2006 Interim Report

（For the six months end 30 June 2006）

China Vanke CO.LTD

Consolidated income statement for six months ended 30 June 2006

(Expressed in Renminbi Yuan)

	Note	*2006 Jan-Jun*	*2005 Jan-Jun (restated)*
Revenue	2	6,241,202,480	4,105,896,297
Cost of sales		(3,978,944,643)	(2,614,512,185)
Gross profit		2,262,257,837	1,491,384,112
Other operating income	5	45,353,522	14,338,778
Distribution costs		(217,775,680)	(174,635,021)
Administrative expenses		(306,965,902)	(212,264,404)
Other operating expenses	6	(32,128,375)	(4,209,408)
Operating profit before financing costs		1,750,741,402	1,114,614,057
Financial income	7	24,561,177	(4,087,083)
Financial expenses	7	(52,506,683)	(1,414,279)
Share of profits less losses of associates	15	6,467,244	910,030
Share of losses of jointly controlled entities	15	(13,470,178)	-
Investment revenue		105,954,687	-
Profit before taxation		1,821,747,649	1,110,022,725
Income tax	8	(545,001,883)	(292,228,959)
Profit for the year		1,276,745,766	817,793,766
		===========	===========
Attributable to:			
Equity shareholders of the Company		1,270,578,625	799,653,880
Minority interests		6,167,141	18,139,886
Profit for the year		1,276,745,766	817,793,766
		===========	===========
Earnings per share	9		
Basic		0.32	0.23
		=====	=====
Diluted		0.33	0.23
		=====	=====

Consolidated balance sheet at 30 June 2006

(Expressed in Renminbi Yuan)

	Note	*2006.6.30*	*2005.12.31*
Non-current assets			
Property, plant and equipment	11	377,712,584	217,974,889
Investment properties	12	80,092,793	91,020,125
Construction in progress	13	42,702,484	19,699,697
Interests in associates	15	1,124,037,560	1,095,550,599
Interests in jointly controlled entities	16	88,149,288	158,367,843
Other investments	17	60,459,667	39,407,447
Deferred tax assets	18	26,045,679	25,650,972
Properties held for development		10,989,230,129	7,637,079,936
Total non-current assets		12,788,430,184	9,284,751,508
Current assets			
Inventories	19	35,642,066	41,520,598
Completed properties for sale		2,057,730,547	2,298,059,418
Properties under development		7,949,086,529	5,612,914,315
Trade and other receivables	20	2,826,055,574	1,787,740,574
Investment hold for trading		1,009,054	-
Cash and cash equivalents	21	3,426,873,352	3,249,034,710
Total current assets		16,296,397,122	12,989,269,615
TOTAL ASSETS		29,084,827,306	22,274,021,123
CAPITAL AND RESERVES			
Share capital	22	3,969,898,751	3,722,687,670
Reserves	23	6,521,815,978	4,650,718,366
Total equity attributable to equity shareholders of the Company		10,491,714,729	8,373,406,036
Minority interests	24	1,483,588,974	541,095,823
TOTAL EQUITY		11,975,303,703	8,914,501,859

Consolidated balance sheet at 30 June 2006 (continued)

(Expressed in Renminbi Yuan)

	Note	*2006.6.30*	*2005.12.31*
Non-current liabilities			
Interest-bearing loans and borrowings	25	3,466,928,051	1,181,282,713
Convertible bonds	26	-	843,505,199
Deferred tax liabilities		-	-
Other long term liabilities	27	83,041,426	447,774,990
Total non-current liabilities		3,549,969,477	2,472,562,902
Current liabilities			
Interest-bearing loans and borrowings	25	3,589,000,433	1,562,980,000
Trade and other payables	28	9,917,421,328	9,256,505,694
Provisions	29	24,675,966	23,979,011
Current taxation	8	28,456,399	43,491,657
Total current liabilities		13,559,554,126	10,886,956,362
TOTAL LIABILITIES		17,109,523,603	13,359,519,264
TOTAL EQUITY AND LIABILITIES		29,084,827,306	22,274,021,123

Approved and authorised for issue by the board of directors on 28 July 2006

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Consolidated statement of changes in equity for the six months ended 30 June 2006

(Expressed in Renminbi Yuan)

	Note	*Jan-Jun,2006*	*2005*
Total equity at 1 January		8,914,501,859	6,388,289,362
Net profit/(loss) recognised directly in equity:			
Exchange differences on translation of financial statements of foreign subsidiaries	23	1,822,306	4,675,212
Profit for the year		1,276,745,766	1,415,649,545
Total recognised income and expense for the year		1,278,568,072	1,420,324,757
Attributable to:			
Equity shareholders of the Company		1,272,400,931	1,369,365,065
Minority interests		6,167,141	50,959,692
		1,278,568,072	1,420,324,757
Dividends declared or approved during the year		-	(341,097,071)
Movement in equity arising from capital transactions:			
Shares issued upon conversion of convertible bonds	23	840,487,784	1,061,648,898
Shares issuing cost	23	(11,526,990)	(15,345,816)
Interest forfeited upon conversion of convertible bonds		4,561,997	958,774
Discount transferred to share premium upon conversion of convertible bonds	23	12,482,939	11,835,579
Redemption of convertible bonds	23	(97,968)	-
Dividend paid to minority shareholder of a subsidiary	24	(6,764,732)	(50,000,000)
Capital injections from minority shareholders of subsidiaries	24	490,046,932	12,281,000
Acquisition of subsidiaries	3	453,043,810	425,606,376
		1,782,233,772	1,446,984,811
Total equity at 30 June 2006 (2005: 31 December ,as restated)		11,975,303,703	8,914,501,859

Consolidated cash flow statement for the six months ended 30 June 2006

(Expressed in Renminbi Yuan)

