	Drawing remuneration from Kowloon Development Company Limited
17	Luo Junde	17.8
18	Liu Yinghua	17.8
19	Guo Yumei	14.56

In 2006, the remuneration standard of enterprise's operator was determined in accordance with the Implementation Method on Annual Remuneration for Operators of Shenzhen Municipal State-owned Enterprises. The remuneration standard of other directors, supervisors and senior executives taking position were determined in accordance with the Trial Method on Wage Reformation of PRD examined and approved by the Shareholders' General Meeting of the Company.

#### 4. Personnel change

In the report period, the representative directors appointed by shareholders Tian Chenggang, Guo Yuanxian and Fang Yibing resigned from their posts. And Chen Yugang, Wang Peng and Guo Yuwei replaced their posts of representative directors. On June 30, 2006, Shareholders' General Meeting elected Chen Yugang, Wang Peng and Guo Yuwei as directors of the Company. Guo Yugang was appointed as chairman of the Board by election.

In the report period, Mr. Tong Qinhuo resigned from the posts of Supervisor of the Company due to work adjustment;

In the report period, Mr. He Wenhua resigned from the post of Director of the Company due to retirement. And the Board of Directors considered and approved the resignation report in July 2006.

In the report period, Mr. Kong Yuquan resigned from the post of Independent Director of the Company due to work reason. On Nov. 8, 2006, Special Meeting of Shareholders elected Mr. Li Xiaofan as Independent Director of the Company.

(II) About employees

The Company has totally 1958 employees in office at present, including 1058 production personnel, 139 salespersons, 547 technicians, 79 financial personnel and 135 administrative personnel. 1176 persons graduated from 3-year regular collage or above. Presently, the Company needs to bear the expenses of 125 retirees.

## V. ADMINISTRATIVE STRUCTURE

(I) Administration of the Company

In recent years, the Company neatened the Company's operation, Shareholders' meeting, the Board of Directors and operation criterion of Supervisory Committee in accordance with regulations of securities regulatory system. In the report period, the Company revised the Article of Association, Rule of Procedure of Shareholders' Meeting.

On Apr. 1, 2005, the first and second largest shareholders, namely Shenzhen Construction Investment Holdings and Shenzhen Investment Holding Corporation signed an Agreement on Shares Transfer of ShenZhen Properties & Resources Development (Group) Ltd. with Brilliant Idea Investment Limited. The various noncommittal factors that may exist might affect the Company's normal production and operation in the period of transition; in order to safeguard benefits of the whole shareholders of the Company, the Company did the best on important work to ensure the Company's operating activities to develop normally and keep stable operation of the Company. Also, the Company disclosed information according to the regulations of the securities regulatory institute and respected & protected legal rights of benefit related parties.

(II) In the report period, independent directors of the Company were professional person on law affairs, financial management and economic research. The holding qualification of independent directors accorded with the relevant regulations of CSRC.

Particulars about implementing independent directors' responsibility in the report period:

Name of	Times that	Times of	Times of	Times of	Remark
---------	------------	----------	----------	----------	--------

independent directors	should be attend the Board meeting	personal presence	commission presence	absence	
Jiang Changlong	8	4	3	1	
Zhang Jianjun	8	7	0	1	---
Kong Yuquan	6	3	2	1	He was absent from meeting twice without consigning votes due to providing resignation report.
Li Xiaofan	0	0	0	0	
Particulars about the objection proposed by independent directors on the relevant events					
Name	Event that independent directors proposed objection	Contents of objection	Remark		
Jiang Changlong	Change shareholder representative director Mr. Tian Chenggang	Disagree changing Shareholder representative director Mr. Tian Chenggang.	On May 30, the Company held the meeting of the Board of Directors, in which Jiang Changlong opposed change of shareholder representative director --- Mr. Tian Chenggang. With fax.		

### (III) Particulars about the Company's "Five Separations" from the Controlling Shareholder

The Company has integrated business, keeps independence in operating management, and made "Five Separations" from the controlling shareholder:

1. The Company was independent in management, and possessed independent production, supply and distribution system;
2. The Company independently engaged employees, and possessed absolutely independent management of labor, personnel and salaries;
3. The Property of the Company is transparent, and the Company possessed independent assets ownership;
4. The Company owned independent office site and organization;
5. The Company has independent financial auditing system.

## VI. BRIEFINGS ON THE SHAREHOLDERS' GENERAL MEETING

In the year 2006, the Company held Shareholders' meeting for 4 times, and the particulars of meetings are as follows:

