Management Discussion and Analysis

Mr. Tang Jun
President

Developing markets in cities outside Beijing is the Group's strategy of becoming the premium integrated property operator in China. In addition, this will enable the Group to rapidly expand operation scale and promote its brand name. The Group will capitalise on the different stages in development cycles to effectively allocate resources and diverse operational risk, so as to balance the property portfolio and development progress as well as creating stable and growing returns to shareholders and investors.

Business Environment

Overview of the PRC Property Market

- China's economy maintained robust growth in 2005

  In 2005, Gross Domestic Product ("GDP") of the PRC reached RMB18.23 trillion, representing a surge of 9.9% over the previous year and remained as one of the fastest growing economy around the world. The per capita disposable income of residents in cities and towns recorded a growth of 9.6% while saving deposit of residents grew at a rate of 16.5% to RMB14.7 trillion, indicating that residents' income grew in line with the economy. With residents' affordability increased rapidly, the demand for new quality properties and improvement in residential properties increased gradually (Sources: National Bureau of Statistics of China).

- Chinese property market achieved soft-landing in 2005, entering the stage of stable development

  In 2005, the PRC Government further tightened the implementation of macroeconomic measures. In 2004, the Government introduced a series of measures to control land approval and loan grant to restrain the overheating property market. On such basis, the PRC Government further executed a number of austerity measures in 2005, including the imposition of property tax, adjustment in mortgage rate, restriction of commodity housing transfer and property purchase under possessors' name as well as the control of redevelopment scale. These measures effectively controlled property speculation while boosting the purchasing demand for self-owned property. According to the statistics from the National Bureau of Statistics of China, the investment for property development in the PRC amounted to RMB1,575.9 billion in 2005, representing a year-on-year growth of 19.8%, which was 8.3 percentage points lower than that of 2004. Property selling prices of 70 medium to large cities increased by 7.6%, representing a reduction of 6.8 percentage points in its growth rate over that of the last year. Following the elimination of imbalance between supply and demand, the property market of the PRC has achieved soft-landing. Currently, demand and supply became more balanced and the market development became healthier and more stable in the long run.

Show Flat of A-Z Town

- Future growth in property supply was still lower than that of property demand

  Driven by the increasing demand for self-owned properties in 2005, market transaction surged substantially in 2005. According to the statistics from National Bureau of Statistics of China, the sales of commodity residential housing amounted to RMB18,080 trillion, representing a year-on-year growth of 74% with its growth rate increased by 34 percentage points over 2004. The data demonstrated strong market demand, which was mainly attributable to rapid increase in residents' income, accelerating urbanisation and the increasing trend for baby boomers of the 70's purchasing properties. Nevertheless, the stringent control on property loan grant narrowed the financing channels of numerous small to medium sized property developers, which in turn affected the scale of recently completed properties. Furthermore, according to the Ministry of Land and Resources, land supply for property development reduced by 20.2% over 2004, which imply that property will be in short supply in the future. Based on the future structure of market demand and supply, the Group believes that demand growth will outpace supply growth. As such, the Group will endeavor to capture this favourable opportunity to proactively implement the strategy of "tapping into markets outside Beijing and extending business across the nation".

Overview of the Beijing Property Market

- In 2005, Beijing's economy sustained rapid growth

  The GDP of Beijing was RMB681.45 billion, approaching RMB700 billion, representing a year-on-year growth of 11.1% and the growth rate was also 1.2 percentage points higher than the national standard of 9.9%. The disposable income per capita of residents in urban area was RMB17,653, representing a growth of 11.2% after deducting the commodity inflation. The above figures showed that residents' income grew in line with the economy (Source: Beijing Municipal Bureau of Statistics).

- In 2005, over demand for residential properties in Beijing led to a steady increase in absorption rate and a significant rise in property price.

Management meeting

In 2005, total transaction areas of Beijing residential properties amounted to 40.792 million sq. m., of which transaction areas of pre-sold residential properties, completed residential properties and secondary residential properties accounted for 53%, 30% and 17% respectively. Owing to the change in methods of land transaction in 2004, together with the stringent control of land approval and loan grant, the supply for pre-sold residential properties in Beijing dropped substantially in 2005. Approved pre-sold areas of residential properties amounted to 22.05 million sq. m., representing a 23% decrease over 2004. Nevertheless, the transaction of pre-sold area in 2005 did not decrease in line with approved pre-sold areas, which only dropped by 18.7%, reaching 21.52 million sq. m. Therefore, absorption rate of pre-sold residential properties was maintained at a high level of 97.6%, 5.1 percentage points higher than that of 2004. The supply shortage and rising proportion of mid to high-end properties increased the average pre-sold price of Beijing residential properties to RMB6,725/sq. m., a 19.2% or RMB1,083/sq. m. increase when compared with that in 2004. While the transaction areas for completed residential properties in 2005 amounted to 12.147 million sq. m., which represented a 20.2% increase over 2004, the transaction areas for second hand residential properties also increased 19.9% over the previous year to 7.125 million sq. m.. Currently, self-owned properties accounted for 83% of total purchasing demand (source: Financial Report on the Property Industry by The People's Bank of China). The implementation of austerity measures, with the view of restraining speculative demand, only brought forth short-term impact to the Beijing's residential property market and has no impact on its long-term growth trend (Sources: joint announcement of Beijing Construction Committee, Beijing Municipal Bureau of Statistics, The Beijing Ministry of Land and Beijing Development and Reform Commission).