	Note	*2006 Jan-Jun*	*2005 Jan-Jun (restated)*
Operating activities			
Profit before taxation		1,821,747,649	1,110,022,725
Adjustments for:			
Depreciation		73,242,001	24,348,992
Gain on disposal of property, plant and equipment		(39,428)	104,523
Write off of property, plant and equipment		-	32,641,902
Increase / (decrease) in provision for debts and doubtful debts		26,961,968	10,612,135
(Write back on provision)/provision for impairment of fixed assets		-	(18,712,028)
(Write back of provision) /Provision for completed properties for sales		-	(1,365,426)
Amortization of transaction cost of convertible bonds		1,436,507	-
Interest income		(24,569,977)	(16,436,665)
Interest expense		52,506,683	(32,662,188)
Dividend income		8,800	-
Share of profits less losses of associates		6,467,244	-
Share of losses of jointly controlled entities		(13,470,178)	-
Profit / (loss) on disposal of an associate		107,217,924	-
Operating profit before changes in working capital and provisions		**2,051,509,193**	**1,108,553,970**
Increase in amount due from associates		112,977,232	51,876,255
Increase in amounts due from jointly controlled entities		46,297,518	(72,958,751)
Increase in trade and other receivables		(1,131,990,150)	(343,428,378)
Increase in trade and other payables and other long term liabilities		(146,001,736)	(199,045,327)
Increase in inventories		(4,000,090)	2,650,102
Decrease/(increase) in properties under development		(899,874,315)	(542,093,139)
(Increase)/decrease in completed properties for sale		326,603,515	50,377,878
Operating profit before changes in working capital and provisions carried forward		**355,521,167**	**55,932,610**

Consolidated cash flow statement for the six months ended 30 June 2006 (continued)
(Expressed in Renminbi Yuan)

	Note	*2006 Jan-Jun*	*2005 Jan-Jun (restated)*
Operating profit before changes in working capital and provisions brought forward		**355,521,167**	**55,932,610**
(Increase)/decrease in properties held for development		(2,734,169,123)	(537,816,414)
Increase in provisions		-	(141,566)
Provisions used		696,955	-
Increase/(Decrease) in amounts due to associates		8,982,762	44,078,102
(Decrease)/increase in amounts due to jointly controlled entities		-	(87,894,535)
Decrease in other tax payable included in taxation		(59,361,112)	(102,907,545)
Cash generated from operations		**(2,428,329,351)**	**(628,749,348)**
Income taxes paid		(464,048,198)	(302,396,248)
Net cash from operating activities		**(2,892,377,549)**	**(931,145,596)**
Investing activities			
Proceed of capital injection from minority interests		490,046,932	20,356,456
Disposal of subsidiaries, net of cash acquired	4	(803,206)	-
Acquisition of subsidiaries, net of cash acquired	3	(953,636,194)	(326,641,391)
Acquisition of interests in associates		(596,363,213)	(195,175,395)
Acquisition of interests in jointly controlled entities		74,209,536	(19,584,085)
Deposits paid for acquisition of equity interests in certain unrelated entities		181,755,355.00	-
Proceeds from disposal of fixed assets		6,756,214	4,632,938
Proceeds from disposal of investment properties		8,845,270	-
Acquisition of property, plant and equipment		(68,327,892)	(19,328,605)
Acquisition of construction in progress		(23,002,787)	(7,567,274)
Interest received		24,569,977	16,436,665
Dividend received from other investments and an associate		(8,800)	-
Net cash used in investing activities		**(855,958,808)**	**(526,870,691)**

Consolidated cash flow statement for the six months ended 30 June 2006 (continued)

(Expressed in Renminbi Yuan)

	Note	*2006 Jan-Jun*	*2005 Jan-Jun (restated)*
Financing activities			
Interest paid		50,348,734	(76,176,417)
Net proceeds from/(repayment of) loans and borrowings		3,884,525,771	669,840,402
Cash refund for conversion of convertible bonds		(623,382)	-
Redemption of convertible bonds		(3,133,698)	-
Dividend paid to minority shareholder of a subsidiary		(6,764,732)	-
Dividend paid		-	(318,753,248)
Net cash (used in)/from financing activities		**3,924,352,693**	**274,910,737**
Net increase in cash and cash equivalents		**176,016,336**	**(1,183,105,550)**
Cash and cash equivalents at 1 January	21	**3,249,034,710**	**3,131,999,522**
Effect of foreign exchange rates		1,822,306	(348,216)
Cash and cash equivalents at 30 June	21	**3,426,873,352**	**1,948,545,756**

Notes to the financial statements

(Expressed in Renminbi Yuan)

1 Significant accounting policies

China Vanke Co., Ltd (the "Company") is a company domiciled in the People's Republic of China (the "PRC"). The consolidated financial statements of the Company for the year ended 30 June 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities. The consolidated financial statements of the Group were authorised for issue by the directors on 28 July 2006.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The consolidated financial statements are presented in Renminbi Yuan. They are prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital/paid-in capital or controls more than half of the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(d) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operated under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statements includes the Group's share of the post-acquisitions, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year (see notes 1(e) and (l)).

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment as well as when there are indications of impairment (see note 1(l)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in equity securities

The Group's policies for investments in equity securities, other than investment in subsidiaries, associates and jointly controlled entities are as follows:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(l)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Investment properties

Investment properties are land and buildings which are owned or held under a leasehold interest (see note 1(j)) either to earn rental income and/or for capital appreciation. Investment properties are stated at cost less accumulated depreciation and impairment losses (see note 1(l)). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Rental income from investment property is accounted for as described in note 1(x).

Depreciation is calculated to write off the cost of items of investment properties, less their estimated residual value of 4% of costs, using straight line method, after taking into account the estimated residual value of 4% of costs, over their estimated useful lives of 25 years.

(h) Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost less accumulated depreciation (see below) and impairment losses (see note 1(l)). The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(z)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follow:

	Year	*Estimated residual value as a percentage of costs*
Buildings	12.5 - 25	4%
Improvements to premises	5 years or over terms of leases	-
Plant and machinery	5 - 10	4%
Furniture, fixtures and equipment	5 - 10	4%
Motor vehicles	5	4%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Construction in progress

Construction in progress represents items of property, plant and equipment under construction and pending installation, and is stated at cost less impairment losses (see note 1(l)). Cost comprises cost of materials, direct labour, borrowing costs capitalised (see note 1(z)), and an appropriate proportion of production overheads incurred during the periods of construction and installation. Capitalisation of those costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress.

(j) Leased assets

(i) Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the exception that property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)).

(ii) Operating lease changes

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(k) Properties held for development

Properties held for development are stated at cost less impairment losses (see note 1(l)).