1. Spot meeting of Shareholders' meeting related to share merger reform of the Company was held on 35/F of International Trade Center, Renmin South Road, Shenzhen at 14:00 pm of Jan. 13, 2006, in which considered and approved Share Merger Reform Plan of Shenzhen Properties & Resources Development (Group) Ltd.. Related public notice on resolution of shareholders' meeting was published in Securities Times and Ta Kung Pao and appointed website [http:// www. Cninfo.com.cn](http://www.cninfo.com.cn) on Jan. 14, 2006.
2. Shareholders' General Meeting 2005 was held on 38/F in meeting room of Shenzhen International Trade Center Building at 10:00 am of June 30, 2006. This meeting unanimously passed the following proposals by means of local vote: Work Report 2005 of the Board of Directors; Work Report 2005 of the Supervisory Committee; Financial Settlement Report 2005; Annual Report 2005; Profit Distribution Plan 2005 and Proposal on Making up Losses; Proposal on Amending the Articles of the Association of the Company; Proposal on Electing Shareholders' Representative Director; Proposal on Engaging Certified Public Accountants for the Company in 2006. The relevant Public Notice on Resolution of this Shareholders' General Meeting was published on Securities Times and Ta Kung Pao and the designated Internet <http://www.cninfo.com.cn> on July 1, 2006.
3. The 1<sup>st</sup> Special Shareholders' Meeting was held on 39/F in meeting room of Shenzhen International Trade Center Building at 10:30 am of July 19, 2006, in which considered and approved the Proposal on Providing Guarantee of RMB 0.6 Billion Credit for Piece A Block C of Huangyuyuan, and the Proposal on Providing Guarantee of RMB 0.1 Billion Credit for Fenghe Rili Tiankou District. The relevant Public Notice on Resolution of this Special Shareholders' Meeting was published on Securities Times and Ta Kung Pao and the designated Internet <http://www.cninfo.com.cn> on July 20, 2006.
4. The 2<sup>nd</sup> Special Shareholders' Meeting was held on 39/F in meeting room of Shenzhen International Trade Center Building at 9:30 am of Nov. 8, 2006. This meeting unanimously passed the following proposals by means of local vote: the Proposal on Applying for RMB 0.1 Billion Credit from Construction Bank, and the Proposal on Electing Independent Directors. The relevant Public Notice on Resolution of this Special Shareholders' Meeting was published on Securities Times and Ta Kung Pao and the designated Internet <http://www.cninfo.com.cn> on Nov. 9, 2006.

## VII. REPORT OF THE BOARD OF DIRECTORS

### (I) Operating Review of the Company

#### 1. The whole operating status

By the end of report period, the Company realized income from main operations amounting to RMB 311,948,669.86, down 68% compared with RMB 963,481,024.09 realized in the same period of the last year, which was due to the decrease of sale areas of real estate projects, so that sale income has decreased; the Company realized profit from main operations amounting to RMB 55,003,894.40, a decrease of 81% compared with RMB 288,641,976.60 realized in the same period of the last year, which was because sale income of real estate projects reached the condition of settlement and transferred has decreased over the same period of last year; the Company realized total profit amounting to RMB -45,780,275.82, which was due to decrease of operating profit.

#### 2. Particulars about operating of main operations of the Company

##### (1) Scope of main operations and its operating:

The Company is large-size real estate specialty company with the main operations of real estate development, property leasing and management and concurrently is engaged in the taxi passenger transport, commodity department store and hotel and food industry. The income from main operations of the whole year was RMB 312 million and total profit was RMB -45.78 million. The main breakdown was as follows:

Classified according to industry:

Income from real estate development amounted to RMB 0.132 billion, and profit from real estate development amounted to RMB -63.58 million;

Income from property management and lease amounted to RMB 123 million, and profit from property management and lease amounted to RMB 0.34 million;

Income from taxi passenger transport amounted to RMB 38.85 million, and profit from taxi passenger transport amounted to RMB 4.19 million;

Income from commercial operation amounted to RMB 171.47 million, and profit from commercial operation amounted to RMB -0.42 million;

Income from travel and food business amounted to RMB 13.24 million, and profit from travel and food business amounted to RMB -1.8 million.

Classified according to areas:

Shenzhen: Income amounted to RMB 312 million,

Profit from main operations amounted to RMB -59.93 million;

East China: Income amounted to RMB 0;

Profit from main operations amounted to RMB 0 million;

Hainan: Income amounted to RMB 0.1 million,

Profit from main operations amounted to RMB -4.93 million.

##### (2) Analysis on main operations of the Company

Sales income, sales cost and gross profit ratio of the main products taking over 10% of the income from main operations or profit from main operations:

Unit: RMB'000

Industries	Income from main operations	Cost of main operations	Gross profit ratio (%)	Increase/decrease of income from main operations compared with the previous year (%)	Increase/decrease of cost of main operations compared with the previous year (%)	Increase/decrease of gross profit ratio compared with the previous year (%)
Real estate development	131901	99484	24.58	-82.44	-78.59	-35.57
Property management and lease	122872	102764	16.36	-9.97	-13.07	-22.36
Commercial retail	17147	16182	5.63	-37.37	-38.37	37.65
Taxi passenger transport	38851	17034	56.16	3.54	75.79	-24.35
Tourism and food	13242	6451	51.28	-3.16	-3.53	0.35

Explanation on the increase of profitability capability of main operations in the report period compared with the previous year:

In 2006, the Company realized income from main operations amounted to RMB 311,948,669.86, a decrease of 68% over the same period of last year; realized profit from main operations amounted to RMB 55,003,894.40, a drop of 81% over the same period of last year; and realized total profit amounted to RMB -45,780,275.82, which was mainly because:

Real estate projects hard reached the condition of settlement and completing, which resulted in decrease of main operation income and profit.

In the year of 2006, there was greater decrease proportion of main operation income and main operation cost. Also, total profit decreased greatly, and management expense decreased greatly compared with that of last year.

### (3) Major suppliers and customers

When the Company was engaged in the development business of real estate, the Company generally contracted the real estate projects developed to the contractor companies that gained the bidding by means of project bidding form and the contractor companies were responsible for providing the construction materials.

The sales objects of the commercial house of the Company were mainly individual customers and there was no batch customer generally. The amount of sales of the top five customers took 1% of the total sales amount of the Company.

