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越秀地產股份有限公司
Yuexiu Property Company Limited
*(Incorporated in Hong Kong with limited liability)*
**(Stock code: 123)**

# 2010 INTERIM RESULTS ANNOUNCEMENT

## UNAUDITED RESULTS

The board of directors ("Directors" or "Board") of Yuexiu Property Company Limited ("Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries ("Group") prepared under Hong Kong Accounting Standard 34 "Interim Financial Reporting" for the six months ended 30 June 2010, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

| | | **Unaudited** | |
|---|---|---|---|
| | | **Six months ended 30 June** | |
| | *Note* | **2010** | **2009** |
| | | *RMB'000* | *RMB'000* |
| Revenue | 3 | 1,037,347 | 2,211,526 |
| Cost of sales | 4 | (607,590) | (1,408,801) |
| Gross profit | | 429,757 | 802,725 |
| Proceeds from sales of investment properties | | 702,296 | 51,651 |
| Direct costs of investment properties sold | | (499,812) | (36,797) |
| Gain on sales of investment properties | | 202,484 | 14,854 |
| Fair value gains on revaluation of investment properties | | 187,168 | 307,564 |
| Selling and distribution expenses | 4 | (92,091) | (74,993) |
| General and administrative expenses | 4 | (312,619) | (266,903) |

| | Note | Unaudited<br>Six months ended 30 June<br>2010<br>*RMB'000* | <br><br>2009<br>*RMB'000* |
|---|---|---|---|
| Operating profit | | 414,699 | 783,247 |
| Finance income | | 12,384 | 35,169 |
| Net foreign exchange gain on financing activities | | 29,039 | 1,512 |
| Finance costs | | (73,100) | (12,842) |
| Share of profits of | | | |
| - jointly controlled entities | | 45,979 | 133 |
| - associated entities | | 97,486 | 41,665 |
| Profit before tax | | 526,487 | 848,884 |
| Taxation | 5 | (139,361) | (279,250) |
| Profit for the period from continuing operations | | 387,126 | 569,634 |
| Discontinued operation | | | |
| Profit for the period from discontinued operation | | — | 179,307 |
| Profit for the period | | 387,126 | 748,941 |
| Attributable to | | | |
| Equity holders of the Company | | 355,660 | 604,750 |
| Minority interests | | 31,466 | 144,191 |
| | | 387,126 | 748,941 |

| | Note | Unaudited Six months ended 30 June 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| Profit for the period attributable to equity holders of the Company | | | |
| From continuing operations | | 355,660 | 534,402 |
| From discontinued operation | | — | 70,348 |
| | | 355,660 | 604,750 |
| Profit for the period attributable to minority interests | | | |
| From continuing operations | | 31,466 | 35,232 |
| From discontinued operation | | — | 108,959 |
| | | 31,466 | 144,191 |
| Earnings per share for profit from continuing operations and profit from discontinued operation attributable to equity holders of the Company (expressed in RMB per share) | 6 | | |
| - Basic | | | |
| From continuing operations | | 0.0498 | 0.0750 |
| From discontinued operation | | — | 0.0099 |
| | | 0.0498 | 0.0849 |
| - Diluted | | | |
| From continuing operations | | 0.0495 | 0.0747 |
| From discontinued operation | | — | 0.0098 |
| | | 0.0495 | 0.0845 |
| | | *RMB'000* | *RMB'000* |
| Dividend | 7 | — | 50,451 |

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2010**

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| Profit for the period | 387,126 | 748,941 |
| Other comprehensive income: | | |
| Currency translation differences | (23,318) | (11,566) |
| Change in fair value of available-for-sale financial assets, net of tax | 23,101 | 254,265 |
| Other comprehensive income for the period, net of tax | (217) | 242,699 |
| Total comprehensive income for the period | 386,909 | 991,640 |
| Attributable to | | |
| Equity holders of the Company | 354,085 | 840,642 |
| Minority interests | 32,824 | 150,998 |
| | 386,909 | 991,640 |

**CONDENSED CONSOLIDATED BALANCE SHEET**
**AS AT 30 JUNE 2010**

| | | As at | |
|---|---|---|---|
| | *Note* | **30 June 2010** | **31 December 2009** |
| | | *Unaudited* | *Audited* |
| | | *RMB'000* | *RMB'000* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 1,890,078 | 1,579,667 |
| Investment properties | | 7,562,101 | 7,489,527 |
| Leasehold land and land use rights | | 556,511 | 552,514 |
| Interests in jointly controlled entities | | 214,934 | 170,451 |
| Interests in associated entities | | 1,579,353 | 1,527,023 |
| Available-for-sale financial assets | | 1,109,821 | 1,082,483 |
| Deferred tax assets | | 40,864 | 41,310 |
| | | 12,953,662 | 12,442,975 |
| **Current assets** | | | |
| Properties under development | | 19,140,070 | 15,112,096 |
| Properties held for sale | | 756,341 | 902,225 |
| Prepayments for land use rights | | 1,298,660 | 1,375,949 |
| Inventories | | 108,559 | 90,939 |
| Trade receivables | 8 | 25,968 | 53,050 |
| Other receivables, prepayments and deposits | | 1,726,871 | 548,356 |
| Taxation recoverable | | 515,558 | 334,069 |
| Charged bank deposits | | 1,211,171 | 1,845,200 |
| Cash and cash equivalents | | 6,125,126 | 4,327,915 |
| | | 30,908,324 | 24,589,799 |

| | Note | As at 30 June 2010 Unaudited RMB'000 | As at 31 December 2009 Audited RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables | 9 | 101,582 | 122,107 |
| Land premium payable | | 439,182 | 439,182 |
| Advance receipts from customers | | 8,290,004 | 4,075,049 |
| Other payables and accrued charges | | 4,140,078 | 3,962,375 |
| Borrowings | | 3,168,920 | 1,887,472 |
| Taxation payable | | 839,902 | 829,204 |
| | | 16,979,668 | 11,315,389 |
| **Net current assets** | | 13,928,656 | 13,274,410 |
| **Total assets less current liabilities** | | 26,882,318 | 25,717,385 |
| **Non-current liabilities** | | | |
| Borrowings | | 11,451,799 | 10,705,914 |
| Deferred tax liabilities | | 2,513,451 | 2,496,220 |
| | | 13,965,250 | 13,202,134 |
| **Net assets** | | 12,917,068 | 12,515,251 |

| | Note | As at 30 June 2010 | 31 December 2009 |
|---|---|---|---|
| | | *Unaudited* | *Audited* |
| | | *RMB'000* | *RMB'000* |
| **EQUITY** | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Share capital | | 668,298 | 668,202 |
| Other reserves | | 7,262,116 | 7,260,823 |
| Retained earnings | | 4,500,148 | 4,146,724 |
| | | 12,430,562 | 12,075,749 |
| Minority interests | | 486,506 | 439,502 |
| **Total equity** | | 12,917,068 | 12,515,251 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 **Basis of preparation**

This condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

During the period ended 30 June 2010, the Group has changed the presentation currency of its financial statements from Hong Kong dollar to Renminbi ("RMB"). The Board of Directors considers the change will result in a more appropriate presentation of the Group's transactions in the financial statements. The comparative figures in this condensed consolidated interim financial information are translated from Hong Kong dollar to RMB using the rates that approximate the closing rates for balance sheet items and average rates for the period under review for income statement items. As a result, the comparative figures have been re-presented and resulted in the decrease of exchange fluctuation reserve of approximately RMB968,000,000 as at 30 June 2010.