(l) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit of loss. A reversal of an impairment loss shall not result in the asset’s carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- investment properties;
- property, plant and equipment;
- construction in progress;
- interests in associates;
- interests in jointly controlled entities; and
- properties held for development.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Work in progress and manufactured finished goods are valued at production cost including direct production costs (cost of materials and labour) and an appropriate proportion of production overheads.

The cost of raw materials is computed using the weighted average cost method.

(n) Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to unsold properties, and an appropriate proportion of production overheads and borrowing costs. Net realisable value represents the estimated selling price less the estimated costs to be incurred in selling the properties.

(o) Properties under development

Properties under development held for sale are stated at the lower of cost and net realisable value. Cost includes cost of land use rights acquired, development costs and an appropriate proportion of production overheads and borrowing costs during the period of construction. Net realisable value represents the estimated selling price less the estimated costs of completion and the estimated costs to be incurred in selling the properties. On completion, the properties are transferred to completed properties for sales.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond 12 months from the balance sheet date.

(p) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter at amortised cost less impairment losses for bad and doubtful debts (see note 1(l)), except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(l)).

(q) Convertible bonds

Convertible bonds that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. At initial recognition the liability component of the convertible bonds is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible bonds reserve until either the bond is converted or redeemed.

If the bond is converted, the convertible bonds reserve, together with the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bonds reserve is released directly to retained profits.

(r) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss over the period of the borrowings on an effective interest method.

(s) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, and demand deposits with banks. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(u) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(v) Income tax

Income tax for the year comprises current tax and movements in deferred assets and liabilities. Current tax and movement in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

No temporary differences are recognised on the initial recognition of goodwill. In addition, the following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(w) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(x) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Revenue from the sale of completed properties is recognised when the significant risks and rewards of ownership have been transferred to the buyers. Deposits and instalments received on properties sold prior to the date of revenue recognised are included in the consolidated balance sheet under deposits received in advance.

(ii) Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to customers.

(iii) Revenue from services is recognised when services are rendered.

(iv) Rental income from investment properties is recognised on a straight-line basis over the terms of the respective leases. Lease incentives granted are recognised as an integral part of the total rental income.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(vi) Dividend income

Dividend income from other investments is recognised when the shareholder's right to receive payment is established.

The above revenue is net of the relevant taxes and is after the deduction of any trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(y) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi Yuan at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi Yuan at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(z) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(aa) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(bb)Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

2 Segment reporting

The Group's results for the six month ended 30 June 2006 were almost entirely attributable to the property development in the PRC. Accordingly, no segmental analysis is provided.

The revenue of the Group analysed according to the geographical location of business within the PRC are as follows:

The property development division mainly operates in Shenzhen, Tianjin, Beijing, Shanghai and Shenyang, Nangchang, Nangjing.

			Property sales	Property management	Rental	Total revenue
Shenzhen	2006	Jan.-Jun	2,347,203,869	14,186,795	5,651,934	2,367,042,598
	2005	Jan.-Jun	1,421,551,883	14,609,164	2,253,066	1,438,414,113
Shanghai	2006	Jan.-Jun	2,040,862,393	26,163,969	4,711,233	2,071,737,595
	2005	Jan.-Jun	1,443,236,053	19,977,271	5,501,840	1,468,715,164
Beijing	2006	Jan.-Jun	491,708,175	10,882,616	1,836,084	504,426,875
	2005	Jan.-Jun	416,937,335	15,988,113	121,035	433,046,483
Tianjin	2006	Jan.-Jun	467,717,792	6,600,573	521,634	474,839,999
	2005	Jan.-Jun	133,117,659	6,286,169	618,467	140,022,295
Shenyang	2006	Jan.-Jun	234,419,270	8,877,813	650,114	243,947,197
	2005	Jan.-Jun	127,322,524	7,372,359	693,180	135,388,063
Nanchang	2006	Jan.-Jun	155,329,151	190,449	-	155,519,600
	2005	Jan.-Jun	153,916,842	120,812	-	154,037,654
Nanjing	2006	Jan.-Jun	94,849,979	-	166,232	95,016,211
	2005	Jan.-Jun	35,051,524	-	73,671	35,125,195
Others	2006	Jan.-Jun	322,165,893	6,107,803	398,709	328,672,405
	2005	Jan.-Jun	286,002,695	14,087,112	1,057,523	301,147,330
Consolidated	2006	Jan.-Jun	6,154,256,522	73,010,018	13,935,940	6,241,202,480
	2005	Jan.-Jun	4,017,136,515	78,441,000	10,318,782	4,105,896,297

Segment revenue is based on the geographical location of the property development projects.

3 Acquisition of subsidiaries

(a)On 31 Jan. 2006, the group acquired 60% equity interest in Beijing Chaowan Real Estate Company Limited ("Chaowan Centre") for a consideration of 3.9 billion. Chaowan centre was founded on 1st December 2005, and which is principally engaged in property development. On 1st March 2006, the name of Chaowan Centre was changed to "Beijing Chaoyang Vanke Real Estate Company Limited".

(b)During the period under review, the Company acquired 51 per cent equity interests in Shenzhen Vanke East Coast Real Estate Development Co., Ltd for a consideration based on its net assets value as of 31 December 2005. The company is principally engaged in the development of Shenzhen East Coast Project.

(c)During the period under review, the Company acquired 54.2 per cent equity interests in World City International Inc. ("WCI", including the parent company and subsidiary — Shanghai Dongyuan Mansion Property Co., Ltd) for a consideration based on its net assets value as of the date of acquisition. The procedures for change in shareholding and share registration had been completed.

(d)During the period under review, the Company acquired 30 per cent equity interests in Fuhai Co., Ltd ("Fuhai") at an agreed price. Upon completion of the acquisition, the Company holds 100 per cent equity interests in Fuhai.

(e)During the period under review, the Company acquired 100 per cent equity interests in Shenzhen Langqi Yacht Club Company Limited ("Shenzhen Langqi") at an agreed price. Shenzhen

Langqi was established on 27 May 1998, with a registered capital of RMB57.10 million. It is principally engaged in the leasing of yachts and other tourism businesses.

(f)During the period under review, Shanghai Vanke Real Estate Group Co., Ltd ("Shanghai Real Estate"), a subsidiary of the Company, and Shanghai Minhang Real Estate (Group) Co., Ltd. ("Minhang Group") entered into an agreement on capital enlargement, pursuant to which Shanghai Real Estate will invest RMB9 million into the increased capital of Shanghai Jinchuan Property Development Co., Ltd. Upon the completion of the capital enlargement, Shanghai Real Estate will hold 90 per cent of Shanghai Jinchuan Property Development Co., Ltd, which was previously 100 per cent owned by Minhang Group.