3. In the report period, particulars about the change situation in the Company's assets composing compared with the same period of last year and main reasons for change:

(1) Change situation in assets structure compared with the same period of last year

Item	Dec. 31, 2006		Dec. 31, 2005		Increase/decrease of proportion in total assets (%)
	Amount (RMB)	Proportion in total assets (%)	Amount (RMB)	Proportion in total assets (%)	
Accounts receivable	67,243,523.18	4.09	66,308,666.23	3.66	Up 0.43
Inventories	941,682,185.18	57.28	965,717,024.06	53.28	Up 4.00
Long-term equity investment	79,828,127.65	4.86	80,130,407.21	4.42	Up 0.44
Fixed assets	251,428,102.23	15.29	247,663,192.00	13.66	Up 1.63
Short-term loans	409,889,914.94	24.93	462,202,117.37	25.50	Down 0.57
Accounts payable	188,840,144.75	11.49	230,313,501.65	12.71	Down 1.22
Advance receivable	23,228,626.96	1.41	48,792,595.08	2.69	Down 1.28
Long-term loans	49,723,313.87	3.02			Up 3.02
Total assets	1,643,924,822.20		1,812,640,711.92		-----

Note:

Inventories decreased by 2.49% mainly resulted from transferred sales cost of Huangyuyuan district;

Increase of fixed assets was mainly because that original value of fixed assets increased RMB 23,104,639.12, while the accumulated depreciation amount was RMB 19,339,728.89.

Short-term loans decreased by 11.32% compared with that of last year, which mainly resulted from loans payment in the report period.

Account payable decreased by 18.01% compared with that of last year, which mainly resulted from payment on project accounts in the report period.

Advance receivable decreased by 52.39% compared with that of last year, which mainly resulted from transferred income of advance receiving house account in the report period.

Decrease of long-term loans was mainly because parent company and subsidiary company increased project loans in the report period.

Account receivable and long-term equity investment had little changes compared with those of last year.

(2) In the report period, particulars about the change situation in the Company's operating expense, administrative expense, financial expense and income tax compared with the same period of last year and main reasons for change:

Items	Jan.-Dec. 2006 ( RMB )	Jan.-Dec. 2005 ( RMB )	Increase/decrease
-------	------------------------	------------------------	-------------------

			<b>year-on-year (±%)</b>
operating expense	17,104,451.96	35,081,654.43	-51.24
administrative expense	56,395,204.55	125,880,463.14	-55.20
financial expense	15,268,770.72	32,818,241.51	-53.47
income tax	888,351.37	20,411,766.43	-95.65

Note:

Decrease of operating expense was mainly because that salable real estate has decreased, which resulted in decrease of marketing expense.

Decrease of administrative expense was mainly because that withdraw responsible goal award decreased greatly compared with that of last year.

Decrease of financial expense was mainly because that average balance of credit funds of the Company had decreased compared with that of last year, and the projects of A section C block of Huangyuyuan & Fenghe Rili B team listed into inventory cost together with interest related to project item.

Decrease of income tax was mainly because that the profit on sales from real estate has decreased in the report period.

4. Particulars about change in main items of cash flow compared with the same period of last year and reasons for change:

<b>Items</b>	<b>2006 (RMB)</b>	<b>2005(RMB)</b>	<b>Increase/ Decrease (%)</b>
.Cash flows arising from operating activities:			
Subtotal of cash inflows	324,125,740.25	885,223,708.03	-63.38
Subtotal of cash outflows	442,736,301.21	664,381,485.98	-33.36
Net cash flows arising from operating activities	-118,610,560.96	220,842,222.05	-153.71
.Cash flows arising from investing activities:			
Subtotal of cash inflows	938,627.33	25,006,316.34	-96.25
Subtotal of cash outflows	1,033,068.65	19,760,765.12	-94.77
Net cash flows arising from investing activities	-94,441.32	5,245,551.22	-101.80
.Cash flows arising from financing activities			
Subtotal of cash inflows	244,747,228.00	292,920,000.00	-16.45
Subtotal of cash outflows	274,655,965.22	519,283,073.43	-47.11
Net cash flows arising from financing activities	-29,908,737.22	-226,363,073.43	86.79

Note:

Decrease of net cash flows arising from operating activities over the same period of last year was mainly because that salable real estate of the Company has decreased,

and cash from real estate sales has decreased compared with that of last year in the report period.

Decrease of net cash flows arising from investing activities over the same period of last year was mainly because those cash flows from long-term assets disposal and purchase have decreased compared with that of last year in the report period.

Increase of net cash flows arising from financing activities over the same period of last year was mainly because that the new increased bank loan, payment amount of bank loan and the interests of bank loan paid by the Company has decreased compared with the same period of last year.

In the report period, the cash flows arising from operating activities of the Company was RMB -118,610,560.96, and there existed the greater difference with net profit as of report period amounting to RMB -46,054,221.12, the reason are:

Amount of “Cash paid due to purchasing commodities and receiving labor service” in cash flow statement of the Company was the less than amount of “Cost of main operations” (after deducting labour cost) in income statement, the reason are due to the lower of withdrawal rate;

“Depreciation allotted” in income statement amounting to RMB 20.92 million did not pay on cash;

“Interests expense deducted” in income statement amounting to RMB 15.27million was not belong to cash flows arising from operating activities;

“Assets depreciation reserve” in income statement amounting to RMB -41.67 million did not pay on cash.

#### 5. Operations and achievements of main holding companies and share-holding companies

Unit: RMB'000

Company name	Registered capital	Main businesses	Equity proportion	Assets amount	Net profit
Shenzhen Huangcheng Real Estate Co., Ltd	25000	Development, construction, operation, and management of supporting commercial service facilities at Huanggang Port	100 percent	730566	-9780
Shenzhen Guomao Automobile Industry Company	29850	Automobile transportation of passengers, and lease of automobiles	100 percent	125088	3586
Shanghai Shenzhen Property Development Co., Ltd	50000	Real estate development in Shanghai	100 percent	86842	-1405

#### (II) Future development

1. Facing increasingly competitive market environment, over the years the company continued to maintain the trend of downsizing, tightly focused on the operating principle of integration: the two main lines of business property as real estate development and the operating income renting and the supplements as property management, motor transport, food service operators. The company takes a series of

actions recently, makes breakthroughs in adjusting the management policies, offloading the nonperforming assets and optimizing the industrial structure, etc. However there are still some problems such as the deficiency of operating funds and the expecting strengthening of the ability to open up markets.