2 **Accounting policies**

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

a) Change in accounting policy on leasehold land and land use rights

During the period ended 30 June 2010, the Group changed its accounting policy for leasehold land and land use rights which is held for development for sale. Leasehold land and land use rights which are held for development for sale meet the definition of both inventories under HKAS 2 "Inventories" and leasehold land and land use rights under HKAS 17 "Leases". Previously, leasehold land and land use rights that are held for development for sale were classified as prepaid operating leases and payments were amortised on a straight line basis over the period of the lease in accordance with HKAS 17. Amortisation of leasehold land and land use rights during the development phase was capitalised as part of the construction cost of the property. Amortisation charges incurred prior to development and following completion of the property were recognised in profit or loss. Subsequent to the change in accounting policy, leasehold land and land use rights which are held for development for sale are classified as inventories in accordance with HKAS 2 and measured at the lower of cost and net realisable value.

Management believes that the new classification of leasehold land and land use rights as inventories results in a more relevant presentation of the financial position of the Group, and of its performance for the period. The revised treatment reflects management's intent regarding the use of the leasehold land and land use rights and results in a presentation consistent with industry practice.

The change in accounting policy has been accounted for retrospectively and the condensed consolidated interim financial information has been restated by reversing the amortisation charged in prior years. The effect on the condensed consolidated interim financial information is as follows:

| | Six months ended 30 June | |
|---|---|---|
| **Condensed consolidated income statement** | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| Decrease in cost of sales | (56,792) | (5,145) |
| Increase in share of profits of jointly controlled entities | 153 | 153 |
| Increase in share of profits of associated entities | 54 | 21 |
| Increase in taxation | 16,808 | 1,922 |
| Increase in profit attributable to equity holders of the Company | 37,944 | 1,871 |
| Increase in profit attributable to minority interests | 2,247 | 1,526 |
| Increase in basic and diluted earnings per share (in RMB) | 0.0056 | 0.0005 |

| | As at | |
|---|---|---|
| | **30 June** | **31 December** |
| **Condensed consolidated balance sheet** | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| Decrease in leasehold land and land use rights — non-current | (6,103,210) | (4,182,098) |
| Increase in interests in jointly controlled entities | 5,526 | 5,372 |
| Increase in interests in associated entities | 369 | 315 |
| Decrease in deferred tax assets | (31,899) | (31,872) |
| Increase in properties under development | 12,318,033 | 10,376,919 |
| Increase in properties held for sale | 152,780 | 197,071 |
| Decrease in leasehold land and land use rights — current | (5,782,116) | (5,863,196) |
| Increase in deferred tax liabilities | 181,955 | 165,174 |
| Increase in retained earnings | 354,895 | 316,951 |
| Increase in minority interests | 22,633 | 20,386 |

b) Amended standard adopted by the Group

The following new amendment to standard is mandatory for the first time for the financial year beginning 1 January 2010:

HKAS 17 (Amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term.

HKAS 17 (Amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance lease retrospectively. As a result of the reassessment, the Group has reclassified certain leasehold land from operating leases to finance leases.

The accounting for land interest classified as finance lease is as below:

- If the property interest is held for own use, that land interest is accounted for as property, plant and equipment and is depreciated from the land interest available for its intended use over the shorter of the useful live of the asset and the lease term.

- If the property interest is held for sale in the ordinary course of business or is in the process of being developed for such sale, that land interest is accounted for as inventory under "Properties held for sale" or "Properties under development" respectively, and stated at the lower of cost and net realisable value. Prior to the amendment, the amortisation of the land interest during the construction period is capitalised.

The effect of the adoption of this amendment is as below:

| | Six months ended 30 June | |
|---|---|---|
| **Condensed consolidated income statement** | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| Increase/(decrease) in cost of sales | 350 | (42) |
| (Decrease)/increase in profit attributable to equity holders of the Company | (350) | 42 |

| Condensed consolidated balance sheet | As at 30 June 2010 *RMB'000* | As at 31 December 2009 *RMB'000* |
|---|---|---|
| Increase in property, plant and equipment | 277,474 | 281,382 |
| Decrease in leasehold land — non-current | (804,348) | (813,148) |
| Increase in properties under development | 723,649 | 730,368 |
| Increase in properties held for sale | — | 3,531 |
| Decrease in leasehold land — current | (196,775) | (201,796) |
| Increase in retained earnings | — | 350 |
| Decrease in exchange fluctuation reserve | — | (13) |

(i) Property, plant and equipment

Leasehold land classified as finance lease is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the land interest. Depreciation commences from the land interest becomes available for its intended use, and is calculated using straight-line method to allocate the cost over the remaining lease terms of 58 to 60 years.

(ii) Properties under development and held for sale

Properties under development and held for sale are stated at the lower of cost and net realisable value. Development cost of properties comprises cost of land use rights, construction costs and borrowing costs incurred during the construction period. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Properties under development and held for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

c) The following amendments, revision and interpretation to existing standards effective in 2010 but not relevant to the Group:

| | |
|---|---|
| HKAS 39 (Amendment) | Eligible Hedged Items |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transaction |
| HKFRS 3 (Revised) | Business Combinations |
| HK(IFRIC)-Int 17 | Distributions of Non-cash Assets to Owners |
| HKFRS (Amendments) | Improvements to HKFRS 5 as a Part of Improvements to HKFRS Issued in October 2008 |
| HKFRS (Amendments) | Improvements to HKFRS Issued in May 2009 |

d) The following new standards, new interpretation, amendments and revision to standards and interpretation have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HKFRS 9 | Financial Instruments | 1 January 2013 |
| HKAS 24 (Revised) | Related Party Disclosures | 1 January 2011 |
| HKAS 32 (Amendment) | Classification of Rights Issues | 1 February 2010 |
| HK(IFRIC) Int — 14 (Amendment) | Prepayments of a Minimum Funding Requirement | 1 January 2011 |
| HK(IFRIC) — Int 19 | Extinguishing Financial Liabilities with Equity Instruments | 1 July 2010 |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters | 1 July 2010 |
| HKFRS (Amendments) | Improvements to HKFRS Issued in May 2010 | 1 January 2011 |

Management is in the process of making an assessment of the impact of these new standards, new interpretation, amendments and revision to standards and interpretation and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

## 3 Segment information

The chief operating decision-maker has been identified as the board of directors (the "Board"). Management determines the operating segments based on the Group's internal reports, which are then submitted to the Board for performance assessment and resources allocation.

