

2006 Third Quarterly Report

§ 1 Important Notice

- 1.1 The Board of Directors (the “Board”) of China Vanke Co., Ltd. (the “Company”), Supervisory Committee, the Directors, members of the Supervisory Committee and senior management undertake that in respect of the information contained in this report, there are no misrepresentations, misleading statement or significant materials omission, and individually and collectively accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report.
- 1.2 Directors, members of the supervisory committee and senior management warrant the authenticity, accuracy and completeness of the contents of the quarterly report without objection.
- 1.3 Deputy Chairman Song Lin, Director Yu Liang, Director Chen Zhiyu, Director Shirley L. Xiao, Director Jiang Wei, Independent Director Sun Jianyi, Independent Director Li Chi Wing and Independent Director David Li Ka Fai attended the Board meeting. Chairman Wang Shi was not able to attend the Board meeting in person due to business engagement and authorised Deputy Chairman Song Lin to attend and vote on his behalf at the Board meeting. Director Wang Yin was not able to attend the Board meeting in person due to business engagement and authorised Director Jiang Wei to attend and vote on his behalf. Independent Director Judy Tsui Lam Sin Lai was not able to attend the Board meeting in person due to business engagement and authorised Independent Director David Li Ka Fai to attend and vote on her behalf.
- 1.4 The financial and accounting report of this quarterly report has not been audited.
- 1.5 The Company’s Chairman Wang Shi, Director and General Manager Yu Liang and Supervisor of Finance Wang Wenjin guarantee the authenticity and completeness of the financial report contained in the quarterly report.

§ 2 Basic Corporate Information

2.1 Basic corporate information

Securities abbreviation	Vanke A, Vanke B	
Stock codes	000002, 200002	
	Secretary to the Board	Securities affairs representative
Name	Shirley L. Xiao	Liang Jie
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2.2 Financial information

2.2.1 Major accounting information and financial indicators

(Unit: RMB)

	As at the end of the reporting period	As at the end of the previous year	End of reporting period compared with the end of the previous year (% change)
Total assets	42,831,413,559	22,274,021,123	92.29%
Shareholders' equity (excluding minority interests)	10,081,428,605	8,373,406,036	20.40%
Net assets per share	2.54	2.25	12.89%

	Reporting period	Beginning of the year to the end of the reporting period	Reporting period compared with the same period of the previous year (% change)
Net cash inflow from operating activities	(1,397,414,882)	(4,290,809,842)	-445.43%
Earnings per share <i>note</i>	0.046	0.372	84.00%
Return on equity	1.81%	14.42%	Up by 0.57 percentage point

Note:

During the past twelve months ended 30 September 2006, the total number of shares of the Company increased by 558,878,420 or 16.39 per cent due to the conversion of "Vanke Convertible Bonds 2"

2.2.2 Consolidated Income Statement

Consolidated Income Statement for the Third Quarter of 2006

(Expressed in Renminbi Yuan)

	<i>2006</i>	<i>2005</i>
	<i>July-Sep</i>	<i>July-Sep</i>
		(Restated)
Revenue	1,737,416,768	1,161,237,900
Cost of sales	(1,180,639,578)	(706,932,811)
Gross profit	556,777,190	454,305,089
Other operating income	(6,015,916)	4,623,700
Distribution costs	(154,828,618)	(161,092,485)
Administrative expenses	(168,116,583)	(85,573,885)
Other operating expenses	4,391,123	(5,411,970)
Operating profit before financing costs	232,207,196	206,850,449
Financial income	14,887,033	
Financial expenses	(52,313,178)	(17,263,179)
Share of profits less losses of associates	(1,220,581)	(34,107,153)
Share of losses of jointly controlled entities	30,230,552	
Investment revenue	13,698	
Profit before taxation	223,804,720	155,480,117
Income tax	(44,065,098)	(71,457,225)
Profit for the period	179,739,622	84,022,892
	=====	=====
Attributable to:		
Equity shareholders of the Company	182,790,925	84,862,107
Minority interests	(3,051,304)	(839,215)
Earnings per share		
Basic	0.046	0.025
	=====	=====

Consolidated income statement for the nine months ended 30 Sep 2006

(Expressed in Renminbi Yuan)