2. During the reporting period, the planning-invested constructing projects are: A and B section in C block of Huangyuyuan, D block of Huangyuyuan, B team of Fenghe Rili, the second term project of Fuchang, etc., with the construction area of 20 million square meters. New projects are all in construction, demanding a large amount of capital. To guarantee the schedule of every project, the company takes these actions:

- . Ensure the constructing schedule important real estates, strictly supervise the cost of the projects, ensure the profit growth of the group's main real estate development business, and grasp the profit-pursuing life line of the real estate development companies.

- . Continue to do a good job of surplus property sales, make Efforts to revitalize stock assets.

- . Continue to strengthen profitability property leasing business, to maintain steady growth.

- . Seize the opportunity, strengthen land reserves, and establish the foundation of the group's sustainable development.

3. During the report period, the State put out lots of policies and regulations targeting at the real estate industry, which had led to even hotter competition among real estate enterprises, and the structure among the real estate enterprises would further differentiate. Recently the company is lack of capital, facing the gradual decreasing of land reserves and the continuing operating risks increased by tightening of macro-economic policies.

4. Probable influence on operation result of the Company after fulfillment of new accountant policy

According to requirements of [2006] No. 3 document --- "Notice on 38 items Concrete Standards like Accounting Standard for Business Enterprises No. 1 – Inventories Issued by Ministry of Finance" issued by Ministry of Finance on Feb. 15, 2006. And the Company putted Accounting Standard for Business Enterprises into practice on Jan. 1, 2007. After fulfillment of it, influence on financial status and operation result of the Company from probable changes of accounting policy and accounting estimate are as follows:

(1) Difference analysis between currency accounting standard and new accounting standard at the very time of fulfillment of new standard on Jan. 1, 2007.

Financial assets and financial assets available for sale measured by the fair value and its change was recorded into the gains and losses of current period

A. Listed company equity with RMB 7,317,750.20 investment cost finished share currency merger reform held by the Company and its subsidiary on Dec. 31, 2006 was classified to item of salable financial assets by the Company. And the Company affirmed final fair value in accordance with closing price of final stock exchange, so it produced difference for RMB -60,144.32

B. Short-term investment of the Company on Dec. 31, 2006 was securities share

transaction. Closing price of final stock exchange was higher than book value for RMB 5,923,150.98. Under Accounting Standard for Business Enterprises, it should be accounted by fair value method, and its change should be accounted into financial assets of currency loss/profit (transacted financial assets).

The above two influence difference increased shareholders' equity of the Company totaling for RMB 5,863,006.66.

#### Income tax

Differences (which can offset the provisional difference) between book value and its tax base of Shenzhen Shenzhen Huangcheng Real Estate Co., Ltd and Shanghai Shenzhen Property Development Co., Ltd --- subsidiaries of the Company on Dec. 31, 2006. It is predicted that taxable income tax in later years can switch these differences. So deferred income tax assets was RMB 8,760,561.00. This difference will increase shareholders' equity of the Company for RMB 8,760,561.00.

#### Other

Ended on Dec. 31, 2006, Shenzhen Real Estate Exchange, Shenzhen Tesu Motor Vehicle Driver Training Center Co., Ltd., Zhanjiang Shenzhen Property Management Co., Ltd., Shenzhen International Trade Co., Ltd. and Shenye Land Development Co., Ltd. were shut down under the currency accounting standard, so they were not accounted into consolidated accounting form. While under the new accounting standard, these companies should be account into consolidated accounting form. Because these companies were accounted into consolidated accounting form, and affirming minority interest, offsetting internal currency withdraw bad debt loss, loss company consolidation and other factors, shareholders' equity amounting difference was RMB -7,125,009.29. This difference will decrease shareholders' equity of the Company for RMB -7,125,009.29.

(2) After fulfillment of Accounting Standard of Business Enterprise, main influences on financial status and operation result of the Company from probable changes of accounting policy and accounting estimate are as follows:

According to the regulations of Accounting Standard for Business Enterprises No. 2 -- Long-term equity investments, the Company has adopted cost method for calculation, and it has adjusted according to equity method as consolidated accounting form compiling. Under currency accounting policies, however, the Company adopted equity method. This change will lessen affection on parent company's investment income from operation loss/profit of subsidiary, but this event failed to affect consolidated financial form.

According to the regulations of Accounting Standard for Business Enterprises No. 3 -- Investment properties, the hiring out the land user, hiring out the building and land user holding & preparing for cession after increment are calculated in item of investment properties. Under currency accounting policies, however, those were calculated in item of Inventories & fixed assets. And the Company still adopts cost method to calculate. This event failed to affect profit of the Company and shareholders' equity.

According to the regulations of Accounting Standard for Business Enterprises No. 22 -- Recognition and measurement of. financial instruments, assets is calculated in

item of trading financial assets and measured by fair value and its changes are listed into currency loss/profit; listed companies' equity finished shares' equity currency merger reform are classified into item of salable financial assets for calculation, and measure by fair value and its changes are listed into capital reserve. While assets calculated in item of short-term investment; listed companies' equity finished shares' equity currency merger reform calculates in item of long-term equity investment. Account the balance between accounts and book value of this asset into item of investment income as disposal of listed companies' equity finished shares' equity currency merger reform. At the same time, amount transfer of corresponding disposal part in fair value of changing accumulative amount calculates in investment income. However, it was calculated in owners' equity under currency policies. This event will affect currency loss/profit of the Company and shareholders' equity with the change of financial assets fair value.