- Based on the leading indicators of residential property development, the future supply of residential property in Beijing will remain tight

Area of newly-constructed residential properties in Beijing amounted to 19.832 million sq. m. in 2005, a further reduction of 10.1% following the 11.8% decrease in 2004. In 2005, Beijing sold 585 hectares of residential land with planned construction areas of 6.79 million sq. m., which was only 20% of the total transaction areas or 33.667 million sq. m., of pre-sold and completed residential properties of the same period. According to the abovementioned leading indicators of residential property development, future supply of residential properties will remain tight with residential property price maintained stable growth, benefiting the Group's four recently launched residential properties in Beijing (Sources: joint announcement of Beijing Construction Committee, Beijing Municipal Bureau of Statistics, The Beijing Ministry of Land and Beijing Development and Reform Commission).

Artist's impression of A-Z Town

Overview of the Tianjin Property Market

As the New Binhai District of Tianjin was identified as the third key development region by the State Council, following the Shenzhen Special Administrative Region and Shanghai Pudong Development Zone, the Bohai Bay Economic Circle with Beijing and Tianjin as the center, embracing enormous development opportunities. The infrastructure facilities and the urban landscape in Tianjin will be significantly enhanced with the completion of the sea-river development and upgrading, of which the total investment amounted to RMB180 billion, the Tianjin Railway with nine railways, of which the total investment amounted to RMB56 billion as well as the Tianjin Expressway, of which the total investment amounted to RMB17.3 billion. In addition, the connection between Beijing-Tianjin Express Railway and the second Beijing-Tianjin Highway accelerated the unification of Beijing and Tianjin, which is poised to become the third growth engine propelling the economic development of China, after Guangzhou-Shenzhen urban ring, Shanghai-Nanjing-Hangzhou urban ring.

In view of the rapid implementation of national development strategy in the abovementioned Beijing-Tianjin Bohai Bay Economic Circle, the economy and the property market of Tianjin entered into a stage of long-term rapid development. In 2005, the GDP of Tianjin reached RMB366.4 billion, representing a year-on-year growth of 14.5% and the 10th consecutive quarters with GDP growth over 14%. During the year, per capita disposable income in Tianjin reached RMB12,639, posting a growth of 10.2%. Per capita salary amounted to RMB23,929, an increase of 13.2%. Saving deposit of residents grew by 14.3% which was in line with the economic growth. Sales area of commodity residential housing in Tianjin totaled 9,380,200 sq. m., representing a 10.7% increase and recognised a significant growth of 39.3% in sales revenue to RMB36.756 billion. Average selling price of commodity housing increased by 6.3%, which demonstrated a healthy development trend of the Tianjin property market (Source: Tianjin Municipal Government).

Overview of the Taiyuan Property Market

Taiyuan, the capital city of Shanxi Province and one of the largest provinces of energy generation, achieved remarkable progress in urban development by leveraging on its rapid growth in the energy sector. During the period from 2001 to 2005, Taiyuan continuously posted growth in GDP, which increased by RMB50 billion with a compound annual growth rate of approximately 14%. In 2005, the GDP of Taiyuan reached RMB89.55 billion, representing a year-on-year growth of 14.7%. Per capital disposable income in Taiyuan during the year amounted to RMB10,476, posting a rise of 12%. Meanwhile, retail sales of social consumer goods increased by 15% to a total of RMB38.4 billion, which was the highest growth

Vancouver Forest

among all provincial cities in the PRC. Saving deposit of residents surged by about 26% to reach nearly RMB30,000 when compared with that of the beginning of the year, ranked top among cities in the PRC in terms of amount and growth rate, indicating the escalating consumption power of the residents in Taiyuan as well as the increasing demand for residential properties. In 2005, the average selling price of residential properties in Taiyuan was RMB3,327 per sq. m., representing a year-on-year growth of approximately 8% (Source: Shanxi Bureau of Statistics).

