Management Discussion and Financial Analysis

MARKET OVERVIEW

According to the National Bureau of Statistics, China's economy has continued to demonstrate steady growth, the gross domestic product (GDP) of China increased by 10.9% year-on-year for the first half of 2006, reaching RMB9,144.3 billion, 0.9% above the growth rate from the corresponding period last year. The persistent high economic growth, coupled with the increase in both disposable income of urban households and urbanisation rates are all instrumental to the proliferation of China's real estate market.

During the period, the central government has announced a number of macroeconomic measures such as monetary policies, credit availability and fixed assets investments with an objective to maintain China's economic growth at a sustainable level. Specific measures relevant to the real estate market included imposing tighter controls over land supply, raising the benchmark rate for bank loans, controlling the ratio of the construction of high-end residential housing versus small-sized residential units. Furthermore, foreign buyers will be subject to a value-added tax for capital gain from the disposal of properties. In the first half of 2006, investment on domestic real estate stood at RMB769.5 billion, representing an increase of 24.2%, equivalent to 0.7% above the relevant growth rate in the corresponding period in the previous year. The average selling price of properties in 70 large and medium cities increased by 5.6% as compared with the corresponding period in 2005, with a year-on-year decline of growth rate by 3.3%.

The Group is of the view that the aforementioned land and property policies implemented by the central government will facilitate better-regulated investment in the domestic real estate market as well as instil greater balance to supply and demand chains, that will ultimately create a healthier competitive landscape, leading to consolidation amongst industry players and allowing greater room for more reputable property developers to seek further development.

According to the information from China National Tourism Association, China's domestic tourist sector has continuously benefited from the robust economic growth during the period. During the first four months ended 30 April 2006, foreign visitor arrivals (excluding those from Hong Kong, Macau and Taiwan) visiting China reached 6.53 million, representing an increase of 6.1%. International tourists received by Shanghai city stood at 1.21 million. In addition, as China will host more international conferences, exhibitions and trade shows in the future, the number of business travellers and tourists entering the PRC is expected to increase continuously, creating greater demand for hotel accommodation.

BUSINESS OVERVIEW

Project Development

During the first six months of 2006, property development business of the Group consists of 15 projects that are located in Shanghai, Beijing, Harbin, Wuhan, Nanjing, Fuzhou, Kunshan, Changshu, Shaoxing and Wuhu. Currently, the Group has a total planned GFA land bank of approximately of 13.3 million sq.m., including a newly added plot of land in Yantai, Shandong Province secured on 25 August 2006, which contributed an additional 239,100 sq.m. planned GFA to the Group's existing land bank reserves.

Projects completed during the first six months of 2006 are:

Project Name	**Total Saleable Area** (sq.m.)	**Group's Interest in Project** (%)
Shanghai Shimao Riviera Garden	105,559	100%

Management Discussion and Financial Analysis

The Group has successfully completed Block 7 of Shanghai Shimao Riviera Garden with a saleable GFA of 105,559 sq.m. in May 2006.

Projects expected to be completed in the second half of 2006 are:

Project Name		Total Planned Saleable Area (sq.m.)	Group's Interest in Project (%)
1)	Shanghai Shimao Riviera Garden	93,053	100%
2)	Shanghai Shimao Sheshan Villa	33,641	100%
3)	Harbin Shimao Riviera New City — Phase 1	345,639	100%
4)	Beijing Shimao Olive Garden	67,345	100%
5)	Changshu Shimao The Center	133,817	100%
6)	Kunshan Shimao Butterfly Bay	225,022	100%
7)	Nanjing Shimao Riviera New City Phase 1	121,129	50%
8)	Fuzhou Shimao Bund Garden	116,866	50%
Total		1,136,512	

In respect of the above planned saleable GFA completion in the second half year of 2006, Block 6 of Shanghai Shimao Riviera Garden with saleable GFA 93,053 sq.m. was completed on schedule in July 2006. Among the above properties to be completed, we have presold GFA of approximately 502,000 sq.m. (including 175,000 sq.m. contributed from the associated companies) as of 30 June 2006.