	2006 Jan-Sep	2005 Jan-Sep (restated)
Revenue	7,978,619,248	5,267,134,197
Cost of sales	(5,159,584,221)	(3,321,444,996)
Gross profit	2,819,035,027	1,945,689,201
Other operating income	39,337,606	18,962,478
Distribution costs	(372,604,298)	(335,727,506)
Administrative expenses	(475,082,485)	(297,838,289)
Other operating expenses	(27,737,252)	(9,621,378)
Operating profit before financing costs	1,982,948,598	1,321,464,506
Financial income	39,448,210	47,569,372
Financial expenses	(104,819,861)	(70,333,913)
Share of profits less losses of associates	5,246,663	(23,915,500)
Share of losses of jointly controlled entities	16,760,374	(9,281,623)
Investment revenue	105,968,385	
Profit before taxation	2,045,552,369	1,265,502,842
Income tax	(589,066,981)	(363,686,184)
Profit for the period	1,456,485,388	901,816,658
	=====	=====
Attributable to:		
Equity shareholders of the Company	1,453,369,550	884,515,987
Minority interests	3,115,837	17,300,671
Profit for the period	1,456,485,388	901,816,658
	=====	=====
Earnings per share		
Basic	0.372	0.259
	=====	=====

2.3 Total number of shareholders and shareholding of top 10 shareholders of unrestricted shares as at the end of the period under review

As at 30 September 2006, the total number of shareholders of the Company was 131,284 (including 123,075 holders of A shares and 8,209 holders of B shares).

Total number of shareholders as at the end of the period under review	131,284	
Shareholding of top 10 shareholders of unrestricted shares		
Shareholders (Full name)	Number of transferable shares held at the end of the reporting period	Share types
China Resources Co., Limited	174,162,603	A
CREDIT LYONNAIS SECURITIES (ASIA) LTD	76,830,876	B
Nanfang Risk-avoidance and Value Increase Fund	74,303,241	A
Shenyin Wanguo – Citibank – UBS LIMITED	57,341,592	A
China Life Insurance Company Limited – Bonus – Individual Bonus-005L-FH002 SZ	56,342,298	A
TOYO SECURITIES ASIA LIMITED – A/C CLIENT.	49,699,318	B
Naito Securities Company Limited	36,163,293	B
International Finance – ICBC - CREDIT SUISSE FIRST BOSTON (HONG KONG) LIMITED	35,945,419	A
Taihe Securities Investment Fund	34,052,030	A
Yinhua Quality Growth Securities Investment Fund	33,299,609	A

Notes:

- 1) The 76,830,876 B shares held by CREDIT LYONNAIS SECURITIES (ASIA) LTD are beneficially owned by China Resources (Holdings) Co., Ltd., a wholly-owned subsidiary of China Resources Co., Limited.

As at 30 September 2006, the total number of shares of the Company was 3,969,898,751, including 3,422,000,639 A shares and 547,898,112 B shares.

§ 3 Management Discussion and Analysis

3.1 Brief analysis of overall business activities during the period under review

During the period under review, the Company maintained favourable sales results through capitalizing on its edges in product innovation, customer segmentation and customer loyalty. During the period under review, such projects as Beijing Zitai, Beijing Dongdi, Tianjin Metropolitan Apartments, Changchun Rancho Sante Fe and Chengdu California Bay were launched to the market. The Group's Shenzhen Paradiso, Shenzhen Vanke City, Guangzhou Four Seasons Flower City, Wuxi Charming City and Shenyang Vanke City had achieved satisfactory sales results. In the third quarter, the Company realized a sales area of 846,000 sq m, with a sales revenue of RMB5,680 million. Areas of 209,000 sq m, 307,000 sq m and 330,000 sq m were sold in July, August and September respectively. From January to September, the Company realized a total sales area of 2,069,000 sq m and a total sales revenue of RMB13,070 million, representing increases of 30.6 per cent and 38.9 per cent respectively when compared with those of the corresponding period of last year.

During the third quarter, the Company continued pushing ahead with its prevailing development strategy and enhancing resource integration in the industry. During the period under review, the Company completed the acquisition of equity interests in Zhejiang Nandu and Shanghai Nandu etc. An additional area of 2,692,000 sq m has been added to the Company's land resources. As at the end of September, the total planned GFA of Vanke's newly-added projects of the year 2006 amounted to 10,535,000 sq m (of which the total planned GFA of the newly-added projects acquired through public methods or with the related transfer procedures completed amounted to 7,768,000 sq m), of which 6,859,000 sq m was acquired through collaboration.

During the period under review, the Company further refined its planning in three regions. The Company established a strong foothold in Hangzhou through the acquisition of equity interests in Nandu. In addition, the Company entered the Ningbo market in the Yangtze River Delta region and the Qingdao market in Bohai-rim region in August, leading to a more integrated regional planning of the Company.