#### Assets depreciation reserves

According to the regulations of Accounting Standard for Business Enterprises No. 8 -- Impairment of assets, the Company should check its long-term assets (long-term equity investment, fixed assets, intangible assets investment real estate measured by cost method and so on) at least in balance sheet date per year, to judge whether or not there exists signs of probable Impairment; whether or not there exists sign of assets impairment, and estimate & calculate its receivable amount. If receivable fund of asset is lower than book value, the Company should record asset book value into receivable fund; lessen fund was affirmed as assets depreciation loss and list into item of currency loss/profit, meanwhile, withdraw relevant assets depreciation reserves. After affirmation of assets depreciation loss, the expenses of impairment assets' depreciation and amortization will be adjusted in future, which enable the assets systematically amortize assets book value after adjustment in left use time. Affirmation of long-term assets depreciation loss, it can not switch in later accounting period. Therefore, withdraw assets depreciation reserve and assets disposal of withdraw assets depreciation reserve will affect currency loss of the Company and shareholders' equity.

In accordance with the regulations of Accounting Standard of Business Enterprises No. 18- Income Taxes, the Company change the accounting method under the current accounting policies-Taxes Payable Method to Balance Sheet Credit Method which will influence the current income taxes expenses and further influence the gains/losses in the current period and the shareholders' equity.

#### consolidated financial statement

In accordance with the regulations of Accounting Standard of Business Enterprises No. 33-consolidated financial statement, the Company listed the subsidiary companies into the consolidated financial statement, and those companies were in the liquidation state and not recorded into the consolidated statement under the current accounting policies; the Company put the minority shareholders' equity which were listed separately in consolidated statement under the current policies into the item of "minority shareholders' equity" of the item shareholders' equity in consolidated balance sheet. This change will influence the gains and losses of the Company and the

shareholders' equity.

(III) Investments in the report period

1. In the report period, the Company has not raised any proceeds, nor has there been any use of proceeds raised previously.
2. Explanation on the significant projects invested with non-raised proceeds, their progress and profit-making status

Unit: RMB'000

Project	Amount invested	Progress	Profit-making status	Rate of return
Fuchang 2 <sup>nd</sup> Phase	100	Primary preparation	-	-
Fenghe Rili B	7500	Stake base about to complete	-	-
Land A, B of Huangyuyuan C	22410	Land A in basic construction stage, Land B in design and construction application stage	-	-
Total	30010	-	-	-

(IV) Explanation by the Board on the and qualified opinions and emphasized issues

Wuhan Zhonghuan Certified Public Accountants produced the audit report with qualified opinions and emphasized issues. The explanations of the events referred to as follows:

1. events that led to qualified opinions

As mentioned in Notes of financial statement 2.20.1.3, the Company retrospect and adjusted the short-term investment projects of securities transactions in previous years. As the information acquisition on securities transaction is still carried out. The acquired information will provided the Certified Public Accountants accurate and complete judgment.

2. about the emphasized issues

- 1) As mentioned in Notes of financial statement 9.1.1, the Company filed an appeal to the Guangdong High Court for second instance on eight estate owners' purchase contract lawsuits such as Haiyi Industrial (Shenzhen) Co., Ltd. It was rejected in 2003 and the eight estate owners such as Haiyi Industrial (Shenzhen) Co., Ltd. did not apply for an obliged enforcement to Guangdong High Court. The Company is applying for the appeal issues for the second instance and the prospected losses were RMB 41,772,906.07 regarding the book value of the properties.
- 2) As mentioned in Notes of the financial statement 9.1.2, Guangdong High People's Court ruled in Jul. 2001 that Shenzhen Jiyong Properties & Resources Development Company (hereinafter referred to as "Jiyong Company") should pay the transferred fee RMB 143,860,000. In Nov. of the same year the Company applied for an obliged enforcement to Guangdong High People's Court and it sealed the estate of 28,000 square meters of the other party. Zhejiang Branch of Industrial and Commercial Bank of China raised a dissent for the seal and ruled by Guangdong High People's Court, the estate seal of 10,000 square meters was released. In Sep., 2005, the estate was officially released. In 2006, Guangdong High People's Court issued the Civil Ruling: since the executioner had no other

properties to be enforced the rules and the Company did not supply other executed properties, the former rule “Jiyong Company should pay the transferred fee RMB 143,860,000” suspended till the situation above disappeared. In accordance with the latest regulation of the Supreme Court, the applied sealed real estate had released automatically.

Wuhan Zhonghuan CPAs believed that the emphasized issues did not belong to the situation of clear violation of Accounting Standard, system and related information disclosure regulated by Information Disclosure Rules of Public Circulated Company No.14-Deal of Non-standard Unqualified Auditing Opinions and Related Events. There is special explanation of notice of investors in the audit report and not led to the qualified opinions of financial statement nor audit opinions published already.

(V) Explanations of accounting policies, changes of accounting estimation and amendments of material accounting errors and analysis of their influences

1. content of material accounting errors

- A. according to the requirement of the Tax Bureau in 2006, the Company should pay the income tax of 2004 RMB 5,041,683.27 more, the subsidiary company should pay the income tax of 2003 RMB 59,515.35 more and income tax of 2004 RMB 556,794.37 more and the income tax of 2005 RMB 4,344,332.44.
- B. in Jul.21, 2006, Shenzhen Municipal Bureau of Land Resources and Housing Management published Declaration and Payment to the Special Fund for Public Facilities Affiliated to Real-estate Projects, required that development and construction unit apply the special fund for public facilities affiliated to real-estate projects(hereinafter referred to as “special fund”) and stipulated the standard of special fund payment. By examination of the Company, Fuchang Mansion, Fumin Mansion, Times New Residence, Fengrun Garden, Huangcheng Square which were developed and completed by the Company and the subsidiary company before the year 2002 should raise special fund for RMB 26,535,725.58, of which the special fund assumed by sold estates were RMB 20,007,137.36.
- C. the Company had cleared up the short-term investment-securities stock investment and calculated short-term investment cost at the year-began RMB10,814,257.84(amount to RMB), the investment income of previous years RMB 11,459,232.28, management expenses of previous years RMB 375,000.00, reduced depreciation reserves of short-term investment of the previous years RMB 253,364.10; as the whole information were not acquired yet, the securities RMB 5,366,702.69 which should be deposited to securities fund account would be deposited to Notes Payable, and RMB 5,910,883.05 to other notes receivable from the securities fund account.
- D. The retrospective and adjusted income tax of the Company was RMB 1,675,777.65.

