Management Discussion and Analysis

OVERVIEW

With the continuous growth in the property sales activities in the cities of Guangdong province, the Group achieved sales for the first half of 2006 was RMB3,047.3 million, 28.1% higher than the same period of 2005. Net profit attributable to shareholders was RMB579.6 million, 44.3% higher than the first half of 2005. Earnings per share was RMB0.167 for the period.

The balance of cash and cash equivalents as of 30 June 2006 was RMB2,750.0 million and the total outstanding bank borrowings of the same date was RMB2,131.7 million. The Group had net cash position as of 30 June 2006.

The gross floor area ("GFA") of our land bank with land use right certificate increased to 8.3 million square meter ("sq.m.") from 6.5 million sq.m. of the same period of last year. As at 30 June 2006, the Group had land bank with contractual interests but pending for land use right certificates of GFA of 6.4 million sq.m..

SALES

Property development

Benefited from the continuous economic growth in the mainland China, the demand for property was strong and sales growth remained stable during the period. For the six months ended 30 June 2006, sales generated from property development increased by 28.7% to RMB2,989.8 million from RMB2,322.3 million for the same period in 2005. This represented revenue attributable from GFA of 509,000 sq.m (the first half of 2005: 401,000 sq.m) recognized during the period under review, a volume growth of 108,000 sq.m or 26.9%. Simultaneously, the average selling price of the properties sold by the Group increased from RMB5,787 per sq.m. for the first six months of 2005 to RMB5,873 per sq.m for the first half of 2006.

GFA and sales amounts of the properties sold and recognized during the period are analysed as follows:

	GFA (sq.m.)	**%**	**RMB'000**	**%**
Guangzhou	285,669	56	1,764,150	59
Zhongshan	187,767	37	1,075,726	36
Foshan	35,618	7	149,970	5
Total	509,054	100	2,989,846	100

Property Management and Decoration Service

Sales generated from property management business increased by 17.2% to RMB57.5 millions in the first half of 2006 from RMB49.1 million for the corresponding period of 2005, primarily due to increase in total of GFA, for which our property management subsidiaries provide management services.

Zhongshan Fashion Decoration Company Limited had not provided any decoration service outside the Group. Therefore, it did not contribute to the sales in the consolidated income statement.

OPERATING PROFIT

Gross profit increased by 33.8% to RMB1,017.9 million for the first half of 2006 from RMB760.5 million for the corresponding period of 2005 primarily due to the increase of GFA sold in 2006 as well as the increase in average selling price.

Gross profit margin increased to 33.4% in the first half of 2006 from 32.0% in the corresponding period of 2005. This improvement is mainly derived from increase in sales volume and the slight increase in average selling price.

Selling and marketing costs decreased by RMB11.5 million for the first six months of 2006 compared with the same period of 2005. The percentage of selling and marketing costs to sales also decreased to 3.1% in the first half of 2006 from 4.4% in the corresponding period of 2005. This was attributable to the economy of scale achieved from higher sales volume and also the success of relationship marketing.

Administrative expenses increased to RMB89.3 million in the first half of 2006 from RMB46.6 million in the corresponding period of 2005. In terms of the percentage to sales, it increased to 2.9% in the first half of 2006 from 2.0% in the corresponding period of 2005. The increase was attributed to the additional cost incurred for activities of being a listed company in Hong Kong.

Exchange Losses, net

Exchange losses mainly arose from transfer of Hong Kong dollar bank deposits to Renminbi bank accounts of the Group's PRC subsidiaries and revaluation of the remaining Hong Kong dollar bank deposits as at balance sheet date as a result of appreciation of Renminbi for the six months ended 30 June 2006.

Other Income

Other income increased to RMB60.5 million in the first half of 2006 from RMB1.8 million in the corresponding period of 2005 which was mainly from interest earned on unused proceeds from IPO deposited in the licensed banks and financial institutions in Hong Kong and China.

Finance Costs

The finance costs all incurred on bank borrowings (including capitalized interests) with effective rate for the period ended 30 June 2006 of 5.84% (2005: 6.08%). Approximately 77.9% of interest expenses had been capitalized.

NET PROFIT

The net profit attributable to shareholders increased to RMB579.6 million from RMB401.7 million for the same period of 2005 or increased by 44.3%. The net profit margin increased to 19.0% in the first half of 2006 from 16.9% in the corresponding period of 2005.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

As of 30 June 2006, the Group's bank borrowings were RMB2,131.7 million (31 December 2005: RMB1,285.7 million) representing an increase of RMB846.0 million or 65.8%.

Gearing, measured by net debt to equity, remained at net cash position as at 30 June 2006. As additional borrowings will be required for new projects development and land replenishment, the gearing ratio is expected to gradually increase to a reasonable level.

BANK BORROWINGS

All bank borrowings of the Group denominated in Renminbi, are primarily obtained from the commercial banks in China with interests based on agreed terms.

ACQUISITION OF SUBSIDIARIES

During the period under review the Group acquired effectively 89.5% equity interest in a company established in the PRC. The acquiree company is a property development company with a site area of approximately 2,000,000 sq.m. in Huizhou City of Guangdong Province.

FOREIGN EXCHANGE FLUCTUATIONS

The Group conducts its business largely in Renminbi and does not have any significant exposure directly to foreign exchange fluctuations. In the event that the value of Renminbi appreciates, the Group would be indirectly affected whereby the costs of materials imported for the Group's business needs would decrease. We would also record foreign exchange losses of bank balances and other assets denominated in foreign currencies. As of 30 June 2006, we had aggregate bank balance denominated in HK dollars of RMB1,098.1 million.

CHARGES OF ASSETS

As of 30 June 2006, certain assets of the Group with an aggregate carrying value of RMB415.3 million (31 December 2005: RMB560.8 million) were pledged with banks for loan facilities granted to the Group's PRC subsidiaries.

EMPLOYEE

As at 30 June 2006, the Group had a total number of 4,240 (31 December 2005: 3,572) full time employees. Total staff costs excluding directors' emoluments and retirement benefits amounted to RMB80.2 million for the six month ended 30 June 2006 (the first half of 2005: RMB45.0 million). The remuneration of employees was in line with the market trend and commensurable to the pay scale in the industry. Discretionary year-end bonus was paid to employees based on individual performance. The target management accountability system for each project had been confirmed to have positive effect.

CONTINGENT LIABILITIES

As of 30 June 2006, the Group had given guarantees to banks for home mortgage facility granted to the purchasers of the Group's properties in China amounted to RMB2,947.3 million (31 December 2005: RMB3,377.6 million).

OUTLOOK

Following the persistent increase in income per capita in China and the economy recovery in Hong Kong and Macau, the demand for quality habitation in Guangzhou, Zhongshan, Foshan as well as their neighboring cities such as Conghua, Huizhou etc., remains strong.

As mentioned before, the Group has acquired lands in other premier locations such as Nanjing, Chengdu, Conghua, Huizhou and Heyuan. We expect that projects in these newly acquired lands will contribute to the results of 2007.

As expected, the austerity measures introduced recently carried psychological impact over the property market sentiment. Since most of Group's property buyers are end users and the Group has a well-known brand name in its market niche, we believe that the effect on our sales will be minimal.

Additionally, the Group will consider strategic move in addition to the organic growth whenever the opportunities were commercially and financially viable and would benefit our shareholders' interest as a whole.

We are fully geared and team up to continue our success in our existing markets as well as beyond them.