Management Discussion and Analysis

BUSINESS REVIEW AND OUTLOOK

Group Restructuring and Basis of Presentation of Consolidated Financial Statements

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability on March 14, 2005.

Pursuant to a corporate reorganization (the "Corporate Reorganization") in preparation for the listing of the Company's share on main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on April 22, 2006. Details of the Corporate Reorganization were set out in the prospectus dated February 9, 2007 issued by the Company (the "Prospectus").

The shares of the Company have been listed on the Stock Exchange since February 23, 2007 (the "Listing").

The Group resulting from the Corporate Reorganization is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as if the group structure under the Corporate Reorganization had been in existence throughout the two years ended December 31, 2006 or since their respective dates of incorporation or establishment or date of acquisition, whichever is the shorter period, in accordance with the respective equity interests in the individual companies attributable to the controlling shareholder throughout the two years ended December 31, 2006 and 2005, except for the acquisition of 1.21% equity interest in Shanghai Minhang Concord Property Development Co., Ltd. ("Minhang Concord") and 0.6% equity interest in Shanghai Yingduoli Property Management Company Limited ("Property Management Co") on March 21, 2005, the acquisition of 8% equity interest in Shanghai Jingan-Concord Real Estate Co., Ltd. ("Jingan Concord") and 4% equity interest in Property Management Co on December 31, 2005 which have been accounted for from the respective effective date of the acquisitions.

Group strategies

The Group focuses on developing and creating high quality, large scale, residential and commercial projects in strategic locations in the PRC. The Group designs the properties based on themes and concepts drawn from different cultures. The properties are designed to target the significant and growing middle- and upper- class purchasers and consumers in the PRC, who the Group believes are attracted to a modern and upscale lifestyle and atmosphere.

The Group has in the past focused, and intends to continue to focus, on developing the following:

Large-scale theme residential communities. These are residential projects that are targeted at the growing middle class in the PRC with distinct landscape and interior design features that are based on varying themes and motifs. The selected properties/sites are connected with mass transit system and/or convenient transportation system.

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Upscale theme shopping street developments. These are typically projects located on prime retail streets in major cities in the PRC which are intended to include areas for retail, residential, entertainment, cultural and recreational uses. Our aim is to make each of these projects both a focal point for the entire district in which it is located and a day-trip destination for local and non-local residents.

Currently, we have conducted two projects in Shanghai and have been granted certain options for the acquisition of properties interests located in Beijing and other cities.

BUSINESS ENVIRONMENT

Overview of the Mainland Property Market

Since May 2006, various macro control policies have been launched by the PRC government in order to stabilize the property market. With these new measures, the growth rate of residential property market in the PRC tends to be stabilized. The average increase in residential property price among the 70 cities in the PRC was approximately 5.5% when compared with 2005, with some cities such as Beijing, Guangzhou were much faster. The office and retail property markets on the other hand performed well in most of the major cities.

Overview of the Mainland Property Market in Shanghai

With the new policies launched, the growth rate of property market in Shanghai has been stabilized. While the transaction volume of residential property increased by approximately 8%, the average transaction price in 2006 was more or less the same as that in 2005. On the other hand, the average office vacancy rate was approximately 7.6% while in prime location such as Jingan and Changning area the vacancy level was less than 3%. Average rental for prime office increased by around 10.1% in 2006. Vacancy rate for prime retail property was about 6.5% in 2006, dropped about 1.1% when compared with 2005, as new supply of prime retail properties was limited of more retail developments completed and prime retail spaces in Nanjing Road and Huaihai Road were always the sought-after location for retailers. As a result, rental level also showed an increasing trend and the average rental was increased by approximately 7.4% in 2006.

OPERATION AND FINANCIAL REVIEW

The Group reported a revenue of HK$903.3 million in 2006, a reduction of 27.6% comparing with that of 2005. The revenue of the Group, both 2005 and 2006, was largely generated by the sales of residential properties and accomplished by the properties rental and management fee income. The decrease in revenue was largely contributed by lesser properties delivered in 2006 and partially offset by the increase in average properties selling price as well as the increase in properties rental and management fee income.