The Board considers the business by nature of business activities and assesses the performance of property development, property management, property investment and toll operations (disposed of in 2009) and others.

The Board assesses the performance of the operating segments based on a measure of segment results. This measurement basis excludes the effects of non-recurring expenditure from the operating segments. Other information provided, except as noted below, to the Board is measured in a manner consistent with that in the condensed consolidated income statement.

Total assets excluded deferred tax assets, taxation recoverable and corporate assets. Corporate assets are not directly attributable to segments.

Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions. The revenue from external parties reported to the Board is measured in a manner consistent with that in the condensed consolidated income statement.

| | **Property development** *RMB'000* | **Property management** *RMB'000* | **Property investment** *RMB'000* | **Others** *RMB'000* | **Total continuing operations** *RMB'000* | **Discontinued operations (Toll operations)** *RMB'000* | **Group** *RMB'000* |
|---|---|---|---|---|---|---|---|
| **Six months ended 30 June 2010** | | | | | | | |
| Revenue | 382,662 | 184,310 | 154,103 | 513,932 | 1,235,007 | — | 1,235,007 |
| Inter-segment revenue | — | (5,403) | (988) | (191,269) | (197,660) | — | (197,660) |
| Revenue from external customers | 382,662 | 178,907 | 153,115 | 322,663 | 1,037,347 | — | 1,037,347 |
| Segment results | 54,122 | 4,133 | 352,814 | 24,865 | 435,934 | — | 435,934 |
| Share of profits of | | | | | | | |
| - jointly controlled entities | 45,979 | — | — | — | 45,979 | — | 45,979 |
| - associated entities | 97,486 | — | — | — | 97,486 | — | 97,486 |
| **Six months ended 30 June 2009** | | | | | | | |
| Revenue | 1,649,758 | 171,218 | 120,236 | 374,477 | 2,315,689 | 446,998 | 2,762,687 |
| Inter-segment revenue | — | (15,206) | (434) | (88,523) | (104,163) | — | (104,163) |
| Revenue from external customers | 1,649,758 | 156,012 | 119,802 | 285,954 | 2,211,526 | 446,998 | 2,658,524 |
| Segment results | 346,851 | 9,780 | 418,502 | 17,739 | 792,872 | 221,557 | 1,014,429 |
| Share of profits/(losses) of | | | | | | | |
| - jointly controlled entities | 133 | — | — | — | 133 | (10,042) | (9,909) |
| - associated entities | 41,665 | — | — | — | 41,665 | 125,723 | 167,388 |

| | Property development *RMB'000* | Property management *RMB'000* | Property investment *RMB'000* | Others *RMB'000* | Group *RMB'000* |
|---|---|---|---|---|---|
| **As at 30 June 2010** | | | | | |
| Segment assets | 32,495,086 | 256,625 | 7,562,101 | 460,038 | 40,773,850 |
| Interests in jointly controlled entities | 214,934 | — | — | — | 214,934 |
| Interests in associated entities | 1,579,353 | — | — | — | 1,579,353 |
| Total assets | 34,289,373 | 256,625 | 7,562,101 | 460,038 | 42,568,137 |
| **As at 31 December 2009** | | | | | |
| Segment assets | 25,717,896 | 206,077 | 7,489,527 | 526,581 | 33,940,081 |
| Interests in jointly controlled entities | 170,451 | — | — | — | 170,451 |
| Interests in associated entities | 1,527,023 | — | — | — | 1,527,023 |
| Total assets | 27,415,370 | 206,077 | 7,489,527 | 526,581 | 35,637,555 |

A reconciliation of total segment results to profit before tax and discontinued operation is provided as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| Segment results | 435,934 | 792,872 |
| Unallocated operating costs | (21,235) | (9,625) |
| Operating profit | 414,699 | 783,247 |
| Finance income | 12,384 | 35,169 |
| Net foreign exchange gain on financing activities | 29,039 | 1,512 |
| Finance costs | (73,100) | (12,842) |
| Share of profits of | | |
| — jointly controlled entities | 45,979 | 133 |
| — associated entities | 97,486 | 41,665 |
| Profit before tax and discontinued operation | 526,487 | 848,884 |

A reconciliation of reportable segments' assets to total assets is provided as follows:

| | As at | |
|---|---|---|
| | **30 June** | **31 December** |
| | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| Total segment assets | 42,568,137 | 35,637,555 |
| Deferred tax assets | 40,864 | 41,310 |
| Taxation recoverable | 515,558 | 334,069 |
| Corporate assets | 737,427 | 1,019,840 |
| Total assets | 43,861,986 | 37,032,774 |

Information about geographical area is provided as follows:

| | Revenue from continuing operations | | Total assets | |
|---|---|---|---|---|
| | Six months ended 30 June | | As at 30 June | As at 31 December |
| | **2010** | **2009** | **2010** | **2009** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Hong Kong | 85,287 | 61,795 | 1,975,108 | 1,986,255 |
| China | 951,549 | 2,149,208 | 40,554,229 | 33,612,454 |
| Overseas | 511 | 523 | 38,800 | 38,846 |
| | 1,037,347 | 2,211,526 | 42,568,137 | 35,637,555 |
| Unallocated assets | | | 1,293,849 | 1,395,219 |
| | | | 43,861,986 | 37,032,774 |

4 **Expenses by nature**

Cost of sales, selling and distribution expenses, and general and administrative expenses of continuing operations included the following:

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| Amortisation of leasehold land and land use rights | 9,397 | 5,681 |
| Depreciation | | |
| — Owned property, plant and equipment | 24,773 | 23,146 |
| — Leased property, plant and equipment | 18 | 18 |
| Provision for impairment of property, plant and equipment | — | 9,278 |
| Reversal of provision for impairment of properties under development | (13,766) | — |

5 **Taxation**

(a) Hong Kong profits tax has been provided at the rate of 16.5 percent (2009: 16.5 percent) on the estimated assessable profit for the period.

(b) China enterprise income taxation is provided on the profits of the Group's subsidiaries, associated entities and jointly controlled entities in China at 25 percent (2009: range from 20 percent to 25 percent).

In addition, dividend distribution out of profit of foreign-invested enterprises earned after 1 January 2008 is subject to corporate withholding income tax at tax rates ranging from 5 percent to 10 percent. Subsequent to the disposal of GZI Transport Limited ("Transport"), a subsidiary of the Group, in November 2009, the Group revisited its dividend pay-out policy and considered it is necessary to demand dividend distribution from the subsidiaries in China. Accordingly, withholding income tax was provided for the dividend distributed during the period and undistributed profit, recognised based on HKFRS, of the Group's subsidiaries, jointly controlled entities and associated entities in PRC at a tax rate of 5 percent or 10 percent (2009: range from 5 percent to 10 percent), when applicable, for the period ended 30 June 2010.

