

Beijing's FAI rose by 23.6% year-on-year to RMB120.72 billion in the first half year of 2006. Real estate investment in the first half year of 2006 amounted to RMB64.01 billion, up 20.8% year-on-year. Investment in Beijing's housing market reached RMB35.51 billion, a 28.1% increase year-on-year.

On 21 August 2006, New Capital has entered the New Investment Management Agreement with Avanta Investment Management Limited commencing from 1 September 2006. The investment management agreement with Baring Capital (China) Management Limited (renamed as ING Real Estate (Asia) Limited) has also been terminated on the same date. Avanta has extensive experience in advising listed investment holding companies in Hong Kong, which have diversified investments in listed and unlisted investments. The Company considers that such extensive experience is relevant to the Company in pursuing its investment objective.

In order to reinforce the management of the Company, the Company has established new management structure in order to better utilize in-house resources to serve the development of the Company and to meet the increasing corporate governance requirements. With a full-time management team and strong leadership, the Board will have stronger management control in the investment business in committing to the business development of the Company.

REVIEW OF EXISTING PORTFOLIO

China Property Development (Holdings) Limited ("CPDH")

The Group invested HK\$78 million in China Property Development (Holdings) Limited ("CPDH") in February 2002. CPDH holds 100% interest in a Beijing residential development project, the Pacific Town Project (marketed as Richmond Park in Beijing). The Group's profit sharing ratio in CPDH is 33.42%.

New Real Estate Policies

On 29 May 2006, in order to curb the overheated real estate market, the Chinese State Council together with the nine ministries of central government jointly announced a circular of fifteen measures aiming at stabilizing property prices and achieving the six objectives. The measures include:

- Raise the minimum mortgage down payment ratio to 30% for all buyers except for home buyers purchasing apartments of 90 sq.m. or smaller for self use.
- Extend the time frame from two to five years for a 5.5% business tax on the entire sales price for home owners.
- All local governments are required to ensure that 70% of units built are no larger than 90 sq.m. The government will continue to reduce the land supply for the development of housing with low density and large unit sizes.
- The project loans to property developers from banks cannot exceed 65%; mortgage for residential units vacant for more than 3 years is not allowed.
- The government will levy high penalty fees for developers not starting construction within 1 year after obtaining building approvals; the land use rights will be forfeited by those not starting construction within 2 years.

They above are part of an overall policy of controlling the growth of the real estate market and perceived speculative activity. Some of the measures will have an impact in the development of Richmond Park Project.

Richmond Park

Phase I of Richmond Park consists of three buildings of high-rise apartments and one clubhouse building. The construction work of Phase I had been completed and delivered to buyer for occupancy in late April 2006. The tax clearance work of Phase I is in progress and is expected to be completed before end of 2006, when the property cost is ascertained and the tax elements are confirmed by the tax authority.

The sale of the buildings A4 and A5 of Phase II-A had been launched in the market. Building of B5 of Phase III was pre-sold in February 2006. At the end of July 2006, 216 units (94%) were sold out of the total 230 units with an average price of Rmb13,046.60 per sq.m. The construction work of Phase II-A and Phase III is scheduled to complete in late 2007.

Impact of The New Regulations on Richmond Park

The original development plan of the remaining phases of the Project is an area of low-density apartments and villa, which fails to comply with the recent released policy of “70% of units built are no larger than 90 sq.m.”. Most of the work permits are delayed in the approval process. Both the project company and the government authorities have to clarify the interpretation of the guidelines and the implementation of the policies. This creates uncertainty in the remaining development of Richmond Park Project. The project company will closely monitor the issues and to adjust the development plan accordingly in order to minimize the impact of the new regulations.

Wuhan Xing Cheng Building

Wuhan city is the capital of Hubei Province, it is a famous historical and cultural city in China, a central metropolitan in the middle reaches of Yangtze River, national pivotal industrial base, centre of finance, commerce, logistics, information, science and education in Central China.

Wuhan Xing Cheng Building is a commercial building situated at the city centre of Jianghan District of Wuhan, it is at proximity to shopping malls, luxury residential apartments and commercial buildings. Wuhan Xing Cheng Building has 16 floors, the underground floor is public areas and car parks. The first and second floors are areas for shopping purposes, the third and fifteen floors are commercial offices.

The Group has approved to invest about HK\$38 million to acquire Profit Harbour Industrial Limited, a company registered in Hong Kong, which holds the two retail floors, Level 1 and Level 2 of Wuhan Xing Cheng Building with GFA 4424 sq.m. The property is leased out to CITIC Bank and Beijing Illinois with leases expiring in August 2013 and January 2015. The acquisition will provide the Group a guaranteed rental yield of 8% per year.

Beijing Far East Instrument Co., Ltd. (“Far East”)

Based on the unaudited management account as at 30 June 2006, the profit of Far East has amounted to Rmb9.114 million, as compared with Rmb2.74 million of the same period of 2005. The profit is mainly contributed from the investment income, the dividend income from Beijing Rosemount Far East Instrument Co. Limited, the joint venture of Far East with Rosemount Inc. for advanced market segment. The investment income booked in June 2006 account is Rmb5.52 mn as compared to Rmb2.23 mn booked in June 2004 account. After provisions made for impairment losses on an entrusted investment, the Group shares a profit of Far East for about HK\$2.21 million.

Far East has also succeeded in streamlining the production of traditional electrical products and restructuring the product composition. Far East will concentrate on exploring the business in self-developed systems, which includes the automatic recording system and building integrated control systems.

Quoted Investment

As at 30 June 2006, the Group’s investment in quoted securities includes an investment of 10 million shares in Skyworth Digital Company Limited (“Skyworth”). The Group received HK\$100,000 dividend income from the shareholding of Skyworth in January 2006. Skyworth shares were stated at a valuation of HK\$0.76 per share at the end of June 2006.

On 24 October 2005, the Group subscribed 3,954,000 shares of China Construction Bank Corporation -H shares at HK\$2.35 per share. At 30 June 2006, the shares were stated at their fair value of HK\$3.55 per share.

In view of the active IPO market in the first half year of 2006, the Group utilized the liquid money to make IPO subscription, which produces a gain of HK\$1.34 million for the Group.

FUTURE PROSPECTS

Although the new austerity measures in regulating the real estate sector have increased policy uncertainties in the near term, it is effective to curb down the speculative investments, create a transparent market structure and to prevent over-expansion in real estate market. In the long term, the large developers with good financial position will benefit from the market. The limited land supply for large-sized residential properties will push up the sales price of the luxury properties units. In view of the healthy growth of the real estate sector and China’s buoyant economic market, the Directors of the Company are optimistic on the prospects of the Group.