The Company sustained satisfactory results, due to its dedicated efforts in all aspects. During the third quarter, the Company realized a booked area of 260,000 sq m, with a booked revenue of RMB1.726 billion. Revenue and profit attributable to equity shareholders from the core business of the Company amounted to RMB1.737 billion and RMB183 million, representing a jump of 49.6 per cent and 115.6 per cent

respectively when compared with those of third quarter of 2005.

For January to September, the Company realized a total booked area of 1,161,000 sq m and a booked revenue of RMB7.939 billion, representing increases of 46.8 per cent and 50.5 per cent respectively, when compared with those of the corresponding period of last year. As at the end of the third quarter, the Company realized a total revenue from its core business of RMB7.979 billion and a total profit attributable to equity shareholders from its core business of RMB1,453 million, representing increases of 51.5 per cent and 64.3 per cent respectively, when compared with those of the same period of last year.

As at the end of the period under review, an area of 1,775,000 sq m, with a total contract value revenue of approximately RMB10.790 billion, was sold but not booked, which has laid a solid foundation for a favourable full year results and continued growth of the Company.

As at the end of the third quarter, the gearing ratio of the Company was at a relatively high level, reaching 71.0 per cent, and was 11.0 percentage points higher than that at the end of 2005. The major reasons for having such a relatively high gearing ratio are: (1) there was a substantial rise in the sales of incomplete projects, which were not booked at the end of the quarter, which led to a rise in advance receipts of RMB5.6 billion from that at the end of 2005 to RMB10.3 billion; (2) the borrowings of the Company increased to RMB12.81 billion as at the end of September, representing an increase of RMB10.1 billion when compared to that at the beginning of the year, mainly due to payments of land and construction and the consolidation of Nandu project; (3) the Company paid cash dividends of RMB595 million during the quarter under review. The management expects that the above-mentioned situations will improve, with the decrease in advance receipts and the realisation of profits by recognising the projects already sold at the end of the year. In addition, during the period under review, the Company's proposal for the placing of no more than 700 million A shares to a maximum of 10 specific targets and proposal for the raising of no more than RMB4.2 billion have been approved at the shareholders' meeting. The relevant vetting procedures are now underway. Should the share placing be carried out, the receipt of the raised funds will reduce the overall gearing ratio of the Company.

The austerity measures imposed on the property industry continue to intensify, which reaffirm the Company's judgments on the trend of the industry and confidence in grasping the development opportunities emerging from the consolidation of the industry. The Company will stay the course with its prevailing operating strategies, and will continue to promote self-reform and accelerate the progress of standardization through continuous improvement of its ability of product innovation. By enhancing resources integration, the Company will further diversify its financing channels, increase operation efficiency, strengthen market control and brand influence in order to achieve favourable return on assets.

Details of newly-added projects during the period under review

During the period under review, the Company newly-added 16 projects which were acquired through public methods or with the related transfer procedures completed, with a total site area of approximately 5,118,000 sq m. Pursuant to the planned GFA accounted for the equity of Vanke, the approximated area was 4,306,000 sq m. Details of projects are as follows:

Region	Project name	Location	Equity interest	Site area (sq m)	Planned GFA (sq m)	GFA to Vanke's equity (sq m)	Progress
Shenzhen	Pingshan Street	Longgang District	100%	26,218	78,654	78,654	Pre-construction
Changsha	Xi Jie	Furong District	64%	358,779	486,964	311,657	Under construction
Guangzhou	Jin Sha Zhou	Baiyun District	50%	144,700	434,000	217,000	Pre-construction
Shanghai	Hua Cao No.213	Minhang District	100%	172,668	291,493	291,493	Pre-construction
Hangzhou	Liangzhu Cultural City	Yuhang District	80%	3,354,214	2,475,967	1,980,774	Under construction
	Venice City	Xiaoshan District	44%	213,183	323,908	142,520	Under construction
	Yitian Square	Binjiang District	80%	98,198	211,957	169,566	Under construction
	Yousheng	Xihu Road	48%	8,786	36,046	17,302	Pre-construction
	Yiwu	Yiwu	40%	84,027	27,000	10,800	Pre-construction
Ningbo	Yingxian Road	Yingzhou District	100%	190,369	313,662	313,662	Pre-construction