(c) China land appreciation tax is levied at progressive rates ranging from 30 percent to 60 percent on the appreciation of land value, being the proceeds of sales of properties less deductible expenditure including costs of land, development and construction.

(d) The amount of taxation charged to the condensed consolidated income statement comprises:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| **Current taxation** | | |
| Hong Kong profits tax | 2,960 | 1,670 |
| China enterprise income tax | 22,142 | 1,951 |
| China land appreciation tax | 105,084 | 120,491 |
| Corporate withholding income tax | 277 | — |
| **Deferred taxation** | | |
| Origination and reversal of temporary differences | (16,313) | 155,138 |
| Corporate withholding income tax on undistributed profits | 25,211 | — |
| | 139,361 | 279,250 |

6 **Earnings per share**

**Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company over the weighted average number of ordinary shares in issue during the period.

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | **2009** |
| Profit from continuing operations attributable to equity holders of the Company (RMB'000) | 355,660 | 534,402 |
| Profit from discontinued operation attributable to equity holders of the Company (RMB'000) | — | 70,348 |
| Profit attributable to equity holders of the Company (RMB'000) | 355,660 | 604,750 |
| Weighted average number of ordinary shares in issue ('000) | 7,137,409 | 7,127,016 |
| Basic earnings per share (RMB) | | |
| From continuing operations | 0.0498 | 0.0750 |
| From discontinued operation | — | 0.0099 |
| | 0.0498 | 0.0849 |

**Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has share options outstanding during the period which are dilutive potential ordinary shares. Calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average daily market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options.

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | **2009** |
| Profit from continuing operations attributable to equity holders of the Company (RMB'000) | 355,660 | 534,402 |
| Profit from discontinued operation attributable to equity holders of the Company (RMB'000) | — | 70,348 |
| Profit attributable to equity holders of the Company (RMB'000) | 355,660 | 604,750 |
| Weighted average number of ordinary shares in issue ('000) | 7,137,409 | 7,127,016 |
| Adjustments for share options ('000) | 44,160 | 30,912 |
| Weighted average number of ordinary shares for diluted earnings per share ('000) | 7,181,569 | 7,157,928 |
| Diluted earnings per share (RMB) | | |
| From continuing operations | 0.0495 | 0.0747 |
| From discontinued operation | — | 0.0098 |
| | 0.0495 | 0.0845 |

7 **Dividend**

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| 2009 final, paid, nil (2008: HK0.80 cent) per share | — | 50,451 |
| 2010 interim, proposed, nil (2009: nil) per share | — | — |

8 **Trade receivables**

The Group has defined credit policies for different businesses. The credit terms of the Group are generally within three months. The ageing analysis of trade receivables is as follows:

| | As at | |
|---|---|---|
| | **30 June** | **31 December** |
| | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| 0 - 30 days | 8,157 | 24,264 |
| 31 - 90 days | 4,095 | 11,965 |
| 91 - 180 days | 8,388 | 2,610 |
| 181 - 365 days | 31 | — |
| Over 1 year | 5,297 | 14,211 |
| | 25,968 | 53,050 |

9 **Trade payables**

The ageing analysis of trade payables is as follows:

| | As at | |
|---|---|---|
| | **30 June** | **31 December** |
| | **2010** | **2009** |
| | *RMB'000* | *RMB'000* |
| 0 - 30 days | 40,111 | 52,957 |
| 31 - 90 days | 35,624 | 48,762 |
| 91 - 180 days | 20,537 | 15,482 |
| 181 - 365 days | 775 | 9 |
| 1 - 2 years | 777 | 1,295 |
| Over 2 years | 3,758 | 3,602 |
| | 101,582 | 122,107 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Implementing the strategy of "Refining operations to improve quality, and Accelerating development to turn a new page"

In the first half of 2010 (the "Reporting Period"), the Group promoted sales at full speed, accelerated the development of projects, deepened structural asset adjustment, and continued to carry out system and institutional reform. These initiatives have laid a solid foundation for the pursuit of the Group's business strategy.

During the Reporting Period, the Group recorded revenue of approximately RMB1,037 million and profit for the period attributable to equity holders of the Company from continuing operations of approximately RMB356 million. Basic earnings per share from continuing operations amounted to approximately RMB0.0498. Revenue and profit for the period attributable to equity holders of the Company from continuing operations declined by 53.1% and 33.4% respectively as compared to the same period last year.

The decline was mainly due to the fact that property delivery is scheduled to be concentrated in the second half of the year, while contracted sales volume increased substantially in the first half of the year. At the same time, the increased sales costs associated with the increased contracted sales volume were accounted for in the current period.

Given the encouraging performance of contracted sales, the Group will strengthen the replenishment of land reserves in the second half of the year. As such, the Board does not recommend the payment of an interim dividend for 2010. Cash retained will be invested in the Group's core business which the Board believes will generate greater return to the shareholders.

### Market stabilization measures making an impact

In the Reporting Period, confronted with complicated and rapidly changing macro-economic conditions, the government continued to implement a stimulus package to mitigate the aftermath of the global financial crisis. While endeavors were made by the central government to adjust the economic structure, the economy continued to maintain fast and stable growth. In the Reporting Period, China's GDP reached RMB17,284.0 billion, representing an increase of 11.1% over the same period last year, while the GDP of Guangzhou reached RMB488.6 billion, representing an increase of 13.6% over the same period last year.

To slow down the surge in housing prices in some cities and maintain a stable and healthy domestic real estate market, the government released, in the first half of the year, a series of measures to stabilize the housing prices. As a result, the housing market started to cool down, and the growth of volume and prices decelerated in the second quarter of this year. In the first half of the year, a total of 393.53 million square meters (sq.m.) in commodity housing were sold nation-wide, representing an annual increase of 15%. At the same time, transaction value reached RMB1,982.0 billion, representing an increase of 25% over the same period last year. Average transaction price reached RMB5,036 per sq.m., representing an increase of 9% over the same period last year. In Guangzhou, the total area of commodity housing sold declined to 4.03 million sq.m., representing a decrease of 20% over the same period last year. Transaction value rose slightly by 8% to RMB49.6 billion while the average transaction price rose by 35% to RMB12,313 per sq.m. from the same period last year. On a year-on-year basis, the rise in average transaction price in Guangzhou in the first half of the year was mainly due to the low base in the same period last year. On a month-on-month basis, the average transaction price has begun to soften.