Sales of Residential Properties

The Group delivered a gross floor area ("GFA") of 164,611 sqm in 2006 a decrease of 40.7% comparing to 2005. The Group delivered a majority of the residential units at Phase II of Shanghai Cannes in 2005 and expect to deliver a majority of the units at Phase III in the first quarter of 2007.

As at December 31, 2006, the GFA contracted but not delivered amounted to 514,605 sqm, comprising mainly (a) 321,996 sqm of Shanghai Cannes Phase III; and (b) 186,234 sqm of Shanghai Cannes Phase IV.

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Property rental and management fee income

The Group recorded in 2006 an increase of 56.0% and 86.2% of property rental and management fee income to HK$22.7 million and HK$12.2 million respectively as compared with that of 2005. The increase of property rental income was mainly due to more leasable area, higher occupancy rate and higher average rent after the renovation and refurbishment of Phase I of Concord City. The increase of management fee income was mainly caused by an increase in the GFA of properties we managed as a result of our delivery of Phase II and III residential units at Shanghai Cannes in 2006.

PROPERTIES PORTFOLIO

Shanghai Cannes

The Group is developing this large-scale residential and retail community on a site located in the Minhang district of Shanghai. This project has four phases with different themes, and is expected to comprise a development scale of total GFA of approximately two million square meters. As of December 31, 2006, the Group had sold and pre-sold 99.6%, 94.1%, 93.7% and 41.5% of the total GFA at the residential units in Phases I, II, III and IV, respectively. As at December 31, 2006, 28,699 sqm and 262,366 sqm of Phase III and IV, were available for sale or pre-sale.

Concord City

The Group is developing a large-scale integrated retail, residential and commercial project located on Nanjing Road, one of the most well-known shopping streets in Shanghai. The current plan for this project is expected to comprise a development scale of approximately 409,000 square meters of total GFA. This project is being principally designed by Jerde Partnership International, an international firm of architects which was also the principal architect for the development of the Roppongi Hills area in Tokyo and the Bellagio hotel in Las Vegas. The Group aims to establish Concord City as one of the largest and highest quality integrated retails, residential and commercial developments in Shanghai.

The properties under Concord City are largely for rental purpose. The renovation and refurbishment of Tower II residential units and associated retail properties at Phase I at Concord City completed in 2005 increased more leasable area which is one of the major reasons for the increment of our 2006 rental income.

As stated in our Prospectus, we modify our development plans and schedules for Phase II of Concord City from time to time in response to changing property market conditions. With a view to enhance attractiveness of our property, we have recently modified our development plans for Phase II of Concord City and have submitted such plans to the relevant government departments for approval. As we will only be able to commence construction of Phase II after the requisite approvals are obtained, there is a possibility that we may not be able to commence construction of Phase II in the second quarter of 2007 as originally contemplated if such approvals are not granted in time. We shall keep the market informed of the progress.

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OPTIONS

The Group has been granted the right to acquire the properties interests from a substantial shareholder under four options namely Kunshan Option, Beijing Concord Option, Beijing Cannes Option and General Option (the "Options"). Details of the Options, including the exercise price were stated in the Prospectus. The Company has appointed an independent financial advisor to advise the independent non-executive Directors relating to the Options. These Options have not been exercised since the Listing and up to the date of this report.

FURTHER FINANCIAL REVIEW

During the year under review, the decrease in selling expenses was generally in line with the decrease in revenue and the increase in administrative expenses by HK$25.8 million to HK$64.9 million was largely due to the increase in compensation to purchasers of our developed properties and an increase in professional and other expenses incurred in relating to the Listing and partially offset by a decrease in project development expenses paid for potential projects. Pursuant to HKAS32, the transaction costs of an equity transaction are accounted for as deduction from equity to the extent they are directly attributable to the issuing of new shares as disclosed in note 38(i) to the consolidated financial statements. The remaining costs are recognised as an expense when incurred.