Overview of the Wuxi Property Market

Wuxi, located at the center of the burgeoning Yangtzi River Delta region, is the core city of the Suzhou-Wuxi-Changzhou urban ring and the core district of the Shanghai-Nanjing-Hangzhou metropolitan ring. In 2005, the GDP of Wuxi amounted to RMB280.5 billion, representing a year-on-year growth of 15%. Its GDP ranked the 9th among cities in the PRC. During the year, per capita disposable income for residents in cities and towns increased by 17.8% to RMB16,005. Saving deposit of residents also grew by approximately 18% to RMB32,056 when compared with that of the beginning of the year. The flourishing economy and the steadily increasing consumption power have become the growth momentum of the Wuxi property market. For the year of 2005, sales of commodity housing in Wuxi reached RMB12.9 billion, posting an impressive growth of 24% over that of the previous year. The average selling price of residential properties as at the end of 2005 was RMB3,667 per sq. m., representing a rise of approximately 10% (Source: Wuxi Bureau of Statistics, Housing Index of the Wuxi Property Market).

Business Review

During the year under review, the delay in construction of some of the development projects resulting from the implementation of austerity measures in 2004, coupled with the change in accounting policy in 2005, significantly affected the Group's operating performance in the first half of 2005. However, the Group successfully overcame the unfavorable condition by adjusting its operating strategies in a timely manner in the second half of the year, fully exploring and identifying potentials of its existing projects, accelerating the construction pace of new projects in Beijing while expanding into the land development business which effectively increased its revenue source and mitigated the influence of the reduction in sales revenue during the first half of 2005. Meanwhile, the Group also proactively tapped into markets outside Beijing. As such, the Group is capable of propelling robust and healthy business development.

The cultural exchange activities organised by the Group for the real estate industry

As at 31st March 2006, the Group achieved the following breakthroughs in different aspects of its operations and management.

- With the introduction of public land transaction policy, the Group's land development business achieved remarkable breakthrough. Its Shiliuzhuang project successfully completed the public trading process (土地掛牌程式和摘牌交易).

- Successfully realised its rapid expansion to markets outside Beijing. The Group has acquired four large scale residential projects in Tianjin, Taiyuan, Wuxi and Chengdu respectively. The new land bank amounted to approximately 1.85 million sq. m. This marked the realisation of the strategy of "tapping into markets outside Beijing and extending business across the nation".

- Further expanded international cooperation to jointly develop Wuxi Tianyi residential project with an American fund and established strategic partnership with the Property Centre of Massachusetts Institute of Technology.

- Further strengthened the Group's development strategies by identifying the development of middle to high-end residential properties as its core business while commercial property development and operations as auxiliary businesses. By reinforcing the synergetic benefits of these two types of businesses, the Group highlighted its combined edges in three niche areas, namely "land and brand", "property and finance", "project development and investment". Meanwhile, the Group also develop differentiated products that cater to the complicated customers' demand, so as to realise the four added values of land, product, brand and assets, as well as becoming the most premium integrated property operator in the PRC.

- Constructed a reliable bank financing platform, which comprises state-owned banks, commercial banks, domestic and foreign banks, large-scale banks and small to medium banks, effectively reduced the financial cost and increased long-term debt ratio (as a percentage of total debt) to 82% (2004: 44%).

- Enhanced management model by establishing a unified and professional management platform for seven business segments, including project investment, financial management, human resources operation, product design, tender and procurement, operational management and marketing.

Board meeting

Property Development

During the year under review, the Group together with its jointly controlled entities and associated companies completed 4 development projects with a total gross floor area ("GFA") of 322,000 sq. m.

Development projects completed in FY 2005

Property	Type	Approximate GFA completed (sq. m.)	Interests attributable to the Group
Sunshine Building	Commercial/office	51,700	42%
Sydney Coast District E	Villa/commercial	21,800	100%
Vancouver Forest District D	Villa/commercial	64,500	50%
Upper East Side District B & C2	Residential/commercial	184,000	33%
Total		**322,000**	

Sales Performance

During 2005, contracted sales area of the Group together with its jointly controlled entities and associated companies was approximately 269,200 sq. m., down by 18% from the previous year, in which residential, office and commercial properties accounted for approximately 70%, 27% and 3% respectively. In addition, sales area for land development business amounted to approximately 219,500 sq. m.. Contracted sales amount was approximately RMB2.35 billion, down by approximately 20% from last year, in which residential, office and commercial properties accounted for approximately 78%, 20% and 2% respectively. In addition, sales for land development business amounted to RMB210 million. In 2005, the Group together with its jointly controlled entities and associated companies recognised total sales of approximately RMB2.56 billion. The decline in the Group's contracted sales area and contracted sales amount was due to the implementation of macroeconomic measures in 2004 which resulted in delay in commencement of construction works for some development projects and hence reduced the GFA available for sale by the Group. Nonetheless, the properties on sale or the newly launched properties were well-received by the market and recorded higher-than-expected selling prices and sales volume.