2 cumulative effect of material accounting errors

The amendment of the foresaid accounting errors were to reduce net profit before 2004 RMB10, 266,212.60 and net profit in 2004 RMB 5,598,447.64, net profit in

2005 RMB 4,482,950.82. Reduced the retained profit at the beginning of 2005 RMB 6,765,213.49 and retained profit at the beginning of 2006 RMB 12,658,330.88; the cumulative effect of the major items of Balance Sheet was as follows(plus means increase and minus means decrease):

Item	At the end of 2004	At the end of 2005
Short –term investment	10,303,390.91	10,540,051.92
Depreciation reserves of short-term investment	-719,227.92	-253,364.10
Other notes receivable	5,910,883.05	5,910,883.05
Inventories	3,400,601.39	3,400,601.39
Taxes payable	7,333,767.64	11,678,100.08
Other notes receivable	5,332,070.28	5,366,702.69
Other long-term liabilities	23,407,738.75	23,407,738.75
Surplus Reserves		-3,040,626.18

## (VI) Routine work of the Board

### 1. Meetings held by the Board during the report period

Time	Main content
Mar.9, 2006	On-spot meeting. Examined and approved the Annual Report 2005 and the Summary, Proposal on the Profit Distribution 2005 and Loss Making up, Proposal on Withdrawing Various Reserves 2005, Proposal on the Switching-back of Assets Depreciation Reserves 2005, Business Plan and Investment Plan 2005 and Proposal on the Obsolescence of Fixed Assets..
May, 30, 2006	On-spot meeting. Approved the proposal on Work Report of the Board of Directors 2005, on Financial Resolution Report 2005; on modification of Articles of Association; on the engagement of certified public accountants; on changing shareholder representative director; on the time, place and theme of Shareholders' General Meeting 2005.
Jun. 30, 2006	On-spot meeting. Electing Director Chen Yugang as the Chairman of the Board of Directors of the Company.
Jul. 3, 2006	Telecommunications meeting. Approved through telecommunications the proposal on 2006 operation plan of Properties Group, proposal on RMB 160,000,000 loan guarantee to “Huangyu Garden C District A land”, proposal on RMB 100,000,000 loan guarantee to “Fenghe Rili Tiankuo Garden”; proposal on Deferring one year on RMB 70,000,000 of Huangcheng Properties Company; proposal on Convene of Extraordinary Shareholders' Meeting
Jul.19, 2006	On-spot meeting examined and approve the proposal on He Wenhua dismissing the post of Director owing to retirement.
Aug.14, 2006	Telecommunication meeting. Examined and approved through telecommunication the proposals on the Semi-Annual Report 2005 and the Summary, Explanation of Material Accounting Errors Adjustment, Explanation of non-standard opinions produced by certified public accountants.
Oct.19, 2006	Telecommunication meeting. Examined and approved through telecommunication the proposal on the 3rd Quarter Report 2006.
Oct.23, 2006	Telecommunication meeting. Examined and approved through telecommunication the proposal on application of RMB 100,000,000 loans to Construction Bank; proposal on electing the candidate of the independent director; proposal on convene the 2nd extraordinary Shareholders' General Meeting.

### 2. Implementation of the resolution of profit distribution 2005 of the Company in the report period:

- 1) Make up the losses of previous years RMB 62,631,858.48 with the net profit of 2005 RMB 82,902,699.63;
  - 2) In accordance with Articles of Association, draw 10% of statutory surplus reserves RMB 2,027,084.12;
  - 3) In accordance with Articles of Association, draw 5% of statutory welfare fund RMB 1,013,542.06;
  - 4) After the foresaid distribution, the retained profit balance at the end of 2005 was RMB 17,230,214.97 which was used in ordinary operating activities of the Company.
- (VII) Profit distribution preplan 2006

The retained profit at the beginning of 2006 of the Company was RMB -76,799.91. Audited by Wuhan Zhonghuan Certified Public Accountants Co., Ltd. the Company realized net profit RMB -46,054,221.12 in 2006. The cumulated retained profit by the end of Dec.31, 2006 was RMB -46,131,021.03. The Company would not distribute profit or withdraw capital reserves as share capital. The profit distribution preplan needs to be submit to Shareholders' General Meeting.

### VIII. Report of the Supervisory Committee

In 2006, the Supervisory Committee held 4 meetings in total:

The first meeting was held on Mar. 9, 2006, in which examined the Report of the Supervisory Committee 2005, Annual Report 2005 and the Summary and the proposal on withdrawing each reserves, the Supervisory Committee gave opinions on the explanatory opinions in the Annual Report, unanimously approved the meeting proposals, and disclosed information in relevant media.

The second meeting was held on Apr. 17, 2006, in which examined the First Quarterly Report 2006, the Supervisory Committee expressed the opinions.

The third meeting was held on Jul. 3, 2006, in which examined the business plan for the year 2006 and the proposal on providing the guarantee for the project loan to subsidiaries.

