

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL OPERATING CONDITIONS

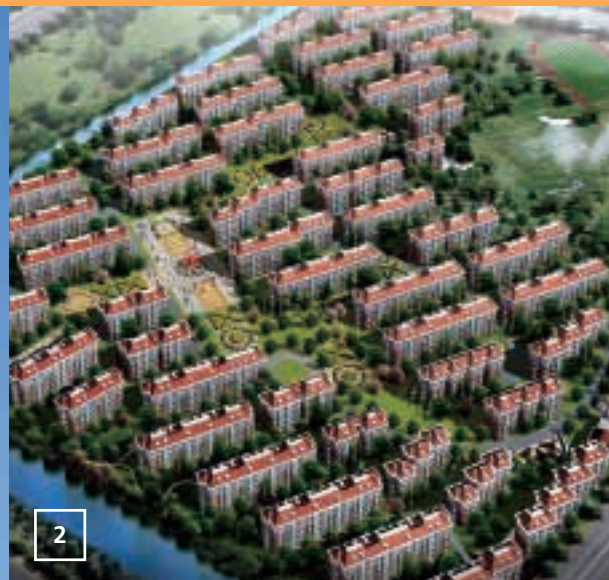
As at 31st December, 2006, the Group recorded a turnover of HK\$946,736,000 (corresponding period in 2005: HK\$709,655,000), representing an increase of 33.4% as compared with the corresponding period last year. Profit attributable to shareholders amounted to HK\$189,387,000 (corresponding period in 2005: HK\$164,601,000), representing an increase of 15.1% as compared with the corresponding period last year. Basic earnings per share was HK17.88 cents (corresponding period in 2005: HK18.34 cents), while diluted earnings per share was HK17.54 cents (corresponding period in 2005: HK18.17 cents).

As at 31st December, 2006, total shareholders' equity of the Group amounted to HK\$3,664,592,000 (31st December, 2005: HK\$2,776,497,000) and net book asset value per share was HK\$2.72 (31st December, 2005: HK\$3.1). The Group raised HK\$600 million by issuing 448 million new shares on a basis of issuing one rights share for every two shares held at HK\$1.35 per share in August, 2006. In March, 2007, the Group made a placement of shares at HK\$1.70 each to Rich Champ Investments Ltd., the strategic investor, whose ultimate beneficial owner is Mr. Larry Yung Chi Kin.

Corporate Business Structure



1. Shanghai Poly Square Project
2. Shanghai Jinli Apartments Project





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Business Review for Real Estates

As at 31st December, 2006, the Group has totally eight real estate projects under construction with a total gross floor area of approximately 1.25 million square meters, and forecasts that profits would be recognised in the coming one to three years.

Table for projects under construction

Projects	Site area (square meters)	Total gross floor area (square meters)	Group's Interest
Shanghai Poly Square Project	27,000	101,000	90%
Shanghai Jinli Apartments Project	140,000	181,000	50.1%
Wuhan Poly Bay View Project	39,000	111,000	63%
Chongqing Poly Spring Villas Project	210,000	63,000	51%
Chongqing Emerald Valley Project	522,000	483,000	30%
Suzhou Poly Elegance Garden Project	20,000	52,000	80%
The Guangzhou Westin Hotel and the Office Building Project	9,000	129,000	51%
Beijing Netcom Building Project	11,000	131,000	49%
Total:	978,000	1,251,000	

1. Shanghai Poly Square Project

The project is situated in the central business district in Lujiazui, Shanghai, the rarely beautiful view of the Huangpu River and district resources in the financial centre. The project, which has a site area of 27,000 square meters and a gross floor area of approximately 101,000 square meters, will involve the construction of a complex of offices, hotels and service apartments. The Group holds 90% of the interests in the project. The project duly commenced its construction in November, 2006.