**Ranking first in Guangzhou as contracted sales reached record-high**

According to the "First half of 2010 sales rankings of real estate enterprises in China" jointly released by China Real Estate Information Corporation and China Real Estate Appraise Center, the sales value of Yuexiu Property for the first half of 2010 ranked first in Guangzhou and 19th nationwide. Sales value achieved by Springland Garden, Jiang Nan New Mansion and Ling Nan Riverside ranked 3rd, 4th and 8th respectively among projects in Guangzhou.

In the first half of 2010, confronted with increasingly intense regulatory policies for the real estate sector, the Group strengthened market research and analysis and at the same time, accelerated project launches and sales. As a result, the Group achieved a new record in contracted sales. Contracted sales in Gross Floor Area (GFA) reached 329,300 sq.m., representing an increase of 58.9% over the same period last year and achieving 61.0% of the target of 540,000 sq.m. for 2010. Contracted sale value reached RMB5,395 million, representing an increase of 156.4% and achieving 68.3% of the target of RMB7,900 million (equivalent to approximately HK$9,000 million). Average selling price (ASP) reached RMB16,400 per sq.m., representing a year-on-year increase of 61.3%.

In the first quarter, anticipating market adjustment in the face of an overheating market, the Group decisively launched sales promotion and sped up sales for six projects successfully. Projects such as Block F5 of Jiang Nan New Mansion, Block 22 and unsold properties of Block 20-21 of Springland Garden, Block C11 of Ling Nan Riverside, and Phase 3 of Southern Le Sand were well received and basically sold out. In the second quarter, to actively tackle the unfavorable and rapidly changing market conditions, the Group adopted a flexible and innovative promotion approach and achieved impressive results in projects like Starry Winking and Ling Nan Riverside.

Details of contracted sales achieved in the Reporting Period are as follows:

| **Project Name** | **Land Use** | **GFA (sq.m.)** | **Amount (RMB mil)** | **ASP (RMB/sq.m.)** | **Location** |
|---|---|---|---|---|---|
| Starry Winking | Residential | 24,000 | 615 | 25,600 | Tianhe, Guangzhou |
| Springland Garden | Residential | 80,000 | 1,225 | 15,300 | Haizhu, Guangzhou |
| Jiang Nan New Mansion | Residential | 62,400 | 1,175 | 18,800 | Haizhu, Guangzhou |
| Ling Nan Riverside | Residential | 57,500 | 878 | 15,300 | Liwan, Guangzhou |
| Cong Hua Glade Village | Low-rise Apartment/Villa | 35,800 | 252 | 7,000 | Conghua, Guangzhou |
| Southern Le Sand | Low-rise Apartment/Villa | 22,800 | 210 | 9,200 | Nansha, Guangzhou |
| Other Projects | N/A | 15,400 | 365 | 23,800 | Guangzhou |
| Sub-total | | 297,900 | 4,720 | 15,800 | |
| Investment Properties | N/A | 31,400 | 675 | 21,500 | Guangzhou |
| Total | | 329,300 | 5,395 | 16,400 | |

In the first half of the year, recognized sales area reached approximately 68,500 sq.m. (including sold investment properties of 38,100 sq.m.), and revenue was approximately RMB1,085 million (including sold investment properties totaling RMB 702 million). ASP reached approximately RMB15,800 per sq.m. (including sold investment properties).

Recognized sales (including sold investment properties) in the first half of the year are summarized as follows:

| Project Name | Land Use | GFA (sq.m.) | Amount (RMB mil) | ASP (RMB/sq.m.) | Location |
|---|---|---|---|---|---|
| Springland Garden | Residential | 8,200 | 112 | 13,600 | Haizhu, Guangzhou |
| Royan Jardin | Residential | 4,000 | 51 | 12,800 | Haizhu, Guangzhou |
| Victory Plaza (Tower Building A) | Office | 2,500 | 63 | 24,600 | Tianhe, Guangzhou |
| Cong Hua Glade Village | Low-rise Apartment/Villa | 10,400 | 91 | 8,700 | Conghua, Guangzhou |
| Southern Le Sand | Low-rise Apartment/Villa | 3,300 | 40 | 12,100 | Nansha, Guangzhou |
| Other Projects | N/A | 2,000 | 26 | 13,600 | Guangzhou |
| Sub-total | | 30,400 | 383 | 12,600 | |
| Investment Properties | N/A | 38,100 | 702 | 18,400 | Guangzhou |
| Total | | 68,500 | 1,085 | 15,800 | |

As of June 30, 2010, property sold but not yet recognized amounted to 653,300 sq.m. or RMB9,133 million. ASP was RMB 14,000 per sq.m. Details are summarized as follows:

| Project Name | Land Use | GFA (sq.m.) | Amount (RMB mil) | ASP (RMB/sq.m.) | Location |
|---|---|---|---|---|---|
| Starry Winking | Residential | 96,800 | 2,165 | 22,400 | Tianhe, Guangzhou |
| Springland Garden | Residential | 122,700 | 1,801 | 14,700 | Haizhu, Guangzhou |
| Jiang Nan New Mansion | Residential | 125,300 | 2,144 | 17,100 | Haizhu, Guangzhou |
| Ling Nan Riverside | Residential | 96,500 | 1,413 | 14,600 | Liwan, Guangzhou |
| Cong Hua Glade Village | Low-rise Apartment/Villa | 65,200 | 388 | 6,000 | Conghua, Guangzhou |
| Southern Le Sand | Low-rise Apartment/Villa | 129,000 | 809 | 6,300 | Nansha, Guangzhou |
| Other Projects | N/A | 8,600 | 270 | 31,500 | Guangzhou |
| Sub-total | | 644,100 | 8,990 | 14,000 | |
| Investment Properties | N/A | 9,200 | 143 | 15,700 | Guangzhou |
| Total | | 653,300 | 9,133 | 14,000 | |

**Carrying out intensive research on land acquisition opportunities**

To further strengthen the Group's sustainable development capability under the strategic goal of "home base in Guangzhou and strategic expansion nationwide", the Group actively sought and adopted diversified land procurement measures. Aiming to capture market opportunities for expansion with reasonable cost, the Group conducted site visits and research on over 40 potential land acquisition projects in key cities around Pearl River Delta Region, Bohai Rim District, Southwest and the central regions. In the first half of the year, through a 100% owned subsidiary, the Group acquired the "Qiguan Plot" in Zhongshan with 137,000 sq.m. in GFA at a total cost of RMB305 million. The Group is optimistic that it would be able to make more acquisitions in the second half of the year.

As of 30 June 2010, the Group had an undeveloped landbank with a total GFA of approximately 4,530,000 sq.m., comprising approximately 54% in residential properties, 10% in office properties, 15% in commercial properties and 21% in carparks and others.