The Group experienced an increase in fair values of investment properties of HK$53.5 million for the year ended December 31, 2006, reflecting more stable market conditions in Shanghai since the second half of 2005.

For the year ended December 31, 2005, the Group acquired the minority interest in Minhang Concord for RMB2.0 million, an amount less than the same percentage of the total assets value of the Company. The Group recognized the difference in the amount of HK$18.6 million as a discount on acquisition of additional equity in a subsidiary. For the year ended December 31, 2006, the Group did not incur such discount.

The Group's effective income tax rate decreased from 55.8% in 2005 to 50.0% in 2006 which was primarily due to lower land appreciation tax ("LAT") accrued as a result of the decrease in appreciation value derived from the sales of properties in accordance with relevant LAT rules during the year under review. The Group's total LAT provision as at December 31, 2006, based on our estimates, was HK$246.5 million and we believe sufficient provision has been made based on our estimate of the amount applicable LAT payable in accordance with the requirements set forth in the relevant LAT tax laws and regulations.

Profit for the year and profit attributable to equity holders of the Company increased by 42.8% and 50.5% to HK$207.5 million respectively.

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LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

As at December 31, 2006, the Group's bank balances and cash amounted to HK$28.7 million (2005: HK$6.9 million) which were mainly denominated in Renminbi ("RMB").

The gearing ratio as at December 31, 2006, calculated as bank loans and loans from related companies, less amounts due from related companies, pledged bank deposits and bank balances and cash, divided by total equity was approximately 13.8% (2005: approximately 20.9%). The decrease was mainly due to the issue of shares to Indopark Holdings Limited and raising net proceeds of HK$375.0 million during the year. The Group's gearing ratio has remained at a reasonable position during the year under review and which is in line with our prudence treasury policy.

As at December 31, 2006, the borrowings comprised mainly bank loans of HK$781.7 million (2005: HK$705.7 million), of which HK$383.8 million (2005: HK$86.3 million) and HK$397.9 million (2005: HK$619.4 million) will be repayable within one year and repayable after one year respectively, and loans from related companies of HK$1,850.5 million (2005: HK$1,888.1 million) which will be repayable within one year. As at December 31, 2006, HK$44.8 million (2005: HK$47.9 million) of our bank loans were subject to fixed interest rates. The Group's borrowings are all denominated in RMB except for the bank loans of approximately US$43.7 million (2005: US$60.2 million) which were denominated in United States Dollars. As at December 31, 2006, loans from related companies included balances of HK$643.1 million (2005: HK$771.5 million) bore interest.

As at December 31, 2006, the Group had construction commitment contracted for but not yet provided in respect of property, plant and equipment and investment properties amounted to HK$117.5 million (2005: HK$46.0 million) and be granted the right to acquire certain properties interests from a substantial shareholder under four options namely Kunshan Option, Beijing Concord Option, Beijing Cannes Option and General Option as set out in the Prospectus.

Except for the Corporate Reorganization, there is no material acquisition and disposal of group companies in the course of the year ended December 31, 2006.

The functional currency of the group entities is RMB, the currency of the primary economic environment in which the Group operates. For the purpose of the consolidated financial statements and conveniences of the financial statements users, the results and financial position of the Group are expressed in Hong Kong dollars, the presentation currency for the consolidated financial statements.

During the year under review, the Group has not used any interest rate nor foreign currency derivative instruments to hedge its exposure to interest rate risk and foreign currency risk.

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The Group will continue to adopt its prudence approach in its funding and treasury policies to control financial risk so as to safeguard its shareholders' interests. The Group is comfortable that when opportunities of land bank acquisition arise (including exercise of the Options) in future and require additional fundings that the Group will be able to utilize its internal reserves and debt financing to satisfy necessary funding requirements. In view of the current gearing position, the Group believes that the Group is in a good position to obtain further debt financing, if required, on reasonable and favorable terms.