Property Sales and Other Income

During the period under review, 97.8% of the Group's turnover was attributable to the sale of residential properties, whereas 2.2% of the turnover was generated from hotel operations and leasing income from retail properties.

In the first half of 2006, the Group's total sales of properties amounted to RMB2,144.1 million, representing an increase of 11.8 times over the same period in 2005. Total GFA sold was 115,105 sq.m. (2005: 5,084 sq.m), representing an increase of 21.6 times from the corresponding period last year. This is mainly attributable to the completion of Block 7 of Shanghai Shimao Riviera Garden during the period and the units sold were booked as revenue which provided a significant income contribution to the Group.

Management Discussion and Financial Analysis

Breakdown of property sales by projects in the first half of 2006 is as follows:

Project Name	Booked Saleable Area (sq.m.)	Turnover (RMB' million)
Shanghai Shimao Riviera Garden	104,767	2,113.0
Harbin Shimao Riviera New City	10,338	31.1
Total	115,105	2,144.1
Fuzhou Shimao Bund Garden — attributable *(Note 1)*	1,417	14.4

Note 1: The Group's share of sales of properties from Fuzhou Shimao Bund Garden, an associated company, were not included in the turnover of the Group for the six months ended 30 June 2006.

The increase in the Group's turnover was mainly attributable to the completion of Block 7 of Shanghai Riviera Garden in the first half of 2006. There was no completions in the corresponding period of 2005 among the subsidiary project companies except for the two residential blocks and retail units at the Fuzhou Shimao Bund Garden project that were completed by an associated company.

Investment and Hotel Properties

The Group not only focuses on the development of properties sales, but also continues to expand into the development of long-term investment properties such as retails, offices and hotel properties. The secured rental income will provide more stable income streams in the long run. During the period under review, turnover from the Group's investment properties for lease and hotels operations amounted to RMB47.4 million (2005: RMB14.5 million), representing an increase of 226% over the same period last year.

At the same time, the Group recorded a fair value gain from Phase I retail properties of Shanghai Shimao International Plaza which contributed approximately RMB407 million to profit before tax and RMB272.7 million to profit after tax in the first half of 2006 (2005: RMB464.1 million and RMB310.9 million respectively).

Completed Investment and Hotel Properties

As of 30 June 2006, completed investment and hotel properties of the Group included Phase I retail properties of Shanghai Shimao International Plaza and hotel properties of Shanghai Le Meridien Sheshan. Shanghai Shimao International Plaza is the tallest building in Puxi and Phase I was completed in December 2004 with a total gross floor area of 38,819 sq. m. The project is intended for retail purposes. During the period under review, rental income from the investment property was RMB15.7 million (2005: RMB14.5 million).

Shanghai Le Meridien Sheshan is a five star resort hotel located in the Songjiang district, with a total gross floor area of 69,328 sq.m. It has 327 rooms and an international convention center that are managed by the Starwood Group. Trial operation for the hotel has commenced in November 2005 and with the official opening commenced in June 2006. Turnover generated from the hotel operations was RMB31.7 million during the period under review (2005: nil).

Management Discussion and Financial Analysis

Investment and Hotel Properties Under Development

Investment and hotel properties under development of the Group include two five-star hotels and one retail mall, namely Le Royal Meridien Shanghai, Shanghai Hyatt on the Bund, both of which are hotel properties and Phase II retail properties of Shanghai Shimao International Plaza. Located on Nanjing Road Puxi and the starting point of the walking street, Le Royal Meridien Shanghai has 770 rooms with a planned total GFA of 99,696 sq.m. The Group has already engaged the Starwood Group to manage the hotel this coming September 2006. It is expected that the hotel will commence operation in September 2006.

Shanghai Hyatt on the Bund is located in Hongkou District, which is a business and commercial sector of the Bund area. The Hotel is adjacent to the Huangpu River, facing the Oriental Pearl TV Tower and overlooking the Bund and Lujiazui. The project's total planned gross floor area is 100,972 sq.m. It is expected to be completed by the end of this year and will commence trial operation in the first quarter of 2007. The Group also signed the hotel's management contract with The Hyatt hotels group.