(g)During the period under review, Shanghai Vanke Real Estate Group Co., Ltd ("Shanghai Real Estate"), a subsidiary of the Company, and Shanghai Minhang Real Estate (Group) Co., Ltd. ("Minhang Group") entered into an agreement on capital enlargement, pursuant to which Shanghai Real Estate will invest RMB9 million into the increased capital of Shanghai Jinhua Property Development Co., Ltd. Upon the completion of the capital enlargement, Shanghai Real Estate will hold 90 per cent of Shanghai Jinhua Property Development Co., Ltd, which was previously 100 per cent owned by Minhang Group.

4 Disposal of a subsidiary

On 23rd March 2006, the group disposed 100% equity interest in Shenzhen Vanke Film&Television Company Limited for a consideration of 7.8 million Yuan. Therefore, the company is not consolidated in the consolidation financial statement as at 30th June 2006.

Effect of the disposal on individual assets and liabilities of the Group:

	2006.6.30
	RMB
Cash and cash equivalents	3,211,697
Property, plant and equipment	73,805
Trade and other receivables	2,629,769
Trade and other payables	(37,957,836)
Net identifiable assets and liabilities	7,808,819
Gain on disposal of interest in a subsidiary	7,860,000
Consideration received, satisfied in cash	7,860,000

5 Other operating income

	2006 Jan.-Jun. RMB	2005 Jan.-Jun. RMB
Consultancy fee income	23,984,608	4,874,968
Commission income	8,210,393	-
Forfeited deposits from customers and compensation from customers	3,486,504	2,071,545
Gain on disposal of fixed assets	225,780	-
Other sundry income	9,446,237	7,392,265
	45,353,522	14,338,778
	=========	=========

6 Other operating expenses

	2006 Jan.-Jun. RMB	2005 Jan.-Jun. RMB
Penalties to government	307,546	-
Compensation to customers	1,364,945	-
Loss on disposal of an associate	-	287,500
Loss on disposal of fixed assets	176,852	104,523
Other sundry expenses	30,279,032	3,817,385
	32,128,375	4,209,408
	=========	=========

7 Net financing (expense)/income

	2006 Jan.-Jun. RMB	2005 Jan.-Jun. RMB
Interest income	24,552,377	(4,087,083)
Dividends	8,800	-
Financing income	24,561,177	(4,087,083)
	---------------	---------------
Interest expense and borrowing costs	177,745,048	2,404,630
Less：Interest capitalised	(127,396,313)	-
	50,348,735	2,404,630

Foreign exchange loss/(gain)	2,157,948	(990,351)
Financing expenses	52,506,683	1,414,279
	--------------	--------------
Net financing (expense)/income	(27,945,506)	(5,501,362)
	=========	=========

8 Taxation

(a) Taxation in the consolidated income statement comprises:

	2006 Jan.-Jun. RMB	*2005 Jan.-Jun. RMB*
PRC income tax for the year	545,396,590	291,824,870
Change in deferred taxes	(394,707)	404,089
	545,001,883	292,228,959
	==========	==========

The provision for PRC income tax is calculated based on the estimated taxable income at the rates applicable to each company in the Group.

The following is a reconciliation of income taxes calculated at the applicable tax rates with income tax expense:

	2006 Jan.-Jun. RMB	*2005 Jan.-Jun. RMB*
Profit before taxation	1,821,747,649	1,110,022,725
	==========	==========
National tax on profit before taxation calculated at the rates applicble to profits in the cities concerned	545,001,883	292,228,959
Income tax expense	545,001,883	292,228,959
	==========	==========

The tax rates applicable to the principal subsidiaries in the PRC range between 15% and 33%.

(b) Current taxation in the consolidated balance sheet represents:

	2006.6.30 RMB	*2005.12.31 RMB*
Brought forward balance of PRC income tax	127,863,837	144,287,998
Provision for PRC income tax for the year	580,628,080	542,755,949
PRC income tax paid	(464,048,198)	(559,180,110)
	244,443,719	127,863,837

(Prepaid)/Provision for PRC business tax and city construction tax	(214,133,877)	(95,928,130)
PRC value added tax recoverable	(296,055)	(130,013)
Other PRC taxation	(1,557,388)	11,685,963
	28,456,399	43,491,657
	==========	==========

9 Earnings per share

The calculation of basic earnings per share is based on the net profit for the period attributable to equity shareholders of the Company of RMB1,270,578,625 (the corresponding period of 2005: RMB799,653,880) and on the number of ordinary shares outstanding during the year of 3,969,898,751 shares (the correspongding period of 2005: 3,410,971,780 shares).

10 Dividend

Based on 2005 profit appropriation proposal, a cash dividend of RMB1.5 (including tax) will be paid for every 10 existing shares held. If on the registration day for entitlement to bonus shares and dividends, the Company's total share capital increases due to the conversion of the Company's convertible bonds to the Company's share, the amount of dividend entitled to each ordinary share will not change and the total amount of dividends paid for ordinary shares will increase accordingly. From the beginning of this year to 30 June 2006 (the registration day for entitlement to bonus shares and dividends), the conversion of the Company's convertible bonds resulted in the increase of 247,211,081 shares in the Company's share capital to 3,969,898,751 shares. As such, the total amount of cash dividends will be RMB595,484,813.