The fourth meeting was held on Aug. 14, 2006, in which examined the Semi-annual Report 2006 and the Summary, the Supervisory Committee issued the independent opinions on these and formed resolutions and notified all shareholders through relevant media.

All members of the Supervisory Committee had attended each Board meeting of the Company, and, in accordance with the Company Law, the Administrative Rules for Listed Companies and the Articles of Association, conducted supervision over the Board's and the management team's operation, looked up materials concerning the Company's big economic activities and dutifully fulfilled their supervision responsibilities. Independent opinions given by the Supervisory Committee on relevant issues of the Company are as follows:

1. Operation: According to the Company's various works in 2006, the operation of both the Board and the management team was in conformity with the Company Law, the Administrative Rules for Listed Companies and the Articles of Association, and the resolutions of the Shareholders' General Meeting was executed effectively. While

performing their duties, neither the Board nor the senior executives had committed and behavior that went against any law, regulation or the Articles of Association. And no power abuse or harm done to the Company's interests had been detected.

2. Financial status: After looking up the Company's financial accounting materials and relevant rules, this year's accounting calculation had conformed to the financial system of listed companies; various reserves had been withdrawn strictly according to the inner control system of the Company, and necessary application procedures had been conducted. As audited by the Certified Public Accountants, the Financial Report of the Company had faithfully, objectively and accurately reflected the financial status and operating achievements of the Company.

3. During the activities of assets integration and sales, no transactions unfair, inner transactions or other behavior that had done harm to the interests of part of the shareholders or led to assets loss of the Company had been detected.

#### 4. Auditors' Report

Wuhan Zhonghuan Certified Public Accountants had furnished a qualified Auditors' Report with emphasized issues. The Supervisory Committee had made careful consultation on the matters mentioned in the Auditors' Report. It believed that the explanation given by the Board and the Management team on the issues mentioned had conformed to the actual status of the Company, and that the relevant accounting measures taken had been in accordance with the financial accounting policies.

## **IX Significant Events**

(I) Progress of the significant lawsuits or arbitrations of previous years:

1. About the "Haiyi Company" case disclosed in the Annual Reports during 2000 and 2005, the Company applied for the Supreme Court for the second instance appeal and the case is still in the trial process.

2. About the "Jiyong Company" case disclosed in the extraordinary notice of Apr.12, 2001 and Annual Report during 2000 and 2005, Guangdong High Court issued Civil Ruling(2002YGFZ Zi No.1), believed that there was no qualification for execution and ruled to expire the application until the situation disappear. In Mar.2006, the other sealed real estate of Jiabing Mansion the Company was released automatically.

3. The Court accepted the case disclosed in Annual Report 2005 that the Company brought an accusation Guomao Jewelry in Shengfeng Road, Shenzhen in public.

4. About the contract dispute of "Duokuai Elevator" disclosed in Annual Report 2004, Shenzhen Intermediate Court rejected request of "Duokuai Elevator" and Tao Boming in Mar. 2006, who applied Shenzhen Intermediate Court not to execute the ruling but was rejected. The Company applied for Shenzhen Intermediate Court to execute the ruling.

5. The Company disclosed "Meisi Company Lawsuit" disclosed in Annual Report 2004, extraordinary notice on Apr.15, 2006 and extraordinary notice on Aug.5, 2006. The Company disclosed the development of the case in extraordinary notice on Apr.11, 2007: the Company received the Administrative Procedure Act (2006) YGFHZ Zi

No.154 of Guangdong High People's Court, which is the final judgment; the appeal was rejected and maintain the administrative judgment of Shenzhen Intermediate Court (2005) SZFHC Zi No.23.

With the judgment, Shenzhen Municipal Bureau of Land Resources and Housing Management would reconsider the requirement of Shenzhen Meisi Enterprises Co., Ltd. to withdraw the Real Estate License of SFDZ No. 3000320987 and No. 3000119899 of the Company. The Company believed the rights of land and buildings listed on the real estate license were valid and the Company would protect the legal rights of its own through laws.

6. For the case of Hubei Foreign Economic Trade suing the Company disclosed by the Company in the Annual Report 2005, Guangdong Higher People's Court sent the retrial judgment (2005 YGFSJMZ Zi No. 236) in May 2006, and sustained original judgment from Guangdong Higher People's Court, dismissed the retrial application of the Company. In June 2006, Guangdong Railway Transportation Intermediate Court sent a paper of civil judgment with (2004) GTZFZ Zi No. 225-4, which order the Company to compensate RMB 24,402,999 in this case, besides, took the Company's properties sealed up to pay the appellant after deducting the execution fees, and terminated the said case. The Company considered that the retrial judgment ruled by the Guangdong Higher People's Court exist errors in fact verification and applicable law, and has appealed to the Supreme Court of People's Republic of China for retrial.

(II) there was no purchase, sales and restructure of major assets in the report period.

(III) Major associated transactions in the report period

There was no major associated transaction in the report period

(IV) Important contract and the fulfillment

1. There were no events of assets trusteeship, contract and lease.

2. important guarantee events

(1) The Company provided the loan guarantee of RMB 2.6 million for Gintian Industrial (Group) Holdings Co., Ltd. (hereinafter referred to Gintian Company) from the business department of China Construction Bank of China Shenzhen Branch.

In Dec. 1998, the business department of China Construction Bank of China Shenzhen Branch (hereinafter referred to as CCB) signed a loan contract with Gintian Company, in which Gintian Company borrowed RMB 2.6 million from the CCB and the Company undertook the joint liabilities. Afterwards, Gintian Company did not refund according to the contract and the Company did not undertake the joint liabilities yet. Therefore, CCB appealed to Luohu Court, requiring Gintian Company pay up the principal and interests and the Company undertake joint liabilities. In May 2001, the Court judged Gintian Company should repay the principal and interests to CCB, and the Company should undertake the joint liabilities. CCB had applied to execute the case, and the Company had estimated the relevant losses of RMB 2.6 million in 2004. By the end of the report period, the Company has not paid the said guarantee payment.