Phase II retail properties of Shanghai Shimao International Plaza is under development. Total planned GFA is 32,420 sq.m. and is scheduled to commence business by the first quarter of 2007.

Land Bank Reserves

During the period, through tender, auctions and listing-for-sale, the Group has successfully secured various plots of land in different provinces and cities in China for future development. On 11 May 2006, the Group had successfully tendered and secured a plot of land in Shaoxing with a planned GFA of approximately 1,299,700 sq.m. On 18 May 2006, the Group entered into a land grant contract for a plot of land in Wuhu with a planned GFA of approximately 609,000 sq. m. In addition, on 25 August 2006, we successfully secured a plot of land in Yantai with a planned GFA of approximately 239,100 sq.m. Subsequent to these new acquisitions, the Group's total land bank reserves now stood at 13.3 million sq.m.

Management Discussion and Financial Analysis

As of 30 June 2006, the Group's land bank reserves totalled 13.0 million sq.m. (excluding the plot of land acquired in Yantai in August 2006), with details of which are analysed as follows:

	Completed — Of which held for investment/ held for sales GFA (sq.m.)	**Under Development** Planned GFA (sq.m.)	**Held for Future Development** Planned GFA (sq.m.)	**Pending Land Use Rights** Planned GFA (sq.m.)	**Group's Interest in Project** (%)
Shanghai Shimao Riviera Garden	1,961	299,077	43,000	39,800	100%
Shimao International Plaza	38,819	132,116	—	—	100%
Shanghai Shimao Sheshan	69,328	49,128	28,058	—	100%
Shanghai Hyatt on the Bund	—	100,972	—	—	100%
Shanghai Shimao Wonderland	—	—	551,000	—	100%
Beijing Shimao Olive Garden	—	288,457	—	—	100%
Kunshan Shimao Butterfly Bay	—	567,058	657,960	—	100%
Kunshan Shimao International City	—	—	202,400	1,126,784	100%
Changshu Shimao The Center	—	263,680	188,650	1,522,678	100%
Harbin Shimao Riviera New City — Phase 1	93,806	490,765	—	—	100%
Harbin Shimao Riviera New City — Phase 3	—	—	—	949,238	100%
Wuhan Shimao Splendid River	—	173,749	—	1,642,251	100%
Shaoxing Shimao	—	—	—	1,299,700	100%
Wuhu Shimao	—	—	—	609,000	100%
Fuzhou Shimao Bund Garden	10,494	137,225	—	—	50%
Nanjing Shimao Riviera New City — Phase 1	7,134	242,636	226,493	—	50%
Nanjing Shimao Riviera New City — Phase 2	—	—	—	962,653	50%
Total	221,542	2,744,863	1,897,561	8,152,104	
Group Attributable GFA	212,728	2,554,933	1,784,315	7,670,778	

In August 2006, we had obtained land use rights certificates for the site area of 209,170 sq.m. in respect of Shaoxing Shimao project and the related planned GFA is approximately 400,000 sq.m. As a result, the total planned GFA with land use rights increased to approximately 5.3 million sq.m.

BUSINESS OUTLOOK

The Board is fully confident in the future prospects of the Group's future development. With China's overall domestic economy maintaining a healthy growth momentum, the real estate market will become better regulated, thereby allowing further room for the Group's expansion.