Vancouver Forest

The construction schedule of A-Z Town and The Reflections were affected by the 2004 macroeconomic measures. Under the Group's enhanced efforts, these two projects went on sale in the fourth quarter of 2005 and received over-whelming responses from home buyers. Situated at the centre of the eastern expansion of the Central Business District ("CBD") of Beijing, A-Z Town has easy transport connections to every regions in the city and comprehensive community, commercial and business facilities. There is also a central park with a site area of over 100,000 sq. m., serving as a partition between the commercial and residential areas. This project represents the Group's first integrated residential community project. Over 1,000 participants enrolled in the reservation draw lot for the launch of 150 units of the first phase, which were sold out within half day of its first launch. Adjacent to the largest aquatic park, Yu Yuan Tan, in Beijing, The Reflections is a large-scale, scenic and luxury residential project. It offers residents spacious public area with high architectural quality. Majority of the trial launch of 30 units in October 2005 was sold before the New Year, laying solid foundation for the official launch in order to achieve satisfactory sales performance. Heping Lane residential project will be launched in the first quarter of 2006 and about 1,500 potential buyers showed buying intention before its public launch, demonstrating the wide recognition of the Group's corporate branding and its product quality.

During the year under review, the Group continued to leverage on its competitive strengths as an integrated operator of real estate while keeping its quality and style. It pioneered to offer convenience to its residents through provision of ancillary facilities like commercial complex and club houses as well as customer-oriented management services to greatly enhance the value of its projects. The central commercial street of Upper East Side and tower street of Vancouver Forest were launched in the third and fourth quarter of 2005 respectively. Both projects successfully attracted its target buyers and target tenants with high brand awareness and hence were well-received by its customers. The ancillary facilities including commercial complex and club houses were completed earlier than scheduled. This not only showed that the project received over-whelming sales performance but also created added-value to the project for attracting new customers while catering to the needs of existing customers. The satisfactory sales performance of Sydney Coast North demonstrated the confidence of the tenants towards the Group's ability in the development of the community and also created a win-win situation from its integrated operation model. Based on the encouraging sales response of phase I, the selling price for Upper East Side phase II was nearly 60% higher than that of phase I during its public launch in the fourth quarter of 2005.

A-Z Town Sales office

Launch of A-Z Town

Management Discussion and Analysis

Meanwhile, capitalising on its "Beijing Capital Land Customers Club", the Group fostered the interactive communications with its customers. By collecting the customers' opinion and suggestion towards the Group's products, the Group has greatly enhanced its customers relations and maintained customer loyalty in the long run, making the Company the preferred property developer of its customers. North Ring Centre rapidly achieved satisfactory sales performance by targeting the buyers of Top Land. Nearly 70% of the units were sold within 8 months of its launch, making the project one of the best-selling office apartments in Beijing. Capitalising on its experience in the development of over 10 different types of projects, the Group has accumulated abundant customer resources and enabled it to continuously enhance its customer relations through its Customers Club. This in turn greatly strengthened the Group's sales and marketing efforts and efficiency as well as enhanced its reputation in the market.

Approximately RMB403 million of the contracted sales revenue was generated from the sale of office project of Top Land Phase II. The sale was in line with the Group's strategy of focusing its business on the development of residential properties and divesting non-core business when the opportunities arise.

The establishment of Beijing Capital Land Customers Club

The following table shows the sales of the Group's together with its jointly controlled entities and associated companies major development projects during the year under review:

Project	Approximate contracted sales area (sq. m.)	Approximate average contracted selling price (RMB/sq. m.)	Approximate contracted total sales income (RMB'000)
Residential			
Vancouver Forest	40,700	8,000[1]	326,200
Sydney Coast	12,800	9,300[2]	119,330
Upper East Side	83,500	10,400	867,710
North Ring Centre	24,800	9,700	240,780
A-Z Town	20,200	7,500	152,000
The Reflections	7,200	17,500	126,260
Subtotal	**189,200**		**1,832,280**
Office			
Top Land Phase I	4,800	16,000	76,610
Top Land Phase II	67,700	6,000[3]	403,000
Subtotal	**72,500**		**479,610**
Commercial Property			
Commercial complex of Sydney Coast	7,500	4,700	35,000
Total	**269,200**		**2,346,890**

Remarks:

(1) Excluding basement area, the average contracted selling price was RMB 11,000/sq. m.

(2) Excluding basement area, the average contracted selling price was RMB 10,000/sq. m.

(3) The buyer is responsible for the construction of the project.

The official launch ceremony of A-Z Town

Sales office of A-Z Town

The following table shows the sales of the Group's land development business during the year under review:

Land development business	Approximate planned construction area (sq. m.)	Approximate sales income (RMB'000)
Shiliuzhuang Residential Project	219,500	211,948

Property Investment

During the year under review, Central Holiday Inn continued to focus on its positioning as a conference and business hotel. It proactively explored the business opportunities of business conferences and business travelers to balance the sales from travelling tours. It has implemented a series of measures with an aim of securing long-term customers, including "Prestige Club" membership scheme, the introduction of "Your Customer Services Manager" and implementation of "Guest Recognition Programme". Other value-added services such as wedding banquet services and business centre also enhanced its integrated operations and were well-received by its customers. Central Holiday Inn achieved an average occupancy rate of approximately 71% in 2005, representing an increase of nearly 10 percentage points when compared with 2004. Leveraging off its outstanding financial performance, quality facilities, premiere services, high degree of employee and customer satisfaction, Central Holiday Inn was accredited by Inter-Continental Hotels Group as the only "premium centre" for Holiday Inn in the Asian Pacific region, an exemplary hotel among the 53 Holiday Inn hotels in the region.