The Company had undertook loss of the loan guarantee amounting to RMB 54 million for Gintian Company and the Company tried to find the assets which could be executed.

(2) The Company and its inferior subsidiary provided hypothecary loan guarantee from bank for commercial residential building buyer. Ended Dec. 31, 2006, there was non-settlement guarantee fund amounting to RMB 74.14 million. It was a common phenomenon in industry that developer of real estate provided guarantee for commercial residential building purchased by small tenement.

(3) The Company provided guarantee for its subsidiary company --- Shenzhen Huangcheng Real Estate CO., Ltd. who credited RMB 70 million from Shenzhen Futian Branch of China Industrial and Commercial Bank, and the Company provided this guarantee with 3/F and No, 4-01 room of A Block , Shenzhen International Trade Center as mortgage.

The Company provided guarantee for its subsidiary --- Shenzhen Huangcheng Real Estate Co., Ltd. who long-term credited from Eastern Branch of Agricultural Bank of China. And loan amount of credit line was RMB 160 million, and final credit balance was RMB 15.0672 million.

(4) Shenzhen Properties & Resources Construction and Development Company supplied guarantee for its parent company, Shenzhen Properties & Resources Development (Group) Co., Ltd. from Zhenhua Branch, Construction Bank of China and mortgaged with the Fenghe Rili Project A824-0097 land. The amount of credit line was RMB 100,000,000 and the loan balance at the year-end was RMB 20,000,000

(5) Shenzhen Guomao Tian'an Properties & Resources Co., Ltd. took the Tian'an Store 302,501,502,602 and 603 it owned as the guarantee of the loans of RMB 18,000,000 from Shenzhen Baihuayuan Branch of Guangzhou Development Bank Co., Ltd. and the balance of the loan was RMB 17,948,300.

Shenzhen Guomao Tian'an Properties & Resources took the Tian'an Store 401 it owned as the guarantee of the loans of RMB 21,500,000 from Shenzhen Subsidiary of Bank of China.

In accordance with the requirement of Notice Concerning Some Issues on Regulating the Funds between Listed Companies and Associated Parties, the Independent Directors expressed the opinions as follows:

In the report period the Company had no external guarantee except the foresaid (1) and (2) guarantee events. Guarantee supplied to the subordinate enterprises were mainly for the normal production and management. The examining and approving procedures were in accordance with the regulations of the Company. The Company stipulated examination and approval limit and procedures strictly and could efficiently prevent the risk of external guarantees.

Independent Directors: Zhang Jianjun, Jiang Changlong, Li Xiaofan

3. There were no events of trusteeship of cash assets management

4. Fulfillment of other important contract

The wholly owned subsidiary company, Guangcheng Properties Company signed agreement of Release Agreement of Cooperation, Development, Establishment and Operation of Shenzhen Huanggang Port Service District and supplementary agreement with Hong Kong Hehe Huanggang Development Co., Ltd. and Guangdong Railways Construction (the two parties hereinafter referred to as "Hehe Company") and decided to release the cooperation relationship. Huangcheng Properties Company

should return the investment cost and interest totaled RMB 433,880,000 within 49 months after the agreement came into effect and stipulated the return amount, return date, the interest calculation method for the overdue return. As the Huangcheng Properties did not returned the loans timely, the Company prospected to pay the interest RMB 19,541,677.84 to Hehe Company by the end of the report period and listed it into the losses of the year. The Company published the related notice in certain media on Nov.25, 2006.

(V) Engagement of Certified Public Accountants

In the report period, the Company still invited Wuhan Zhonghuan Certified Public Accountants Ltd to do the auditing work for the year 2006. It is professionally qualified to provide the Company with Wuhan Zhonghuan Certified Public Accountants Ltd for A shares and Auditors' Report for B shares has been signed and furnished in the name of BDO International Wuhan Zhonghuan Certified Public Accountants. Since the first agreement signed on the auditing work between the two parties, Wuhan Zhonghuan Certified Public Accountants has providing auditing service for 5 report years for the Company. The achievement of annual auditing fees for 2006 totaled RMB 550,000 and semi-annual auditing fees RMB 250,000 (including business trip expenses).

(VI) Commitments made by the shareholders holding more than 5 percent of the Company's shares in the report period.

As the transfer of state-owned shares of the Company did not finish in the report period, the commitments of the major consideration executer of the share merger reform of the Company, the potential shareholder of the Company-Zhuojian Investment Co., Ltd. did not realize in the report period.

( ) In the report period, neither the Company, nor the Board of the Company or directors have been inspected, punished, or criticized by the securities regulatory sections.

(VIII) Research and Visitation received by the Company.

In the report period, the Company did not receive field research of organization investors. In the report period, the Company received the telephone consultation from many personal investors and some organization investors. While receiving the telephone consultation, the Company abided by the requirement of *Guidelines on Fair Information Disclosure of Listed Companies*, strictly adhered to the principle of fair information disclosure, protected the investors' rights to acquire the information fairly, and did not treat the investors differently or disclose the non-open information.

## **X. Financial Report (attached)**

## **XI. Documents for Reference**

1. Accounting Statements with the signatures and seals of the Legal Representative and the Manager of the Finance Department.
2. Originals of the Auditors' Reports with the seals of the auditing agencies, and the signatures and seals of the CPAs.
3. Texts and originals of the public notices disclosed in the certain media within the report period.

**Board of Directors of  
Shenzhen Properties & Resources Development (Group) Ltd  
Apr.27, 2007**