Management Discussion and Financial Analysis

In view of the brilliant prospect for the real estate industry, Shimao Property has formulated a series of development strategies. By leveraging our highly-effective human capital resources, sound corporate reputation in the market, extensive experience, outstanding management as well as the widely known “SHIMAO” brand name, the Group will make the best efforts to adhere to the following business development strategies:

— **Continue to enhance the “SHIMAO” brand name by delivering value to our customers** — We will continue to focus on the quality and innovation in our property projects and continue to seek industry recognition for the “SHIMAO” brand in China and the rest of the world through marketing initiatives;

— **Continue to create innovative products and develop market-leading projects** — We will continue to develop high quality projects in residential housing, hotels, retail and office property;

— **Continue to pursue property diversification and increase our proportion of investment properties for a balanced revenue structure** — We will continue to expand into the hotel, retail and office property sectors in China to achieve greater balance in our revenue streams; and

— **Continue to expand our land bank reserve in a disciplined manner** — We will continue to leverage our strong brand name and financial track record to obtain attractive financing and re-financing opportunities. We will continue to focus on developing large-scale projects to achieve greater economies of scale in resource utilisation.

The Group will adhere to its pledge in “Cultivating Lifestyle, Realising Urban Dreams” and strive to develop quality real estate projects and maximise return for shareholders.

SUBSEQUENT EVENT

On 25 August 2006, the Group has secured a piece of land, designated “Plot B” situated at a prime location at the scenic seaside city of Yantai, Shandong Province for approximately RMB372 million. The area of the land is in excess of 34,000 sq.m. with a total planned GFA of approximately 239,100 sq.m. The Group intends to develop several high-rise commercial buildings on the site, one of which will be a premium luxury five-star sea view hotel, complete with its own mid-level seaview grand terrace. The purchase is the first move of Shimao Property to increase its land bank reserves since becoming listed in July 2006. The land will be the third addition to the Group’s portfolio subsequent to recent acquisitions in Shaoxing and Wuhu in May 2006. The acquisition signifies the Group’s commitment to implement its strategic development plan along the coastal area of the Bohai Sea.

FINANCIAL ANALYSIS

Interim Results

	1H 2006 RMB’ million	1H 2005 RMB’ million	2005 full year RMB’ million
Turnover	**2,191.5**	181.5	2,500.4
Gross profit	**758.8**	67.0	597.0
Operating profit	**923.7**	459.5	1,303.1
Profit attributable to shareholders for the period/year	**703.6**	305.8	908.0
Earnings per share — Basic (RMB)	**0.309**	0.171	0.508

Management Discussion and Financial Analysis

For the six months ended 30 June 2006, the Group generated 97.8% of the turnover from the property sales and 2.2% of the turnover from hotel operations and leasing of retail property, the details of the turnover are set out as follows:

	1H 2006 RMB' million	1H 2005 RMB' million	2005 full year RMB' million
Property sales	**2,144.1**	167.0	2,462.8
Hotel operating income	**31.7**	—	9.7
Rental income from investment properties	**15.7**	14.5	27.9
Total	**2,191.5**	181.5	2,500.4

The turnover of the Group was RMB2,191.5 million (1H 2005: RMB181.5 million), representing a sharp increase of 11.1 times over the same period of 2005. The increase in the Group's turnover was mainly attributable to the completion and delivery of Block 7 of Shanghai Shimao Riviera Garden in the first half of 2006. There were no completions in the corresponding period of 2005 among the subsidiary project companies except for two residential blocks with retail units at the Fuzhou Shimao Bund Garden project that were completed by an associated company. In addition, hotel operating income from our Shanghai Le Meridien Sheshan hotel rose for the first time during the period under review.

Operating profit amounted to RMB923.7 million for the period ended 30 June 2006, an increase of 101.0% over the same period of 2005. The increase is primarily due to the increase in gross profit from RMB67.0 million for the period ended 30 June 2005 to RMB758.8 million for the period ended 30 June 2006.

Profit attributable to shareholders for the period grew by 130.1% from RMB305.8 million in 2005 to RMB703.6 million in 2006.