11 Property,plant and equipment

	Buildings RMB	*Improvements to premises RMB*	*Plant and machinery RMB*	*Furniture,fixtures and equipment RMB*	*Motor vehicles RMB*	*Total RMB*
Cost:						
At 1 January 2006	198,374,969	54,815,321	5,979,992	94,192,170	59,796,842	413,159,294
Additions	194,798,231	14,261,781	1,922,292	13,319,390	13,460,336	237,762,030
Disposals	(4,897,516)	(24,712,285)	(116,334)	(7,523,596)	(9,105,144)	(46,354,875)
At 30 June 2006	388,275,684	44,364,817	7,785,950	99,987,964	64,152,034	604,566,449
	---------------	---------------	------------	---------------	--------------	---------------
Aggregate depreciation and impairment losses:						
At 1 January 2006	50,413,168	46,081,557	3,987,252	57,136,410	37,566,018	195,184,405
Additions	38,683,262	12,317,014	200,130	10,341,521	9,618,012	71,159,939
Write back on disposals	(2,360,295)	(23,441,497)	(76,712)	(6,160,405)	(7,451,570)	(39,490,479)
At 30 June 2006	86,736,135	34,957,074	4,110,670	61,317,526	39,732,460	226,853,865

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Net book value:						
At 30 June 2006	301,539,549	9,407,743	3,675,280	38,670,438	24,419,574	377,712,584
	==========	==========	=========	==========	=========	==========
At 1 January 2006	147,961,801	8,733,764	1,992,740	37,055,760	22,230,824	217,974,889
	==========	==========	=========	==========	=========	==========

12 Investment properties

	2006.6.30	*2005.12.31*
	RMB	*RMB*
Cost:		
At 1 January	167,896,721	206,486,260
Addition	14,071,718	-
Disposals	(22,916,988)	(38,589,539)
At 30 June	159,051,451	167,896,721
	------------	------------
Accumulated depreciation and impairment loss		
At 1 January	76,876,596	69,496,249
Charge for the year	3,377,534	7,286,610
Provision for impairment loss	-	10,753,203
Written back on dis	(1,295,472)	(10,659,466)
At 30 June	78,958,658	76,876,596
	------------------	------------------
Net book value		
At 30 June	80,092,793	91,020,125
	===========	===========

13 Construction in progress

	2006.6.30	*2005.12.31*
	RMB	*RMB*
Balance at 1 January	19,699,697	-
Additions druing the year	23,002,787	19,699,697
Decrease during the year	-	-
Balance at the end of period	42,702,484	19,699,697
	===========	===========

14 Principal subsidiaries

Details of principal subsidiaries at 30 June 2006 are as follows:

Name of company	*Percentage of equity held by the Group 2006.6.30*	*2005.12.31*	*Principal activities*
Shenzhen Vanke Real Estate Company Limited	100%	100%	Property Development
Shenzhen Vanke Property Company Limited	100%	100%	Property Development
Shenzhen Vanke Xizhigu Real Estate Company Limited	60%	60%	Property Development
Shenzhen Vanke Nancheng Real Estate Company Limited	90%	90%	Property Development
Shenzhen Vanke Property Management Company Limited	100%	100%	Property Management
Shenzhen Vanke Financial Consultancy Company Limited	100%	100%	Investment trading and
Shenzhen Vanke East Coast Company Limited	100%	74.50%	Property Development
Shenzhen Vanke Fifth Garden Company Limited	100%	100%	Property Development
Zhongshan Vanke Real Estate Company Limited	100%	100%	Property Development
Foshan Vanke Real Estate Company Limited	100%	100%	Property Development
Guangzhou Vanke Real Estate Company Limited	100%	100%	Property Development
Guangzhou Vanke Property Company Limited	100%	100%	Property Development
Dongguan Vanke Real Estate Company Limited	100%	100%	Property Development

Foshan Vanke Property Company Limited	100%	100%	Property Development
Top Glory International Property (Guangzhou) Company Limited	70%	70%	Property Development
Huizhou Vanke Real Estate Company Limited	100%	100%	Property Development
Shanghai Vanke Rancho Property Company Limited	100%	100%	Property Development
Shanghai Vanke Real Estate Company Limited	100%	100%	Property Development
Shanghai Vanke Real Estate Group (formerly "Shanghai Vanke City Garden Property Development Company Limited")	100%	100%	Property Development
Shanghai Vanke Xuhui Property Company Limited	100%	100%	Property Development
Shanghai Vanke Zhongshi Property Company Limited	50%	50%	Property Development
Shanghai Huaou Real Estate Company Limited	100%	100%	Property Development
Shanghai Vanke Pudong Property Company Limited	100%	100%	Property Development
Shanghai Vanke Baoshan Property Company Limited	100%	100%	Property Development
Shanghai Nandu Land Company Limited	70%	70%	Property Development
Shanghai Blue Mountain Property Company Limited	100%	100%	Property Development
Shanghai Vanke Baonan Property Co., Ltd	100%	-	Property Development

Hangzhou Vanke Property Co., Ltd,	100%	-	Property Development
Wuxi Vanke Real Estate Company Limited	100%	100%	Property Development
Kunshan Jiahua Investment Company Limited	85%	85%	Property Development
Beijing Vanke Haikai Real Estate Development Company Limited	100%	100%	Property Development
Beijing Vanke Enterprises Shareholding Company Limited	100%	100%	Property Development
Beijing COFCO Vanke Holiday Town Real Estate Development Co., Ltd	50%	-	Property Development
Beijing Chaoyang Vanke Property Development Co., Ltd.	60%	-	Property Development
Tianjin Vanke Real Estate Company Limited	100%	100%	Property Development
Tianjin Vanke Shine Development Company Limited	100%	100%	Property Development
Tianjin Wantai Fashion Co., Ltd	90%	-	Property Development
Tianjin Vanke Xinhu Property Co., Ltd	100%	-	Property Development
Tianjin Vanke Xinrui Real Estate Co., Ltd	50%	-	Property Development
Shenyang Vanke Real Estate Company Limited	100%	100%	Property Development
Shenyang Vanke Wonderland Company Limited	100%	100%	Property Development
Shenyang Vanke Metropolitan Company Limited	100%	100%	Property Development

Shenyang Vanke Hunnan Real Estate Company Limited	100%	100%	Property Development
Dalian Vanke Property Development Company Limited	100%	100%	Property Development
Dalian Vanke Jinxiu Flower City Development Company Limited	100%	100%	Property Development
Changchun Vanke Real Estate Company Limited	100%	100%	Property Development
Anshan Vanke Property Development Company Limited	100%	100%	Property Development
Chengdu Vanke Real Estate Company Limited	100%	100%	Property Development
Chengdu Vanke Property Development Company Limited	60%	60%	Property Development
Wuhan Vanke Tiancheng Real Estate Co., Ltd	55%	-	Property Development

All the above companies' country of establishment and operations is the PRC.