The Finance Street Inter-Continental Hotel commenced operations on 28th September 2005 and has become the first top-grade hotel on the Finance Street. It is jointly managed by the Group and Inter-Continental Hotels Group and positioned as an internationalised high-end finance and business hotel. All details of the hotel from the interior design to its facilities reflect the unique style of its positioning. Its comprehensive facilities include Chinese and Western style restaurants, bar, cafe, spa and gymnasium. Since its commencement of operations, the Finance Street Inter-Continental Hotel has served representatives of internationally renowned banks and institutions and was accredited as one of the "2005 World's Ten Best New Business Hotels" by Forbes.com of the US.

Conference room of Holiday Inn Central Plaza Beijing

Sunshine Building is tailored made for Japan Ito-Yokada as its flagship Huatang Mall in Beijing. Located at the western traffic hub in XiZhimen district, Beijing, the mall completed its construction in February 2005 and started operation in April 2005. Total construction area of the project is approximately 51,700 sq. m., of which the entire mall is leased by Huatang Yokada Commercial Company Limited with a total leased area of approximately 36,000 sq. m and a lease term of 20 years. Some of the office areas are for the own use of the Group while the remaining rentable area amounts to approximately 7,000 sq. m. and is mostly leased.

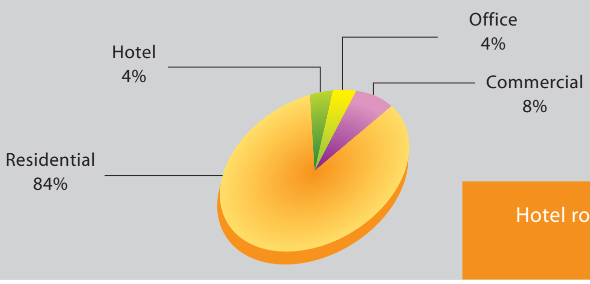
Land Bank

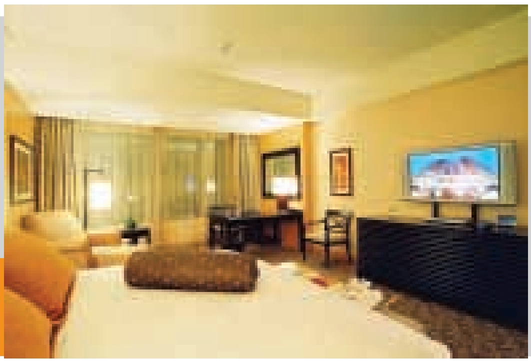
As at 31st March 2006, the Group's land bank, when fully developed, will amount to a total GFA of approximately 4.26 million sq. m. In terms of geographical distribution, 57%, 12%, 15%, 8% and 8% of land were located in Beijing, Tianjin Taiyuan, Wuxi and Chengdu respectively. In terms of land use, residential, commercial, office properties and hotel accounted for approximately 84%, 8%, 4% and 4% respectively. The existing land bank is sufficient for the Group's development for the next four years. Under the strategy of developing middle to high-end residential properties as core business, all the newly added land bank during the year was residential land. In addition, the Group transferred office property projects, such as Top Land Phase II, and other projects without controlling interests during the year, contributing to an increase of seven percentage points in the proportion of residential land when compared with that at the end of 2004. The Group will continue to expand the proportion of residential land and further adjust its existing non-residential projects based on if they have any synergetic benefits with the residential property business and investment potential.

As at 31st March 2006, the Group acquired four residential projects in Tianjin, Taiyuan, Wuxi and Chengdu respectively, which were in line with the Group's strategy of "tapping into markets outside Beijing and extending business across the nation" and an important breakthrough in the Group's business development.

In July 2005, the Group successfully acquired Ruijing Residential Project in Tianjin at a consideration of approximately RMB740 million. The Group's land bank was increased by approximately 510,000 sq. m. The project enjoys close proximity to the terminal of Tianjin Railway Route No.1. Surrounded by public afforested areas and a comprehensive gymnasium nearby, the community is suitable for the development of middle-end residential property which is the property type encouraged by the central government. The site area and GFA of the project was approximately 330,000 sq. m. and 510,000 sq. m. respectively. The Ruijing Residential Project will be developed into about 4,000 residential flats and is expected to be launched in the third quarter of 2006.