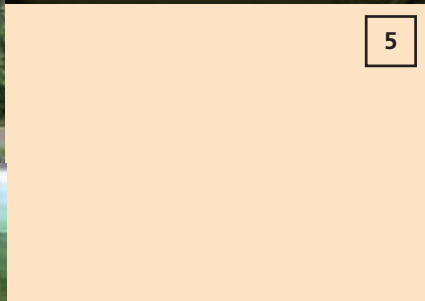
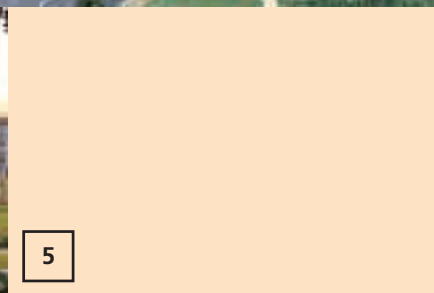
2. Shanghai Jinli Apartments Project

The project is situated in the core zone of "new town", which is the focus of reconstruction under "the Eleventh Five-Year Plan", in the Tang Town of the Pudong New Area. The zone is situated in most advantageous region which is adjacent to Zhangjiang Hi-Tech Park (張江高科技園), and is easy to reach since it is near the extension lot of the Tang Town station of Metro Line No. 2. The project, which has a site area of approximately 140,000 square meters and a total gross floor area of approximately 181,000 square meters, will be constructed into a beautiful and environmental friendly residential area with waterfront.

The Group holds 50.1% of interests in the project. The construction of the project is planned to be commenced in the first half of 2007. As the project belongs to the urban commodity housing, an overall sales agreement was signed with the government in February, 2007.

3. Wuhan Poly Bay View Project
4. Chongqing Poly Spring Villas Project

5. Chongqing Emerald Valley Project
6. Suzhou Poly Elegance Garden Project





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3. *Wuhan Poly Bay View Project*

The project is located in the South Lake District of the new residential town in Hong Shan District, Wuhan. It is culturally rich given the presence of renowned schools such as 華中師範大學 in its peripheral and is easily accessible. The project occupies an area of 39,000 square meters with a gross floor area of approximately 111,000 square meters. It is expected to be constructed as mid to high-end residential district. The Group holds 63% of interest in the project. The construction of the project has commenced in March, 2006. As at 31st December, 2006, the aggregate number of contracted sale were 604, and the selling rate amounted to 60%.

4. *Chongqing Poly Spring Villas Project*

The project is located in one of the top ten tourist sites in Chongqing. The project followed the philosophy of "harmonisation of architect and nature", and situated in a magnificent environment with a natural landscape and historical buildings nearby. It is an important project of Chongqing City and Ba Nan District, and has been classified as a focus project of "wu fang shi quan" (五方十泉). The project has a site area of 210,000 square meters, with gross floor area of 63,000 square meters, and is to develop high-end villas. The Group holds 51% interest. The construction of the project has commenced in 2006. It is anticipated that the sales of Phase 1 of the project, which has a site area of 21,000 square meters, will be ready for commencement in the first half of 2007.

5. *Chongqing Emerald Valley Project*

The project is situated in the North New District of Chongqing, which is a rare area having beautiful view with surrounding hills in the northern part of Chongqing. The project has a site area of 522,000 square meters, with gross floor area of 483,000 square meters. The project comprised mid to high end residential development of town houses, villas and apartments, and will become a small residential district featured with French style. The Group holds 30% interest. The sale of Phase 1 of the project, which has a site area of 118,000 square meters, has commenced. As at 31 December 2006, a total of 251 units have been sold, with a selling rate of 35%.

6. *Suzhou Poly Elegance Garden Project*

The project is situated in the centre of the New District of Suzhou, which is also the core district in the new district of CBD. The project has a site area of approximate 20,000 square meters, with a gross floor area of approximate 52,000 square meters. It will become a small residential area in high quality after development. The Group holds 80% interest in the project. The construction of the project has been completed. As at 31 December 2006, a total of 308 units have been sold, with a selling rate of 88%.

7. The Guangzhou Westin Hotel and Office Building Project
8. Beijing Netcom Building Project





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7. The Guangzhou Westin Hotel and Office Building Project

The project is located in the Tianhe business center of Guangzhou, with Citic Plaza (the landmark of Guangzhou City) and Guangzhou East Station nearby. The project has a site area of approximately 9,000 square meters, with a gross floor area of approximately 129,000 square meters. The Group holds 51% interest in the project. The project has commenced its construction in August 2003 and is expected to commence business in mid 2007 when the construction of the hotel is completed. The Group signed an agreement on 2 March 2007 to sell the equity interest and debts it held at a consideration of approximately HK\$450 million. The transaction is expected to complete in mid-2007 and to bring the Group satisfactory return and cash flows.