15 Interests in associates

Details of associates at 30 June 2006 are as follows:

	Percentage of interest held by the Group		
Name of company	*2006.6.30*	*2005.12.31*	*Principal activities*
Shanghai Vansheng Real Estate Company Limited	50%	50%	Property Management
Beihai Vanda Real Estate Company Limited	40%	40%	Property development
Dongguan Vanke Property Company Limited	44%	44%	Property development
Suzhou Nandu Jianwu Co., Ltd.	49%	49%	Property development
Zhejiang Nandu Property Group Co., Ltd.	20%	20%	Property development

Shenzhen Vanke City Real Estate Company Limited	44%	44%	Property development
Beijing East New City Real Estate Company Limited	50%	-	Property development

16 Interests in jointly controlled entities

Details of the Group's interests in jointly controlled entities at 30 June 2006 are as follows:

	Percentage of interest held by the Group		
Name of company	*2006.6.30*	*2005.12.31*	*Principal activities*
Tianjin Xinhai Real Estate Development Company Limited	55%	55%	Property development
Shanghai Qingchen Real Estate Company Limited	-	35.70%	Property development
Dongguan Songshanju Property Company Limited	60%	39.6%	Property development
Shenyang Vanke Yongda Real Estate Company Limited	49%	49%	Property development

17 Other investments

	2006.6.30	*2005.12.31*
Non-current investment		
Equity securities, at cost less impairment loss of RMB8,460,000(2005：RMB7,860,000)	60,459,667	39,407,447
	=========	=========

18 Deferred tax assets

Deferred tax assets at 30 June 2006 and 31 Decembe 2005 are attributable to the items detailed as follows:

	2006.6.30 RMB	*2005.12.31* RMB
Deferred tax assets:		
Tax losses	26,045,679	2,990,393
Accounting depreciation in excess of tax depreciation	-	732,226
Impairment loss of trade and other receivable	-	3,550,182
Provision for diminution in value properties	-	11,895,293
Impairment loss of investmen properties	-	6,482,878
Total deferred tax assets	26,045,679	25,650,972
	=========	=========

Movements in net deferred tax assets/(liabilities):

	2006.6.30	*2005.12.31*
	RMB	RMB
At 1 January	25,650,972	7,882,030
Transferred to consolidated income statement	394,707	17,768,942
Transferred to reserves	-	-
At end of period	26,045,679	25,650,972
	=========	=========

19 Inventories

	2006.6.30	*2005.12.31*
	RMB	RMB
Raw materials	2,140,452	1,945,000
Work in progress	-	22,877,340
Finished goods	33,501,614	16,698,258
	35,642,066	41,520,598
	=========	=========

20 Trade and other receivables

	2006.6.30	*2005.12.31*
	RMB	RMB
Debtors, prepayments and other receivables	2,479,202,387	1,296,498,228
Amounts due from associates	241,988,194	123,689,390
Amounts due from jointly controlled entities	104,864,993	367,552,956
	2,826,055,574	1,787,740,574
	============	============

The Group's credit policy is set out in note 31(b).

21 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks. The balance includes deposits with banks of RMB26,037,562 (2005: RMB19,201,125) with specific use.

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currencies of subsidiaries to which they relate:

	2006.6.30		2005.12.31	
United States Dollars	USD	16,485,310	USD	9,356,116

Hong Kong Dollars	HKD	139,898,956	HKD	15,361,346
Japanese Yen	YEN	2,001	YEN	3,751
Euro	EUR	654	EUR	1,268
Australian Dollars	AUD	3,186	AUD	3,186

22 Share capital

Registered, issued and fully paid up capital consist of A and B shares of RMB1 each. The holders of A and B shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

	A share		***B share***		***Total***	
	2006.6.30	*2005.12.31*	*2006.6.30*	*2005.12.31*	*2006.6.30*	*2005.21.31*
At 1 January	3,174,789,558	1,908,362,463	547,898,112	365,265,408	3,722,687,670	2,273,627,871
Issued upon conversion of convertible bonds	247,211,081	312,069,562	-	-	247,211,081	312,069,562
Issued out of share premium	-	954,357,533	-	182,632,704	-	1,136,990,237
At the end of period	3,422,000,639	3,174,789,558	547,898,112	547,898,112	3,969,898,751	3,722,687,670
	==========	==========	=========	=========	==========	==========

During the year, 247,211,081 (2005: 312,069,562) A shares were issued on the conversion of convertible bonds with total carrying value of RMB877,599,338 (2005: RMB1,108,527,469) made up as follows:

	2006.6.30 RMB	2005.12.31 RMB
Liability compenent	37,112,816	1,061,651,229
Equity component	840,487,784	46,878,571
Cash refund to bondholders	(1,262)	(2,331)
	877,599,338	1,108,527,469
	==========	==========
Represented by：		
Share capital	247,211,081	312,069,562
Share premium	630,388,257	796,457,907
	877,599,338	1,108,527,469
	==========	==========

23 Reserves

	Share premium	*Foreign Exchang reserve*	*Statutory reserves*	*Convertible bonds reserve*	*Retained profits*	*Total*
	RMB	RMB	RMB	RMB	RMB	RMB
	(note (a))		(note (b))	(note (c))	(note (d))	
At 1 January 2005	1,446,570,637	10,629,373	2,052,153,824	82,842,331	420,216,571	4,012,412,736
Profit for the year	-	-	-	-	1,364,689,853	1,364,689,853
Shares issued out of the share premium in the ratio 10:5	(1,136,990,237)	-	-	-	-	(1,136,990,237)
Adjustment on translation of foreign subsidiaries	-	4,675,212	-	-	-	4,675,212
Proposed transfer from retained profits	-		810,217,690	-	(810,217,690)	-
Shares issued upon conversion of convertible bonds	796,457,907	-	-	(46,878,571)	-	749,579,336
Share issuing cost	(16,220,076)	-	-	874,260	-	(15,345,816)
Interest forfeited upon conversion of convertible bonds	958,774	-	-	-	-	958,774
Discount transferred to share premium upon conversion of convertible bonds	11,835,579	-	-	-	-	11,835,579
Dividend paid – 2004	-	-	-	-	(341,097,071)	(341,097,071)
At 31 December 2005	1,102,612,584	15,304,585	2,862,371,514	36,838,020	633,591,663	4,650,718,366
	==========	========	===========	========	==========	===========
At 1 January 2006	1,102,612,584	15,304,585	2,862,371,514	36,838,020	633,591,663	4,650,718,366
Profit for the year	-	-	-	-	1,270,578,625	1,270,578,625
Received from minorties	161,139	-	-	-	-	161,139
Adjustment on translation of foreign subsidiaries	-	1,822,306	-	-	-	1,822,306
Shares issued upon conversion of convertible bonds (note 22)	630,388,257	-	-	(36,949,174)	-	593,439,083
Redemption of convertible bonds	-	-	-	(97,968)	-	(97,968)
Share issuing cost	(12,542,643)	-	-	692,134	-	(11,850,509)
Interest forfeited upon conversion of convertible bonds	4,561,997	-	-	-	-	4,561,997