Land Bank by Use





Hotel room of Inter Continental Financial Street Beijing

In September 2005, the Group acquired Taiyuan Zhangfeng Residential Project at a consideration of approximately RMB310 million. The Group's land bank was increased by approximately 640,000 sq. m.. Taiyuan Zhangfeng Residential Project, an urban cultural and commercial district which comprises business, cultural, administrative and residential facilities, is situated at the location of the future Taiyuan Municipal Government. The Group's Taiyuan Zhangfeng Residential Project enjoys close proximity to the urban cultural centre which will be constructed in the future and will become the largest residential community in the district. The project has a site area of approximately 200,000 sq. m. and will be developed into about 4,000 residential flats, which is expected to commence sales in the fourth quarter of 2006.

In January 2006, the Group acquired Wuxi Tianyi Residential Project at a consideration of about RMB440 million. The Group's land bank was increased by about 350,000 sq. m. Wuxi Tianyi Residential Project is the Group's first development project in southern China. The Project is located in a middle to high-end residential district and is conveniently adjacent to the city. Neighboring the key secondary school in Wuxi, "Tianyi Secondary school", it also possesses superior living environment. Wuxi Tianyi Residential Project has a site area and construction area of approximately 160,000 sq. m. and 350,000 sq. m. respectively, which will be developed into approximately 2,500 residential flats and is expected to be launched in the fourth quarter of 2006.

In March 2006, the Group acquired Chengdu Chenghua Residential Project at a consideration of RMB390 million through public transaction. The Group's landmark was increased by 340,000 sq.m. Chengdu Chenghua Residential Project is the Group's first development project in Southwest China. The Project is located at the prime location of Chengdu at the junction of East Second Ring Road and Construction Road, with the west facing the Sha River with good view. It is surrounded by the commercial district of Construction Road which is the traditional commercial area with various large shopping arcades and supermarkets. The site area is approximately 68,000 sq.m. which will be developed into a total GFA of approximately 340,000 sq.m. with approximately 2,500 residential flats and is expected to be launched in the first quarter of 2007.

Developing markets in cities outside Beijing is the Group's strategy of becoming the premium integrated property operator in China. In addition, this will enable the Group to rapidly expand operation scale and promote its brand name. The Group will capitalise on the different stages in development cycles to effectively allocate resources and diverse operational risk, so as to balance the property portfolio and development progress as well as creating stable and growing returns to shareholders and investors. The PRC property market has just entered into a stage of rapid development, together with the cooling down of property investment in the PRC due to the implementation of macro-economic

The cultural exchange activities for the real estate industry organised by the Group adjustment and control measures, the Group is well-poised to expand to cities outside Beijing by leveraging on its sound financial strength and prominent management capabilities. The Group plans to proactively expand to peripheral regions around the Bohai Sea Region, with Beijing and Tianjin as its base, to explore developing cities with high potential for business expansion.

The Group has formulated its strategy of "tapping into markets outside Beijing and extending business across the nation" since listing. Following the principles of prudent expansion and progressive development, the Group did copious amount of preparation in various areas, including market research, sound management model, human resources, work flow standardisation, corporate culture and information systems prior to execution. According to its strategic plan, Beijing will remain the key area for development based on which well-developed products and management will be introduced to other cities. The Group will expand to other cities step by step, extend strategic geographic distribution, enhance operation standards and increase the revenue contribution from other cities to the Group.

During the year, the Group achieved a remarkable breakthrough in land development business. The Group's Shiliuzhuang Project, upon two years of exertions, successfully completed the public trading process (土地掛牌程式和摘牌交易) in December 2005, generating a total revenue of approximately RMB212 million. More importantly, the Group gained experiences in regard to the major work flow and procedures for land development after the implementation of public land transaction, which established a solid foundation for developing professional and standardised land development business as well as creating synergetic benefits between land development and property development.

Human Resources

As at 28th February 2006, the Group has a team of 328 young and internationalised professionals, with an average age of 34 years old. Among them, 18% and 60% have received master degree or above and undergraduate education respectively. The Group also has two foreign experts. In addition, 13 staff members had studied or worked overseas. Mid-level staff, senior staff and staff members with different experiences and qualifications accounted for 37%, 12% and 23% respectively.

The Company was accredited the Top 100 Best Employer Enterprises among 10 Major Industries Award (Property Category) in the China Human Resources Annual Election 2005 organised by Asia Pacific Human Resource Research Association (APHRRA) and SmartFortune Magazine (China) Co., Ltd.

Award presentation ceremony for outstanding employees

Training at Stanford University

In 2005, the Group further enhanced its performance management and implemented stringent performance appraisal, so as to establish a performance management mechanism between the headquarters and project companies.

According to the career development planning and capability of the employees, the Group organised 20 training programmes during the year. Total training attendance approached 500 head count and the number of training hours totalled 11,203 hours with an average of 34.8 training hours per staff member. Managers of middle-management or above received a number of training programmes, including "Organisation Management and Strategy", "Decision Analysis and Risk Management", "Financial Management" and "Leadership Training", in The Stanford University, The George Mason University and in the PRC. In 2005, the Group's middle to senior management participated in the exchange of business experiences with Weyerhaeuser, KB Home and Gensler of the US, as well as the project company of GIC, Singapore, in Shanghai.