8. Beijing Netcom Building Project

Beijing Netcom Building is situated in Financial Street, Xi Cheng District, Beijing, facing the Second Ring West Road. The project has a site area of approximately 11,000 square meters, with a gross area of approximately 131,000 square meters. The Group holds 49% interest in the project. The progress of construction of the project is satisfactory and completed in January, 2007. The whole building has been sold to China Network Communications group. It is expected that the Group will receive the project investment and profit in 2007.

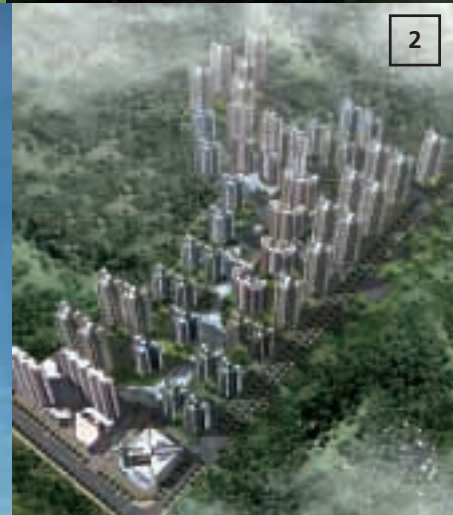
Land Reserves

In the first quarter of 2007, the Group acquired two new land parcels, which scattered around Shanghai City and Wuhan City, resulting in an addition of 350,000 square meters in land reserves and 910,000 square meters in gross floor area available for development. As at 31 March 2007, the Group possessed 510,000 square meters of land reserves and approximately 1,500,000 square meters of gross floor area in total, which are sufficient for planned development in the coming two to three years.

List of Land Reserves

Land Parcels	Site Area (square meters)	Floor Area (square meters)	Group's Interest
上海保利花香假日項目 (Shanghai Poly Hua Xiang Jia Ri project)	154,000	353,000	100%
武漢花香假日項目 (Wuhan Hua Xiang Jia Ri project)	200,000	562,000	100%
Wuhan Poly Cultural Plaza project	12,000	139,000	100%
武漢楊園項目 (Wuhan Yangyuan project)	30,000	84,000	51%
North Tianhe project in Guangzhou	7,000	102,000	51%
Guangzhou Zhoutouzui project	103,000	256,000	49%
Total	506,000	1,496,000	

1. The land parcel of Shanghai Poly Hua Xiang Jia Ri Project (上海保利花香假日地塊)
2. The land parcel of Wuhan Hua Xiang Jia Ri Project
3. The land parcel of Wuhan Poly Cultural Plaza project
4. The Yangyuan (楊園) Site in Wuhan
5. The North Tianhe Project Site in Guangzhou
6. The Zhoutouzui Project Site in Guangzhou





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1. *The land parcel of Shanghai Poly Hua Xiang Jia Ri Project (上海保利花香假日地塊)*

The land parcel is located in the prime area of Jiading New City with site area and gross floor area amounting to approximately 154,000 square meters and 353,000 square meters respectively. The land serves for residential and commercial purpose. The Group holds 100% interest in the development project. The project is undergoing planning and design, and is expected to commence construction in mid 2007.

2. *The land parcel of Wuhan Hua Xiang Jia Ri Project*

The land parcel is located in a developed residential area in Gaoxin Region, Wuhan East Lake (武漢高新區) with a site area of approximately 200,000 square meters and gross floor area amounting to approximately 562,000 square meters. The land serves for residential purpose. The Group will hold 100% interest in the development project. Currently, the project is undergoing planning and design, and is expected to commence construction in 2007.