Discount transferred to share premium upon conversion of convertible bonds	12,482,939	-	-	-	-	12,482,939
At 30 June 2006	1,737,664,273	17,126,891	2,862,371,514	483,012	1,904,170,288	6,521,815,978
	==========	========	===========	========	==========	===========

Notes:

(a) Share premium

In the year 2004, the Company issued additional shares out of the share premium in the ratio 10:5 to all shareholders. After taking into account of the conversion of convertible bonds up to the date of capitalisation issue, a total of 1,136,990,237 shares with a par value of RMB1 each were issued in addition to the total share capital of 2,273,980,474 shares as at 28 June 2005.During this year,RMB630,388,257 is due to shares issued upon conversion of convertible bonds.

(b) Statutory reserves

Statutory reserves include the following items:

(i) Statutory surplus reserve

According to the PRC Company Law, the Company is required to transfer 10% of its profit after taxation, as determined under PRC Accounting Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

(ii) Statutory public welfare fund

In prior years, according to the PRC Company Law, the Company was required to transfer 5% to 10% of its profit after taxation, as determined under PRC Accounting Regulations, to the statutory public welfare fund. This fund could only be utilised on capital items for the collective benefits of the Group's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund was non-distributable other than in liquidation. The transfer to this reserve must be made before distribution of a dividend to shareholders. During the year, after the amendment of the PRC Company Law, the company was not required to transfer profit after taxation to the statutory public welfare fund. The directors did not recommend any transfer of profit to the statutory public welfare fund during the year.

(iii) Discretionary surplus reserve

The transfer to this reserve from the consolidated income statement and its usage are subject to the approval of shareholders at general meetings.

(c) Convertible bonds reserve

Convertible bonds reserve comprises the value of option granted to bondholders to convert their convertible bonds into A shares of the Company (see note 26).

(d) Retained profits

According to the PRC Company Law, the reserve available for distribution is the lower of the amount determined under PRC Accounting Regulations and the amount determined under IFRS.

24 Minority interests

	2006.6.30	*2005.12.31*
	RMB	*RMB*
At 1 January	541,095,823	102,248,755
Profit attributable to minority interests for the year	6,167,141	50,959,692
Capital injection	490,046,932	12,281,000
Dividend paid to minority interests	(6,764,732)	(50,000,000)
Acquisition of subsidiaries	453,043,810	425,606,376
	1,483,588,974	541,095,823

25 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign exchange risk, please refer to note 31.

	2006.6.30	*2005.12.31*
	RMB	*RMB*
Non-current		
Secured bank loans	314,268,451	435,123,480
Unsecured		
- bank loans	2,544,999,600	359,765,700
- other borrowing	607,660,000	386,393,533
	3,466,928,051	1,181,282,713

	2006.6.30	*2005.12.31*
	RMB	*RMB*
Other borrowing represents:		
Proceeds	607,660,000	400,000,000
Transaction costs	-	(13,606,467)
	607,660,000	386,393,533
	==========	==========

	2006.6.30	*2005.12.31*
	RMB	RMB
Current		
Unsecured		
- bank loans	1,992,756,000	900,000,000
- current portion of long term bank loans	867,540,000	284,030,000
- current portion of long term other borrowing	728,704,433	378,950,000
	3,589,000,433	1,562,980,000
	==========	==========

	2006.6.30	*2005.12.31*
	RMB	RMB
Other borrowing represents:		
Proceeds	730,000,000	378,950,000
Transaction costs	(1,295,567)	-
	728,704,433	378,950,000
	==========	==========

The secured bank loans of RMB314,268,451 as at 30 June 2006 (2005: RMB435,123,480) are secured over certain properties held for development and properties under development with aggregate carrying value of RMB469 million (2005: RMB1,135 million).

26 Convertible bonds

	2006.6.30	*2005.12.31*	
	Convertible bonds issued in 2004	*Convertible bonds issued in 2004*	*Convertible bonds issued in 2004*
	RMB	RMB	RMB
Proceeds from issue of 15,000,000 convertible bonds of RMB100 each		-	-
Proceeds from issue of 19,900,000 convertible bonds of RMB 100 each	1,990,000,000	1,990,000,000	1,990,000,000
Transaction costs	(37,112,421)	(37,112,421)	(37,112,421)

Net proceeds	1,952,887,579	1,952,887,579	1,952,887,579
Amount classified as equity	(82,585,582)	(82,585,582)	(82,585,582)
Conversion into A shares	(1,902,139,013)	(1,061,651,229)	-
Redemption of convertible bonds	(3,705,959)	-	-
Discount released to share premium upon Conversion	(24,318,518)	(11,835,579)	-
Transaction costs released to share premium upon conversion	26,508,530	15,345,816	-
Discount on convertible bonds amortised	24,318,518	23,284,839	5,756,293
Transaction costs amortised	9,034,445	8,059,355	1,777,149
Carry value of liability at 31 December	-	843,505,199	1,877,835,439
	===========	===========	===========

On 24 September 2004, the Company issued convertible bonds (the "2004 Bonds") amounting to RMB1,990,000,000. The 2004 Bonds are listed on the Shenzhen Stock Exchange (the "Stock Exchange") and are guaranteed by the Agricultural Bank of China Shenzhen branch. Each 2004 Bond will, at the option of the holder, be convertible from 24 March 2005 to 24 September 2009 into A shares with a par value of RMB1 each of the Company ("A Shares") at a conversion price of RMB5.48 per share. The conversion price of the 2004 Bonds will be adjusted accordingly if the Company distribute bonus issues, dividends, right issues and increase the share capital (not including the share issue upon conversion of the 2004 Bonds) which lead to change in equity of the Company. On 29 June 2005, the conversion price was adjusted to RMB3.55 per share upon distribution of dividends and additional ordinary shares issued out of share premium in the ratio 10:5.