The followings are the brief descriptions of the relevant projects:

| Project Name | GFA (sq.m.) | Residential (sq.m.) | Office (sq.m.) | Commercial (sq.m.) | Carparks & others (sq.m.) | Location |
|---|---|---|---|---|---|---|
| Southern Le Sand | 1,704,000 | 872,000 | 161,000 | 465,000 | 206,000 | Nansha, Guangzhou |
| Zhongshan Nanqu Plot (formerly Zhongshan Plot) | 545,000 | 346,000 | — | 67,000 | 132,000 | Nanqu, Zhongshan |
| University City Properties | 511,000 | 340,000 | — | — | 171,000 | Panyu, Guangzhou |
| Jin Sha Zhou Plot (portion) | 385,000 | 263,000 | — | 9,000 | 113,000 | Baiyun, Guangzhou |
| Jiangmen Starry Regal Court (formerly Jiangmen Properties) | 383,000 | 266,000 | — | 21,000 | 96,000 | Beixin, Jiangmen |
| B2-10, Zhujiang New Town | 210,000 | — | 157,000 | 7,000 | 46,000 | Tianhe, Guangzhou |
| Yantai Starry Phoenix (formerly Yantai Plot) | 209,000 | 115,000 | — | 32,000 | 62,000 | Zhifu, Yantai |
| Zhongshan Qiguan Plot | 137,000 | 105,000 | — | 10,000 | 22,000 | Shiqi, Zhongshan |
| Sports Stadium Building | 125,000 | — | 81,000 | 25,000 | 19,000 | Yuexiu, Guangzhou |

| Project Name | GFA (sq.m.) | Residential (sq.m.) | Office (sq.m.) | Commercial (sq.m.) | Carparks & others (sq.m.) | Location |
|---|---|---|---|---|---|---|
| Fortune World Plaza (portion) | 119,000 | — | 78,000 | 16,000 | 25,000 | Liwan, Guangzhou |
| Yau Tong Property | 59,000 | 59,000 | — | — | — | Yautong, Hong Kong |
| Jiang Nan New Village phase 3&4 (portion) | 42,000 | 27,000 | — | — | 15,000 | Haizhu, Guangzhou |
| D8-C3, Zhujiang New Town | 30,000 | 22,000 | — | — | 8,000 | Tianhe, Guangzhou |
| Other Projects | 67,000 | 31,000 | — | 7,000 | 29,000 | N/A |
| Total | 4,526,000 | 2,446,000 | 477,000 | 659,000 | 944,000 | |

### Accelerating project development

To achieve a sales value of HKD Ten Billion and to ensure a proper sales pipeline, the Group actively tackled various market challenges, carried out deployment and adjustments, and accelerated the progress of project development in all dimensions. In the first half of this year, newly started construction area amounted to about 510,000 sq.m., including approximately 200,000 sq.m. in Phase 1 of Jiangmen Starry Regal Court, approximately 180,000 sq.m. in Phase 8 of Southern Le Sand, approximately 90,000 sq.m. in the Hua Du Plot, part of Jin Sha Zhou Plot, and Phase 3&4 of Jiang Nan New Village.

At the same time, the Group strived to mitigate obstacles and sped up progress for projects which had commenced construction. For projects such as Starry Winking, Block A and F of Jiang Nan New Mansion and Block 17-22 of Springland Garden, the Group adopted proactive measures in project planning, material procurement, construction work sequence, and etc. to accelerate construction progress and to ensure completion and delivery of some of the projects ahead of schedule.

As of 30 June 2010, properties under development amounted to approximately 2,710,000 sq.m., of which approximately 49% are residential properties, 14% office buildings, 13% commercial properties and 24% carparks and others.

Details are summarized below:

| Project Name | GFA (sq.m.) | Residential (sq.m.) | Office (sq.m.) | Commercial (sq.m.) | Carparks & others (sq.m.) | Location |
|---|---|---|---|---|---|---|
| Southern Le Sand | 552,000 | 308,000 | 131,000 | 71,000 | 42,000 | Nansha, Guangzhou |
| Asia Pacific Century Plaza | 232,000 | — | 105,000 | 27,000 | 100,000 | Tianhe, Guangzhou |
| Jiang Nan New Mansion | 230,000 | 148,000 | — | 29,000 | 53,000 | Haizhu, Guangzhou |
| Fortune World Plaza (portion) | 210,000 | — | — | 180,000 | 30,000 | Liwan, Guangzhou |
| Jiangmen Starry Regal Court (formerly Jiangmen Plot) | 195,000 | 138,000 | — | 4,000 | 53,000 | Beixin, Jiangmen |
| Ling Nan Riverside | 192,000 | 170,000 | — | — | 22,000 | Liwan, Guangzhou |
| Starry Winking | 186,000 | 121,000 | — | 19,000 | 46,000 | Tianhe, Guangzhou |
| Springland Garden | 165,000 | 124,000 | — | 20,000 | 21,000 | Haizhu, Guangzhou |
| Guangzhou IFC (portion) | 164,000 | — | — | — | 164,000 | Tianhe, Guangzhou |
| Cong Hua Glade Village | 152,000 | 122,000 | — | — | 30,000 | Conghua, Guangzhou |
| D3-7, Zhujiang New Town | 134,000 | — | 97,000 | 9,000 | 28,000 | Tianhe, Guangzhou |
| Hua Du Plot | 93,000 | 71,000 | — | — | 22,000 | Huadu, Guangzhou |
| Paradiso Homeland (formerly Jiang Nan New Village phase 3 Zone 7) | 78,000 | 57,000 | — | 1,000 | 20,000 | Haizhu, Guangzhou |
| Jiang Nan New Village phase 3&4 (portion) | 24,000 | 12,000 | — | — | 12,000 | Haizhu, Guangzhou |
| Jin Sha Zhou Plot (portion) | 22,000 | 21,000 | — | 1,000 | — | Baiyun, Guangzhou |
| Other Projects | 81,000 | 22,000 | 42,000 | — | 17,000 | N/A |
| Total | 2,710,000 | 1,314,000 | 375,000 | 361,000 | 660,000 | |

## Pursuing adjustment in asset structure

According to the plan set at the beginning of this year, the Group actively sought to adjust its asset portfolio and accelerate the disposal of non-core and inefficient properties. In light of the rapidly changing and unfavorable market conditions, the Group adopted diversified sales strategies and disposal of investment properties totaling RMB675 million in value with a floor area of 31,400 sq.m. was achieved in the first half of this year.

As of 30 June 2010, the Group's investment properties totaled approximately 945,500 sq.m., of which approximately 38% are office buildings, 32% commercial properties, and 30% carparks. Rental and management fees reached approximately RMB332 million, representing an increase of 20.4% over the same period last year. During the Reporting Period, the investment properties' fair value appreciated by approximately RMB187 million to RMB7,562 million.