Prospects

As the GDP and income per capita in China grow at a rate of 10% per annum, GDP per capita exceeded USD1,000 and is expected to reach USD3,000. With the accelerated urbanisation, which is expected to increase from the current level of 43% to 70%, increased property demand from 70's baby boomers as well as the generation of the "one-child policy" in the 80's begin to enter the society, the property industry in China will proceed to the golden stage of long-term development with residential properties as the core sector. Moreover, the upcoming 2008 Olympic Games will further accelerate, the city construction progress in Beijing resulting in improving public facilities and extending transportation network, which will expedite the development of Beijing's economy and the property market. We expect demand will continue to outpace supply of the property market. The implementation of austerity measures has effectively restrained certain overheating regions. The PRC property market has achieved soft-landing and the future market condition will be more stable and standardised.

In view of favourable development opportunities, the Group is dedicated and will continue to proactively implement the following strategies, with the view of becoming the most premium integrated property operator in China.

- Proactively develop new emerging businesses, such as land development and property finance, with an aim of providing immense support and added value for the core residential property business.

Topping-out ceremony for Block 10 of North Ring Centre

- Implement rapid and effective expansion in markets outside Beijing. To focus on residential property development business and utilise branded products as the expansion model with the target of achieving efficient turnover.

- Capitalise on consolidation of the industry and seek for mergers and acquisition opportunities to expand operation scale.

- Identify residential property development as the core business, strengthen the development of residential properties with distinctive features and increase the launch of middle-end residential properties for small to medium sized families, so as to cater for changes in market needs.

- Continue to adjust non-residential projects. To enhance the synergetic benefits of commercial properties and core residential property business and to explore new business model for commercial properties.

- Strengthen the strategic planning and enhance the strategic management capability.

- Optimise management model and business work flow according to its strategic objectives while strengthening investment planning, standardised operation as well as sales and marketing capabilities of brands.

- Attract high caliber people, strengthen staff training and optimise human resources allocation to cope with the rapid expansion of the Group.

- Strengthen the collaboration with banks and investors to consolidate the financing platform for expansion of financing channels.

- Capture business opportunities brought forth by Beijing Olympics to adjust project planning and sales and marketing arrangement in a timely manner, so as to fully realise project value and further consolidate the Group's leading edges in Beijing.

FINANCIAL ANALYSIS

1. Revenue and Operating Results

During the year 2005, the sales of the Group was RMB1,134,769,000 (2004: RMB1,629,332,000), representing a decrease of 30%. The delay in construction of some of the development projects resulting from the implementation of austerity measures in 2004, coupled with the change in accounting policy in 2005, significantly affected the Group's operating performance in 2005.

Under tight cost control, the gross profit margin of the Group in the year 2005 was approximately the same as that of the last year.

In 2005, the Group's operating profit was RMB276,627,000 (2004: RMB429,116,000).

The sales of the hotel business in the year was RMB98,709,000 (2004: RMB40,765,000).

2. Financial Resources, Liquidity and Liability Position

As at 31st December 2005, the Group's total assets were RMB10,058,779,000 (2004:RMB8,772,438,000) (of which current assets were RMB5,216,135,000 (2004: RMB4,329,350,000)) and the total liabilities were RMB6,873,312,000 (2004: RMB5,969,496,000) (of which current liabilities were RMB2,655,176,000 (2004: RMB3,981,770,000) and non-current liabilities were RMB4,218,136,000 (2004: RMB1,987,726,000)), and the equity reached RMB3,185,467,000 (2004: RMB2,802,942,000).

The Group is of sound liquidity and solvency. Current ratio as at 31st December 2005 was 1.96 (2004: 1.09).

As at 31st December 2005, the Group's cash and short-term bank deposits amounted to RMB1,889,534,000 (2004: RMB1,879,135,000), which represented sufficient cash flow for operations.

Bank loans of the Group as at 31st December 2005 amounted to RMB5,168,136,000 (2004: RMB4,226,251,000), of which the long-term loans amounted to RMB4,218,136,000 (2004: RMB1,848,251,000), which were mainly used to fulfill the capital requirements of the Group's property development projects.

The Group makes investment in the PRC only. Except for loan facility of US$92 million (2004: US$32 million) obtained by its two subsidiaries from DBS Singapore, the accumulated draw-down of which as at 31st December 2005 was US$58,000,000 (2004: US$5,800,000), all of the Group's bank loans come from banks in the PRC and are borrowed and repaid in RMB, and there exists no significant currency risk. All of the Group's long-term bank loans were granted on a floating rate basis.