3. *The land parcel of Wuhan Poly Cultural Plaza project*

The land parcel is located in the interchange of Zhong Nan Lu (中南路) and Mingzhu Lu (民主路) in Wuchang, Wuhan, which is opposite to the Hubei Province government and closely adjacent to inner ring road (內環線) of the city and No.2 and 4 of the subway. The land parcel has a site area of approximately 12,000 square meters and gross floor area amounting to approximately 139,000 square meters. The land serves for composite purpose. The Group holds 100% interest in the development project. The project is currently undergoing planning and design, and is intended to be constructed as a landmark in Wuchang region, and is expected to commence construction by the end of 2007.

4. *The Yangyuan (楊園) Site in Wuhan*

Located in Wuchang, Wuhan, next to the Yangtze River, the site occupies an area of 30,000 square meters and is designed for industrial use. The Group holds 51% equity interest in the project company and is preparing to submit an application for the change of land use right purpose.

5. *The North Tianhe Project Site in Guangzhou*

The site is situated at the interchange of the north of Tianhe North Road and Tiyu East Road, with the Guangzhou subway stations and bus stops nearby. The site occupies an area of approximately 7,000 square meters and gross floor of area approximately 102,000 square meters. The Group holds 51% equity interest in the land.

6. *The Zhoutouzui Project Site in Guangzhou*

The site is situated at Zhijiang River in Haizhu District, Guangzhou City, next to Binjiang West Road and the Zhoutouzui Park. The land occupies an area of 103,000 square meters and gross floor area approximately 256,000 square meters. The Group holds 49% equity interest in the land.

1. Shanghai Stock Exchange Building
2. Poly Plaza

3. Beijing Legend Garden Villas
4. Hubei Poly White Rose Hotel





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Review of Property Investment Business

With the consistently steady economic growth in China, quality commercial properties are highly demanded in the market. The Group owns numerous quality properties in Beijing, Shanghai, Wuhan and Hong Kong. As at 31 December 2006, the Group held a gross floor area of 170,000 square meters, with the accumulated operating income for 2006 at RMB135,320,000. Such properties have continually recorded a high occupancy rate as well as satisfactory returns and have become a stable, long term source of income for the Group.

District	Project	Gross Floor Area (square meters)	Category
Shanghai	Shanghai Stock Exchange Building ^{#1}	48,000	Office building
Beijing	Poly Plaza ^{#2}	71,000	Office building, hotel and theatre
Beijing	Beijing Legend Garden Villas ^{#1}	17,000	Apartment, villa, commercial
Wuhan	White Rose Hotel	33,000	Hotel
Hong Kong	25th Floor, Admiralty Centre, Tower 1	2,000	Office building

#1 The calculation is based on the gross floor area held by the Group.

#2 The calculation is based on the 75% equity interest held by the Group.

1. Shanghai Stock Exchange Building

Shanghai Stock Exchange Building is situated in the financial district in Lujiazui, Pudong New District, Shanghai. Apart from being a prestigious Grade A office building, it also houses the Shanghai Stock Exchange and its tenants include such financial institutions as Banque Nationale de Paris, Credit Suisse, China Everbright Holdings Company Limited and Hong Kong Hang Seng Bank, etc.

The Group holds a gross floor area of approximately 48,000 square meters of the building, approximately 2,000 square meters of which is for its own use and approximately 46,000 square meters for leasing.

In 2006, the rental income amounted to RMB67,230,000, an increase of 32.6% as compared to RMB50,720,000 in 2005. Operating profit was RMB53,540,000, an increase of 25.9% as compared to RMB42,520,000 in 2005. This was mainly attributable to the increase in rental rate in 2006. The annual occupancy rate remained at 98% and the average rental rate was RMB4.48/square meter/day, representing an increase of 7% as compared with 2005 rental rate of RMB4.20/square meter/day. At the end of the year, the rental rate for new leases exceeded RMB6/square meter/day as a result of the robust economic development in Shanghai. Its investment returns are expected to continually increase in the future.



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2. *Poly Plaza*

Poly Plaza is located in an area adjacent to embassies of various countries in China and CBD commercial areas. Poly Plaza is a composite architecture comprised of a four-star hotel with 292 standard rooms and deluxe rooms, an office with an area of 12,000 square meters, a theatre with 1,300 seats and a museum. The Plaza signed the "Service Agreement of Accommodation and Reception" with the Olympic Games, and has become the "the official hotel reception of guests in Beijing 2008 Olympic Games" (北京2008奧林匹克運動會官方接待飯店).