The 2004 Bonds are interest bearing at a rate of 1%, 1.375%, 1.75%, 2.125% and 2.5% per annum payable in arrears on 24 September 2005, 2006, 2007, 2008 and 2009 respectively.

The Company will redeem all the unconverted 2004 Bonds after 5 working days of the expiry date at a price of 107% of the par value, which includes the accrued interest for the year ending 24 September 2009.

The Board of Directors of the Company can lower the conversion price of the 2004 Bonds by not more than 20% if the closing price of the Company's A shares on the Stock Exchange is lower than 70% of the conversion price for 20 consecutive dealing days.

The Company may redeem in whole or in part the 2004 Bonds from 6 months after 24 September 2004 if the closing price of the Company's A shares on the Stock Exchange is at least 130% of the conversion price for 20 consecutive dealing days. The redemption prices will be par value plus accrued interest for the respective year.

From 4 January 2006 to 21 February 2006, the closing prices of the Company's A shares on the Stock Exchange were over 130% of the conversion price of RMB3.55 per share for 28 consecutive days. The Company decided to exercise the right to redeem the convertible bonds outstanding in whole. The redemption date is 7 April 2006 and the redemption price is 101.375% of the par value.On 14 April 2006,the convertible bonds was de-listed.

27 Other long term liabilities

Other long term liabilities represent consideration payable in connection with acquisition of subsidiaries(Dong Tai Industrial Company Limited) and is due for settlement by instalments throughout the period to 2008 pursuant to the relevant agreements.

28 Trade and other payables

	2006.6.30	*2005.12.31*
	RMB	RMB
Accounts payable – trade	3,836,619,055	3,318,835,002
Bills payable	-	3,781,990
Amounts due to associates	30,524,785	15,261,942
Deposits received in advance	4,972,140,378	4,664,152,791
Other payables and accrued expenses	1,078,137,110	1,254,473,969
	9,917,421,328	9,256,505,694
	===========	===========

All of the trade and other payables are expected to be settled within one year.

29 Provisions

Compensation to customers	2006.6.30 RMB	2005.12.31 RMB
Balance at 1 January	23,979,011	141,566
Provisions (reversed) /made during the year	1,080,137	23,979,011
Provisions used during the year	(383,182)	(141,566)
Balance at end of period	24,675,966	23,979,011
	=========	=========

Compensation to customers

The compensation to customers had been paid in relation to the quality problems found in properties constructed by the Group in Tianjin,Beijing,Shenzhen.

30 Capital commitments and contingent liabilities

(a) Capital commitments

Capital commitments outstanding at 30 June2006 not provided for in the financial statements were3,268 billion(included contracted and authorised but not contracted).

(b) Contingent liabilities

As at 30 June 2006, there were contingent liabilities in respect of guarantees given by the Group to banks to secure the mortgage arrangement of property buyers. The outstanding guarantees to the banks amounted to RMB5,920 million (2005: RMB6,748 million), including guarantees of RMB4,640 million (2005: RMB4,930 million) which will be terminated upon the completion of the transfer procedures with the buyers in respect of the legal title of the properties, and guarantees of RMB1,281 million (2005: RMB1,818 million) which will be terminated upon full repayment of mortgage loans by buyers to the banks.

31 Financial instruments

Exposure to interest rate, credit, liquidity and currency risks arises in the normal course of the Group's business. The risks are limited by the Group's financial management policies and practices described below.

(a) Interest rate risk

The interest rates and terms of repayment of bank loans and other borrowings of the Group are disclosed in note 25 to the financial statements. The interest rates and terms of the convertible bonds are disclosed in note 26 to the financial statements.

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, credit risk is minimised as the Group normally receives full payment from buyers before transfer of property legal title.

In respect of other receivables, the Group chases the debtors to settle outstanding balances and monitors the settlement progress on an ongoing basis. Normally, the Group does not obtain collateral from debtors. The impairment losses on bad and doubtful accounts are within management's expectation.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms.

(d) Foreign exchange risk

The Group is exposed to foreign currency risk primarily borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily US dollars and HK dollars.

Substantially all the Group's cash flows are denominated in RMB. Apart from the US dollar and HK dollar denominated trade and other receivables, cash and cash equivalents, bank loans and trade and other payables as disclosed in notes 20, 21, 25 and 28 to the financial statements respectively, the Group has no material balance sheet exposure in respect of the subsidiaries' net monetary assets denominated in foreign currencies.

(e) Fair value

The fair values of cash and cash equivalents, trade and other receivables, trade and other payables and bank loans and other borrowings are not materially different from their carrying amounts.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(f) Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in interest rates would have an impact on consolidated earnings.

32 New standards and interpretations from the accounting period at 1 January 2006

	Effective for accounting periods beginning on or after
IFRS 6, Exploration for and evaluation of mineral resources	1 January 2006
IFRIC 4, Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies	1 March 2006
IFRIC 8, Scope of IFRS 2	1 May 2006
Amendments to IAS 19, Employee benefits - Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006

Amendments to IAS 39, Financial instruments: Recognition and measurement:	
- Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
- The fair value option	1 January 2006
- Financial guarantee contracts	1 January 2006
IFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to IAS 1, Presentation of financial statements: capital disclosures	1 January 2007

Net Impact of IFRS Adjustments on the Results and Net Assets for the six months ended 30 June 2006
(Expressed in Renminbi Yuan)

	Net profit for the year ended 30-Jun-06 2006 RMB	*Net assets as at 30-Jun-06 2006* RMB
As determined pursuant to PRC accounting regulations	1,220,795,888	10,402,888,162
Adjustments to align with IFRS:		
Recognition and amortisation of negative goodwill	(389,342)	2,589,558
Recognition and amortisation of goodwill	52,158,069	60,599,852
Deferred tax assets	394,707	26,045,679
Revaluation of properties	273,527	(16,489,318)
Capitalised borrowing costs released to cost of sales	(2,654,224)	(46,914,259)
Transaction costs released to share premium upon conversion of convertible bonds	-	(1,868,169)
Discount released to share premium upon conversion of convertible bonds	-	64,380,212
Discount on convertible bonds	-	483,012
As restated in conformity with IFRS	1,270,578,625	10,491,714,729
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