Analysis on the Financial Performance after exclusion of Management Analysed Non-cash Items

	1H 2006 RMB' million	1H 2005 RMB' million	2005 full year RMB' million
Management analysed gross profit	**1,119.6**	110.8	1,109.3
Management analysed operating profit	**939.5**	39.2	912.8
Management analysed profit attributable to shareholders for the period/year	**799.5**	22.7	629.8
Management analysed earnings per share — Basic (RMB)	**0.351**	0.013	0.352

Management Discussion and Financial Analysis

The interim results comprise of certain non-cash items, including fair value adjustment, land appreciation tax provision, fair value gains on an investment property and impairment of goodwill. The components of these non-cash items, which have been excluded in preparing the above management analyses, are set out as follows:

	1H 2006 RMB' million	1H 2005 RMB' million	2005 full year RMB' million
Fair value adjustment	**331.0**	22.1	350.1
Land appreciation tax	**29.8**	21.7	162.2
Included in cost of sales	**360.8**	43.8	512.3
Fair value gains on an investment property	**(407.0)**	(464.1)	(902.6)
Impairment of goodwill — included in other operating expenses	**62.0**	—	—
Total addition/(deduction) before tax	**15.8**	(420.3)	(390.3)
Total addition/(deduction) after tax and minority interests	**95.9**	(283.1)	(278.2)

The management analysed gross profit after netting off non-cash items included in cost of sales was RMB1,119.6 million (1H 2005: RMB110.8 million) which translates to a management analysed gross profit margin of 51.1%.

The management analysed operating profit after netting off non-cash items included in costs of sales, fair value gains on an investment property, impairment of goodwill was RMB939.5 million, an increase of 23.0 times over the same period of 2005.

The management analysed profit attributable to shareholders after netting of non-cash items for the period was RMB799.5 million compared to RMB22.7 million in 2005, an increase of 33.8 times.

Liquidity, Financial Resources and Bank Loans

During the period under review, the Group's liquidity continued to improve as its financial resources were well allocated. As of 30 June 2006, total assets of the Group stood at RMB17,860.6 million, of which current assets reached RMB8,742.1 million. As of the same date, total liabilities were RMB12,100.2 million, whereas non-current liabilities were RMB3,878.3 million. Equity attributable to the shareholders of the Company amounted to RMB5,760.4 million.

As at the end of June 2006, the Group had aggregate cash and bank balances of approximately RMB1,267.0 million (31 December 2005: RMB733.8 million), and total bank loans amounted to approximately RMB3,333.4 million (31 December 2005: RMB2,637.7 million). Total net debts were RMB2,066.4 million (31 December 2005: RMB1,903.9 million). Net gearing ratio decreased from 75.8% to 35.9% primarily due to new equity fundings of RMB1,632.4 million raised from the Financial Investors and the capitalization of the amount due to Gemfair Investments Limited ("Gemfair") of HK$880.0 million (equivalent to RMB914.7 million) during the period under review. Since the listing on 5 July 2006, the Company has raised additional fundings of approximately HK$4,059.3 million (equivalent of RMB4,178.6 million) and is at present in a net cash position.

Management Discussion and Financial Analysis

Pledge of Assets

As of 30 June 2006, the Group had properties, plant and equipment, land use rights, properties under development, completed properties held for sale and investment properties with a total carrying amount of approximately RMB10,187.4 million (31 December 2005: RMB6,575.0 million) that is pledged in favour of banks in order to secure bank facilities granted to the Group. The corresponding bank loans amounted to approximately RMB3,333.4 million (31 December 2005: RMB2,637.7 million).

Contingent Liabilities

As of 30 June 2006, the Group had provided guarantees for approximately RMB1,978.5 million (31 December 2005: RMB1,450.2 million) in respect of the mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties.

Capital Commitments

As of 30 June 2006, the Group has contracted but not provided for capital and property development expenditure that has amounted to RMB8,771.6 million.

Financial Policies

The Group will continue to control financial risks in a prudent manner and proactively adopt internationally recognised corporate management standards to safeguard the interests of shareholders.

Employees and Remuneration Policy

As of 30 June 2006, the Group employed a total of 1,123 employees. Total remuneration for the period amounted to RMB79.8 million. The Group has adopted a performance-based rewarding system to motivate its staff. In addition to a basic salary, year-end bonuses will be offered to those staff with outstanding performance. Share option schemes were adopted to attract and retain talents to serve the Group. In relation to staff training, the Group also provides different training programmes for staff to improve their skills and develop their respective expertise.