As at 31st December 2005, our gearing ratio was 51.82% (2004: 48.94%). Our gearing ratio is calculated by dividing the aggregate of (i) the Group's short-term and long-term bank loans, (ii) net amounts due to parent company (iii) net of cash and bank balances (the balance of (i), (ii) and (iii) being referred to as "(A)"), by the aggregate of (A) and net assets of the Group.

3. Substantial Acquisition of Subsidiaries

In 2005, the Company set up two domestic companies, namely Beijing Shang Bo Ya Investment Consultant Limited (北京尚博雅投資顧問有限公司) and Beijing Shang Bo Di Investment Consultant Limited (北京尚博地投資顧問有限公司), whereas Beijing Shang Bo Ya Investment Consultant Limited and the Reco Ziyang Pte Ltd jointly established Tianjin New Century Real Estate Development Ltd, and Beijing Shang Bo Ya Investment Consultant Limited and Beijing Shang Bo Di Investment Consultant Limited jointly invest in the establishment of Shanxi Capital Xinzi Real Estate Development Limited (山西首創新資房地產開發有限公司).

4. Treatment for Net Income of Jointly Controlled Entities and Associated Companies

In October 2005, the Company disposed of Beijing Home Valley Company Limited, a joint venture, to Beijing Science Park Development (Group) Co., Ltd., the proceeds of which were RMB110,000,000. The Company had received full amount of the transfer consideration and recognised a transfer gain of RMB59,388,000.

In 2004, the Company disposed of 15.5% equity interest of Super Shine Company Limited ("Super Shine"), an associated company, to Beijing Yan Zhao Real Estate Development Co., Ltd. (北京燕趙房地產開發有限公司) ("Yan Zhao Real Estate") at a total consideration of RMB94,736,000. Up to January 2006, the Company had received consideration of RMB88,000,000 from Beijing Yan Zhao Real Estate Development Co., Ltd. and recognised gain on disposal of RMB5,678,000.

5. Income Tax Expenses

During the year ended 31st December 2005, the income tax applicable to the Company according to relevant laws and regulations of China was RMB100,102,000. After tax auditing for the year, one of the Company's subsidiaries finalised its income tax payable and reversed an overprovided income tax charge of RMB54,673,000.

6. Accounting Treatment for Super Shine

As at 31st December 2003, the Company held 26.5% shares of Super Shine and was then its largest shareholder. According to the equity transfer agreement signed with Yan Zhao Real Estate in March 2004, 15.5% of Super Shine was transferred to Yan Zhao Real Estate and the transfer procedure was completed on 22nd December 2004. At the end of 2004 when the equity was newly transferred to Yan Zhao Real Estate, the Company, as the third largest shareholder, was not clear if Yan Zhao Real Estate, as the then largest shareholder, would request major reorganisation on the board of directors of Super Shine. Therefore, for the sake of prudence, Super Shine was accounted for as investment securities at 31st December 2004. At the end of 2005, Yan Zhao Real Estate had not conducted major reorganisation on the board of directors of Super Shine, and the general manager of the Company remained the chairman of Super Shine. Meantime, the Company was the minority shareholder of the three major subsidiaries of Super Shine, namely Fengdu, Xing Tai and Yang Guang Yuan, taking part in their business decision-making and providing technological and capital support. Consequently, the Board considered that it has significant influence over Super Shine and it should be accounted for as an associated company in 2005. On 22nd December 2005, the Share Reform Proposal of Super Shine was approved at its general meeting. After paying consideration shares to the free-float shareholders, the Company as a non-free-float shareholder had reduced its shareholding in Super Shine to 7.8%.

7. Entrusted Deposits and Overdue Time Deposits

As at 31st December 2005, the Group had not held any deposits under trusts or any time deposits in financial institutions in the PRC. All of the Group's cash were held in commercial banks in the PRC in accordance with applicable laws and regulations. The Company had no bank deposits which is not recoverable upon maturity.

8. Pledge of Assets

The land use rights of certain properties were pledged by the Group as security for long-term bank loan of US$58,000,000 (2004: US$5,800,000).

The right to yield of certain properties (yields from transfer of such land or by other means of utilisation of the same) was pledged by the Group as security for long-term bank loan of RMB4,000,000,000 (2004: long-term loan of RMB 1,300,000,000 and short-term loan of RMB1,000,000,000).

In 2004, the hotel properties and land use rights were pledged by the Group as security for short-term bank loan of RMB80,000,000.

9. Contingent Liabilities

The Group had arranged bank facilities for certain purchasers of its properties and provided guarantees to secure the repayment obligations of such purchasers. The outstanding guarantees amounted to RMB677,632,000 as at 31st December 2005 (2004: RMB637,468,000).

As at 31st December 2005, other than guarantees provided for a long-term bank loan of RMB450,000,000 (2004: RMB138,000,000 for short-term bank loans and RMB360,000,000 for current portion of long-term bank loan) granted to a subsidiary of the Company and a short-term bank loan of RMB50,000,000 (2004: RMB120,000,000) granted to a jointly controlled entity, the Group had no material external guarantee.