Details of the Group's investment properties are as follows:

| Project Name | GFA (sq.m.) | Office (sq.m.) | Commercial (sq.m.) | Carparks (sq.m.) | Location |
|---|---|---|---|---|---|
| Guangzhou IFC (portion) | 233,200 | 167,200 | 44,700 | 21,300 | Tianhe, Guangzhou |
| Popark Plaza | 85,000 | — | 85,000 | — | Tianhe, Guangzhou |
| Jin Han Building | 45,800 | 45,800 | — | — | Yuexiu, Guangzhou |
| Hong Kong Properties | 18,100 | 7,100 | 11,000 | — | Hong Kong |
| Guang Yuan Cultural Centre | 32,000 | — | 20,700 | 11,300 | Yuexiu, Guangzhou |
| Huangshi Garden | 30,900 | — | 30,900 | — | Baiyun, Guangzhou |
| Xiangkang Commercial Plaza | 28,900 | 28,900 | — | — | Yuexiu, Guangzhou |
| Victory Plaza (Tower Building B) | 25,700 | 25,700 | — | — | Tianhe, Guangzhou |
| Jiangxing Building | 17,900 | 17,900 | — | — | Haizhu, Guangzhou |
| Yue Xiu City Plaza | 17,500 | — | 17,500 | — | Yuexiu, Guangzhou |
| Hong Fa Building | 17,300 | 17,300 | — | — | Tianhe, Guangzhou |
| Other Projects (include carparks) | 393,200 | 47,900 | 97,200 | 248,100 | N/A |
| Total | 945,500 | 357,800 | 307,000 | 280,700 | |

**Deepening system and institutional reform**

In the first half of this year, with the help of Towers Watson, a human resource consulting company, the Group continued to optimize the organizational structure, management hierarchy, and salary and welfare structure. The Group sought to gradually implement market-oriented human resource management system and has built multiple channels to attract and retain talents. The Group has recruited a number of professionals for critical positions. These initiatives are essential to satisfy the Group's demand for talents for its rapid expansion. At the same time, the promotion of management and benchmark tools such as Balanced Scorecard, Key Performance Indicators, and other methodologies help instill market-oriented and scientific benchmarking and measurement of corporate performance and execution capability.

**Other businesses continuing to perform**

In the first half of 2010, revenue from other businesses (mainly decoration and supermarket segments) amounted to RMB323 million, representing an increase of 12.8% over the same period last year.

GZI Real Estate Investment Trust (GZI REIT), an associate of the Group, achieved gross revenue of approximately RMB240 million, representing an increase of 4.3% over the same period last year. The total amount of distributable income reached RMB116 million, representing an increase of 4.9% over the same period last year. As the Group held 35.58% interest in the trust, it would receive a cash distribution of RMB41 million.

**Future prospects**

In the second half of the year, market adjustment is expected to continue. At the same time, special construction work arrangements in Guangzhou to ensure the smooth progress of the Asian Game to be held at the end of the year will also have an impact on the market. However, the Group remains optimistic about the mid-to-long term prospect of the domestic real estate market. It will continue to pursue its strategic and business objectives and at the same time to strengthen risk control, maintain sound cash flow, and ensure the achievement of key deliverables.

Key tasks to achieve:

*Increase land bank and strengthen sustainable development capability*

On one hand, the Group will actively analyze acquisition opportunities and seek to acquire attractive land sites in Guangzhou in the second half of the year so as consolidate our leading position there. The Group will also seek to capitalize on the "Three Old" (old urban areas, old villages and old factories) redevelopment projects. On the other hand, the Group will explore opportunities in economically developed cities in the Pearl River Delta, Bohai Rim, and the central regions.

*Tackle market changes and accelerate sales*

The Group will strengthen market research, devise various contingency plans, accelerate the speed of project launch and sales, and ensure achievement of business objectives.

*Develop excellent core investment properties*

The Group's landmark project, Guangzhou International Finance Center (IFC), aims to soft open its hotel and shopping mall before the Asian Games in November 2010. At the same time, the Group will strengthen promotion of the offices at IFC to financial services companies and other world-class corporations.

## ANALYSIS ON OPERATING RESULTS

### Change in presentation currency

During the period ended 30 June 2010, the Group changed its presentation currency of its financial statements from Hong Kong dollar to RMB. The Board considers that the change will result in a more appropriate presentation of the Group's transactions in the financial statements. Details are set out in Note 1 to the "Notes to the Condensed Consolidated Interim Financial Information".

### Revenue and gross profit

For the period ended 30 June 2010, the Group's revenue amounted to approximately RMB1,037 million, representing a decrease of 53.1% over the same period last year. Gross profit margin was 41.4%, increased by 5 percentage points over the same period last year.

Due to the decrease in recognized sales GFA, revenue from the property sales (including the sales of investment properties) recorded a decrease of 36% to approximately RMB1,085 million during the period. Gross profit margin remained stable at 39%.

**Fair value gains on revaluation of investment properties**

During the period, fair value gains on revaluation of investment properties amounted to approximately RMB187 million, representing a decrease of 39.1% over the same period last year.

**Selling and general administrative expenses**

During the period, selling expenses increased to approximately RMB92 million, representing an increase of 22.8% over the same period last year. This was mainly attributable to the increase in volume of contracted sales in the first half of 2010. The selling expenses ratio during the period (selling expenses over contracted sales) was 2%, decreased by 2 percentage points from 4% in the same period last year.

During the period, general administrative expenses increased to approximately RMB313 million, representing an increase of 17.1% over the same period last year. This was mainly derived from the expanded business of the Group. The general administrative expenses ratio during the period (general administrative expenses over contracted sales) was 6%, decreased by 7 percentage points from 13% in the same period last year.

**Finance costs**

With the effect of increase in HK$ interest rate and our increased bank borrowings, the Group's actual interest expenses during the period amounted to approximately RMB328 million, representing an increase of 90.7% as compared to those for the same period last year of RMB172 million. Meanwhile, due to the substantial increase in properties under development as compared to the same period last year, capitalized interest expenses increased to approximately RMB254 million over those for the same period last year of approximately RMB159 million. As a result, finance costs recognized as expenses were approximately RMB73 million, representing an increase of 469.2% over those in the same period last year of approximately RMB13 million.

**Share of profits of associated entities**

For the period ended 30 June 2010, overall net contribution from the Group's associated entities amounted to RMB97 million, representing an increase of 134.0% over the same period last year. This was mainly derived from the Group's share of profit from a 35.58% equity interest in GZI REIT.

**Taxation expenses**

During the period, taxation expenses amounted to approximately RMB139 million, representing a decrease of 50.1% over the same period last year of RMB279 million. This was mainly due to the significant decrease in revenue and fair value gains on revaluation of investment properties.