Beijing	Yuyang Land Lot of Four Seasons Flower City	Shunyi District	100%	42,900	76,700	76,700	Pre-construction
Shenyang	Hunnan Road	Hunnan New District	100%	52,700	89,500	89,500	Pre-construction
	Xinyu Mansion Phase 2	Hunnan New District	100%	97,400	132,300	132,300	Pre-construction
Anshan	Zhongzha Factory	Tiedong District	100%	48,874	97,748	97,748	Pre-construction
Qingdao	New World	Chengyang District	80%	200,289	340,491	272,393	Pre-construction
Chengdu	Wenjiang	Yongquan Town	90%	24,773	115,794	104,215	Pre-construction
	Total			5,118,078	5,532,184	4,306,282	

As at the end of the third quarter, the Company's newly-added projects acquired through public methods or with the related transfer procedures completed for the year were 38, with a total site area of approximately 7,892,000 sq m and a planned GFA of 9,712,000 sq m. Pursuant to the planned GFA accounted for the equity of Vanke, the area was 7,768,000 sq m.

In addition, the Company still has 14 more newly-added projects with the transfer procedure underway. These 14 projects have a total site area of those projects is 1,741,000 sq m. Pursuant to the planned GFA accounted for the equity of Vanke, the total area is 2,767,000 sq m.

3.1.1 Principal activities or products accounting for more than 10% of the revenue or total profit from principal operations:

Applicable Not applicable

By industry or product	Revenue from principal operations (RMB)	Costs of principal operations (RMB)	Gross profit margin (%)
Property development	1,725,861,779	1,131,838,344	34.42%

Notes: (1) No connected transactions were involved in the principal operations of the Company; (2) tax and surcharges on principal operations were taken into account in the calculation of the gross profit margin of the property development.

3.1.2 Seasonal or periodic characteristics of the Company's operations

Applicable Not applicable

3.1.3 Composition of profit for the period under review (significant changes in and reasons for such changes in profit from principal operations, profit from other operations, expenses for the period, investment revenue, subsidy income and net non-operating revenue and expenses as a percentage of total profit when compared with those of the previous reporting period)

Applicable Not applicable

Items	Amount(RMB'000)		Percentage to profit before tax (%)	
	Jul-Sep 2006	Jan-Jun 2006	Jul-Sep 2006	Jan-Jun 2006
Profit before tax	223,805	1,821,748	100.00%	100.00%
Gross Profit	556,772	2,262,258	248.78%	124.18%
Distribution Cost	154,829	217,776	69.18%	11.96%
Administrative Cost	168,117	306,966	75.12%	16.85%

Explanation: The gross profit, distribution cost and administrative cost generated from July to September 2006 represented 248.78%, 69.18% and 75.12% of the profit before tax of the same period under review, all of which representing relatively higher growth rates when compared with those of the first half of the year. The changes were mainly resulted from the fact that many projects were not completed and booked during this quarter, while normal expenses incurred in the concurrent sales process, which caused a higher percentage of distribution cost and administrative cost to profit before tax, and a higher percentage of gross profit to profit before tax.

3.1.4 Significant changes in and reasons for such changes in principal operations and its components when compared with those in the previous reporting period

Applicable Not applicable

3.1.5 Significant changes in and reasons for such changes in the profitability (gross profit margin) of principal operations when compared with that in the previous reporting period

Applicable Not applicable

3.2 Significant events and analysis on their effects and solutions

Applicable Not applicable

On 3 August 2006, the Company and Zhongqiao Party entered into a series of agreements, pursuant to which the Company acquired from Zhongqiao Party 60 per cent equity interests in Zhejiang Nandu, 30 per cent equity interests in Shanghai Nandu, 30 per cent equity interests in Zhenjiang Runqiao, 30 per cent equity interests in Zhenjiang Runzhong and 21 per cent equity interests in Suzhou Nandu and shareholders' equity corresponding to those equity interests for a total consideration of RMB1,765.66 million. On 4 August 2006, the relevant transactions were approved at the seventh meeting of the fourteenth Board of Directors. Details of the transaction are as follows:

1. Name of the parties involved in the Transaction: One party to the transaction comprises Shanghai Zhongqiao Company Infrastructure (Group) Co., Ltd. ("Zhongqiao Company"), Shanghai Nandu Industrial Investment Co., Ltd. ("Nandu Industrial") and Nandu Group Holding Co., Ltd. ("Nandu Group"). The aforesaid three companies together are regarded as "Zhongqiao Party". China Vanke Co., Ltd. ("Vanke") and Shanghai Vanke Real Estate Group Company Limited ("Shanghai Vanke"), a wholly-owned subsidiary of Vanke, form the other party to the transaction and are collectively known as "China Vanke".