In 2006, the turnover of Poly Plaza remained at the same level as last year, which amounted to RMB131 million. Its gross profit from operations amounted to RMB58 million, with guest room occupancy rate of 77%. The annual average room rate amounted to RMB641 per day per room, representing an increase of RMB24 or 3.9% as compared to 2005. In terms of guest rooms, the area available for operation amounted to 12,136 square meters, and the average revenue capability of guest rooms per annum in 2006 was RMB11.9 per square metre per day, representing an 4.4% increase over the RMB11.4 per square metre per day of 2005.

3. *Beijing Legend Garden Villas*

Beijing Legend Garden Villas is situated in the Tinzhu (天竺) high-end villa district next to the capital airport. Surrounded by an exquisite natural environment, the villa is the first high-end foreigner-oriented apartment and villa district in Beijing.

As at 31 December 2006, the residential units held by the Group for rental purpose occupied an area of 6,663 square meters and commercial properties 10,808 square meters.

4. *Hubei Poly White Rose Hotel*

White Rose Hotel, a 4-star hotel with 249 standard and presidential suites, is situated in Wuhan, Hubei Province and is in close proximity with Hong Shan Plaza in town centre.

The operating revenue for 2006 was RMB67.90 million, hitting a ten-years' high since its operation; while the operating gross profit amounted to RMB53.08 million, representing a growth of 6.6% with an average occupancy rate of 81%. The average daily room rate was RMB421/room, representing an increase of 1.7% over RMB414 in 2005. The operable area for suites is 13,000 square meters. Profitability for suites in 2006 was RMB7.8/square meter/day, representing an increase of 6.8% over the RMB7.3/square meter/day in 2005.

5. *25/F, Admiralty Centre Tower 1*

Admiralty Centre Tower 1 situates above the MTR station in the financial hub in Hong Kong and is easily accessible. The Group owned the whole 25/F (representing an area of approximately 2,000 square meters) of tower 1, with half of which for self-use and the remaining half for lease. The occupancy rate in 2006 almost reached 100%.



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BUSINESS REVIEW FOR PROPERTY MANAGEMENT

Shanghai Poly Property Hotel Management Company Limited, held by the Group, is principally engaged in the management in high-end properties and hotels. The company was awarded "The Most Influential Corporate in Asian High-End Property Management for 2006" in the 2006 Asian High-End Property Management Summit Forum and International Outstanding Management Appraisal.

The property company realised an income of RMB41.60 million in 2006 and managed over 30 property projects involving a floor area of 3.12 million square meters, which encompass offices premises, hotels, shopping malls, villas and residentials. The properties managed included 北京CBD國際大廈, Beijing New Poly Plaza, Poly Plaza, 上海通用汽車商務樓, Shanghai Stock Exchange Building, 浙江洋城大酒店, Harbin Poly Technologies Tower, 南方電網調度通訊大樓, 廣東廣播中心, Guangzhou CITIC Plaza and Hubei Poly White Rose Hotel.

BUSINESS REVIEW FOR NON-PROPERTY BUSINESS

1. Cogeneration plant

The Group was interested in five cogeneration plants in Jiangsu Province and one cogeneration plant in Zhejiang Province. The operation efficiency of cogeneration plants was improving in 2006.

2. Polystar digidisc project

In 2006, the global optical disc industry encountered decreasing, price of major raw material (oil product) significantly increased, competitive among domestic optical disc enterprises become fierce. Under that unfavourable environment, Polystar remained its operating result level, and become a leading optical disc manufacturing enterprise in PRC. During the year, optical disc production amounted to 81.04 million pieces, sales income amounted to RMB90,740,000, as one of the few profit-making enterprise among the 126 optical disc replication enterprises.

3. Oils and Grains and port project

The Group disposed 35% interest in the oils and grains and port company that located in Yangjiang, Guangdong province with premium in December 2006, the Group had currently discontinued the relevant business.

4. Disposal of insurance business

The Group disposed of its 48% interest in Winterthur Insurance (Asia) Limited with premium. The Group had currently discontinued the relevant business.