**Profit attributable to equity holders of the Company**

For the period ended 30 June 2010, the Group recorded profit attributable to equity holders of approximately RMB356 million, representing a decrease of 41.2% over the same period last year. In the first half of 2009, profit attributable to equity holders of the Company included profit from discontinued operation of approximately RMB70 million. Excluding such effect, profit attributable to equity holders of the Company would have decreased by 33%.

**Basic earnings per share**

For the period ended 30 June 2010, basic earnings per share attributable to equity holders of the Company were RMB0.0498 (30 June 2009: RMB0.0849).

**Interim dividend**

The Board resolved not to declare an interim dividend for the first half of 2010 (first half of 2009: nil).

**Liquidity and financial resources**

As at 30 June 2010, the Group's working capital (current assets less current liabilities) amounted to approximately RMB13,929 million (31 December 2009: RMB13,274 million). The Group's current ratio (current assets over current liabilities) was 1.82 times. Cash and cash equivalents amounted to approximately RMB6,125 million (31 December 2009: RMB4,328 million). Charged bank deposits amounted to RMB1,211 million (31 December 2009: RMB1,845 million). Undrawn committed bank facilities amounted to approximately RMB2,500 million.

The Group's major sources of liquidity are from recurring cash flows of its business and committed bank facilities. The Group insists on the importance of maintaining a healthy and stable liquidity position so as to meet the need of a fast-changing external market and safeguard the business development of the Group. Therefore, the Group places great emphasis on liquidity management and risk control. In addition to maintaining good relationships with financial institutions in Hong Kong and Mainland China, the Group strives to explore alternative financing channels, seeks to lower financing costs, and monitors its capital and debt structures from time to time. The Group also makes appropriate adjustments thereof to enhance its risk resistance capability.

**Capital structure**

The Group's capital structure is summarized as follows:

| | **As at 30 June 2010** *RMB'000* | **As at 31 December 2009** *RMB'000* |
|---|---|---|
| Bank borrowings (floating rate) | | |
| Denominated in RMB | 10,864,300 | 8,814,000 |
| Denominated in Hong Kong dollar | 3,706,153 | 3,728,845 |
| Total bank borrowings | 14,570,453 | 12,542,845 |
| Unsecured other borrowings | 49,838 | 50,028 |
| Finance lease | 183 | 109 |
| Overdrafts | 245 | 404 |
| Total debts | 14,620,719 | 12,593,386 |
| Ageing analysis: | | |
| Repayable within one year | 3,168,920 | 1,887,472 |
| In the second year | 4,153,970 | 2,467,441 |
| In the third to fifth year | 4,597,829 | 5,748,473 |
| Over five year | 2,700,000 | 2,490,000 |
| Total borrowings | 14,620,719 | 12,593,386 |
| Less: Cash and cash equivalents | (6,125,126) | (4,327,915) |
| Net borrowings | 8,495,593 | 8,265,471 |
| Shareholders' equity (excluding minority interests) | 12,430,562 | 12,075,749 |
| Total capitalization | 20,926,155 | 20,341,220 |
| Gearing ratio | 40.6% | 40.6% |

During the period, net new bank borrowings increased by approximately RMB2,000 million which had been wholly injected into the development of property projects.

**Capital expenditures and investments**

As at 30 June 2010, the Group's capital expenditures on property, plant, equipment and investment properties amounted to approximately RMB702 million (30 June 2009: RMB16 million).

**Interest rate exposure**

Interest expenses accounted for a significant proportion of the Group's finance costs, and are charged at floating rates. The Group closely monitors the trend of interest rate fluctuations in the market and seeks to adopt appropriate risk management measures. In light of the financial crisis, the Group expects the current low interest rate environment to persist for an extended period of time. The Group will explore appropriate interest rates hedging measures if and when deemed appropriate in the future with a view to mitigate the interest rate risks. At the same time, the Group may continue to seek more Hong Kong dollar borrowings so as to take advantage of Hong Kong dollar's lower interest rate.

**Foreign exchange exposure**

As the business operations of the Group are mainly in Mainland China, income and cash flows are primarily denominated in RMB. The main cash outflows in Hong Kong are related to cash dividend payment to shareholders and repayment of bank borrowings. The Group will review and monitor its currency exposure from time to time and will adopt appropriate currency swaps as and when appropriate to hedge its currency risks.

**Capital commitment**

As at 30 June 2010, the Group had unpaid land premium payable in respect of the land acquisition of approximately RMB611 million (31 December 2009: RMB2,657 million).

Other than the above, Group also had capital commitments in respect of the property, plant, equipment and investment properties amounted to approximately RMB2,980 million (31 December 2009: RMB3,185 million).

**Contingent liabilities**

The Group has provided guarantees in respect of mortgage facilities granted by certain banks relating to mortgage loans arranged for purchasers of the Group's properties in the PRC. Pursuant to the terms of the guarantees, upon default in mortgage payments by those purchasers, the Group will be responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks whilst the Group will then be entitled to take over the legal title and possession of the related properties. Such guarantees will terminate upon issuance of the relevant property ownership certificates. As at 30 June 2010, total contingent liabilities relating to these guarantees amounted to approximately RMB1,875 million (31 December 2009: RMB1,035 million).

As at 30 June 2010, in connection with the disposal of a subsidiary to GZI REIT in 2008, the Group entered into a Deed of Indemnity to indemnify GZI REIT against certain liabilities for land premium, mortgage guarantees and deferred taxation with an estimated total amount of approximately RMB65 million. The Deed of Indemnity will expire on 30 May 2014.

**Employees and remuneration policy**

As at 30 June 2010, the Group had approximately 5,800 employees (31 December 2009: 5,800 employees). The Group remunerates its employees largely based on industry practice, including contributory provident funds and other staff benefits. Other employee benefits include provident fund, insurance and medical cover, educational allowances and training programs. The Group has also adopted share option schemes, with options awarded to employees accordingly to their performance. Promotion and salary adjustments are based on performance.

## CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices ("Code Provisions") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the period ended 30 June 2010, except for the following deviation:

**Code Provision A.4.1**

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. None of the non-executive directors of the Company is appointed for a specific term. However, all the non-executive directors of the Company are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company's Articles of Association. All the non-executive directors of the Company had retired by rotation during the past 3 years. They have been re-elected.

## REVIEW OF INTERIM RESULTS

The results of the Group for the six months ended 30 June 2010 have been reviewed by the Audit Committee and by the Company's auditor in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2010. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

By order of the Board
**LU Zhifeng**
*Chairman*

Hong Kong, 20 August 2010

*As at the date of this announcement, the Board comprises:*

| | |
|---|---|
| *Executive Directors:* | *LU Zhifeng (Chairman), ZHANG Zhaoxing, LIANG Yi, TANG Shouchun, LIANG Youpan and LAM Yau Fung Curt* |
| *Independent Non-executive Directors:* | *YU Lup Fat Joseph, LEE Ka Lun and LAU Hon Chuen Ambrose* |