During the year under review, the Company had issued shares to Indopark Holdings Limited and raised net proceeds of HK$375.0 million. Subsequent to the year end and prior to the Listing, 1,349,048,700 shares were capitalised and the Company has repurchased 48,700 shares from Indopark Holdings Limited with US$55 million. On February 23, 2007, the shares of the Company have been listed on the main board of the Stock Exchange with issuance of 450 million shares and together with the issuance of 6,537,000 shares pursuant to the exercise of over allotment option by Merrill Lynch International, the sole global coordinator and sole bookrunner of the Listing (the "Over-allotment") on March 21, 2007, raised net listing proceeds of approximately HK$1,522.7 million, and issued share capital of the Company was approximately HK$180.7 million.

CHARGES ON ASSETS

Our bank loans outstanding as of December 31, 2006 amounting to approximately HK$781.7 million were secured by the following:

- a building with a carrying value of HK$5.1 million;
- prepaid lease payments with a carrying value of HK$2.8 million;
- investment properties with a carrying value of HK$3,010.0 million;
- properties under development in progress with a carrying value of HK$760.1 million;
- properties under development for sales with a carrying value of HK$951.2 million;
- properties held for sales with a carrying value of HK$253.9 million; and
- pledged deposit of HK$91.6 million.

CONTINGENT LIABILITIES

As of December 31, 2006, we guaranteed mortgage loans to purchasers of our properties in the aggregate outstanding principal amount of HK$1,857.8 million. In 2006, we experienced seven cases of default. As of December 31, 2006, the total amount of guaranteed loans under default were approximately HK$3.8 million or representing 0.2% of the total guaranteed loans outstanding as at that date.

In addition to these guarantees, the Group also pledged the entire issued capital of Silatop Associates Limited and China Channel Limited, and charged the assets of Silatop Associates Limited and Concord Properties Holding (Shanghai) Limited as well as the account receivable of Shanghai Jingan-Concord Real Estate Co., Ltd. and Shanghai Minhang Concord Property Development Co., Ltd., in each case to banks to secure certain loans to certain group companies of Pacific Concord Holding Limited ("PCH Group"), a related company of the Company. All the above-mentioned companies except PCH Group are wholly owned subsidiaries of the Group. The bank released such pledges on April 21, 2006 as a result of repayment of these loans.

As of December 31, 2006, third party claims against us primarily consist of disputes relating to design and landscape matters, disputes over construction matters, and disputes over sale and pre-sale contract and tenancies, which we believe have been adequately provided in the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2006, the Group had approximately 497 employees in Hong Kong and the PRC. The total staff costs incurred were approximately HK$27.6 million.

The Group remunerates its employees mainly with reference to individual performance, qualification, experience and the prevailing industry practice. Apart from basic remuneration and statutory retirement benefit scheme, discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as individual performance. In addition, share options may be granted from time to time in accordance with the terms of the Company's approved share option to provide incentives and rewards to the employees.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares (including the exercise of Over-allotment) in connection with its Listing on the Stock Exchange, after deduction of related expenses, amounted to approximately HK$1,522.7 million, which are intended to be applied in accordance with the proposed applications set out in the section headed "Future Plans And Use Of Proceeds" in the Prospectus. Up to the date of this report, approximately HK$429 million, HK$332.9 million, HK$88.1 million, HK$2.3 million and HK$48.9 million were utilized to settle in full the amount due under the loan note issued to Indopark Holdings Limited, repay a short-term bank loan from Wing Hang Bank, Limited, finance the development of Shanghai Cannes, finance the development of Concord City and as general working capital purposes respectively. The remaining net proceeds is placed in short-term deposits with financial institutions and licensed banks in Hong Kong.