2. Offeree companies: Nandu Property Group Co., Ltd. ("Zhejiang Nandu"), Shanghai Nandu Zhidi Co., Ltd. ("Shanghai Nandu"), Suzhou Nandu Jianwu Co., Ltd. ("Suzhou Nandu"), Zhenjiang Runqiao Property Co., Ltd. ("Zhenjiang Runqiao"), Zhenjiang Runzhong Property Co., Ltd. ("Zhenjiang Runzhong"). These companies are principally engaged in property development and operation.

3. Background of the Transaction: On 3 March 2005, China Vanke and Zhongqiao Party entered into a series of agreements, pursuant to which China Vanke acquired from Zhongqiao Party 20 per cent equity interests in Zhejiang Nandu, 70 per cent equity interests in Shanghai Nandu (including Zhenjiang Runqiao and Zhenjiang Runzhong), 49 per cent equity interests in Suzhou Nandu for a total consideration of RMB1,857.85 million, and therefore became a collaborative partner of Zhongqiao Party. Upon agreement, both Parties decided to continue expanding their collaboration.

4. Details on the Transaction: Zhongqiao Party will transfer its 60 per cent equity interests in Zhejiang Nandu, 30 per cent equity interests in Shanghai Nandu, 30 per cent equity interests in Zhenjiang Runqiao, 30 per cent equity interests in Zhenjiang Runzhong, 21 per cent equity interests in Suzhou Nandu and the shareholders' equity corresponding to the aforesaid shareholding to China Vanke.

Upon the completion of the Transaction, China Vanke will hold 80 per cent equity interests in Zhejiang Nandu, 100 per cent equity interests in Shanghai Nandu,

100 per cent equity interests in Zhenjiang Runqiao, 100 per cent equity interests in Zhenjiang Runzhong, 70 per cent equity interests in Suzhou Nandu, and Zhongqiao Party will still have 20 per cent equity interests in Zhejiang Nandu.

5. The transaction does not constitute a connected transaction.

6. Date of signing the agreement: 3 August 2006

7. Effective date of the agreement: 4 August 2006, i.e. the date that the resolution considered and approved by the Board of Director

8. Consideration of the Equity Transfer: RMB1,765.66 million.

9. Determination of consideration: The consideration of the Transaction has been determined mainly in accordance with the net assets value and valuation of all the projects of the offeree companies. The value of the brand name, management team and staff of the offeree companies have also been considered.

10. Payment method: By cash, and by instalment within one year.

11. Source of capital: Capital generated by China Vanke

12. Payment terms

- a) Within 10 working days from the effective date of the relevant Agreement, China Vanke should pay Zhongqiao Party 10 per cent of the total consideration, i.e. RMB176,566,000;
- b) Within 10 working days from the date of Zhongqiao Party's completion of the transfer of its 60 per cent equity interests in Zhejiang Nandu to China Vanke, China Vanke should pay to Zhongqiao Party 40 per cent of the total consideration, i.e. RMB706,264,000;
- c) Within six months from the effective date of the relevant Agreement, China Vanke should pay Zhongqiao Party 30 per cent of the total consideration, i.e. RMB529,698,000;
- d) Within one year from the effective date of the relevant Agreement, China Vanke should pay Zhongqiao Party 20 per cent of the total consideration, i.e. RMB353,132,000.
- e) Upon the completion of the transfer of Zhejiang Nandu's equity interests, China Vanke can, upon Zhongqiao Party's request and with China Vanke's consent, settle the outstanding balance of the consideration due to Zhongqiao Party ahead of the payment schedule, but the amount such settled should be discounted in accordance with bank's lending rate during the same period.

13. Objectives and impact on the Company's financial position

1) Objectives of the Transaction:

The Yangtze River Delta forms part of the important strategic developments of the Company. The equity transfer will enable Vanke to rapidly realise its objective to make a complete coverage of the Zhejiang market, thereby basically finalising its market development arrangement for the Yangtze River Delta.

The Transaction not only provides the Company with a professional workforce with extensive experience in the local market right from the start of its development of the Zhejiang market, but also enables the Company to leverage Zhejiang Nandu's years of market experience and customer resources to gain an advantageous foothold, thus creating favourable conditions for the Company to establish a leading position in Hangzhou as well as Zhejiang market.

Through the one-off Transaction, the Company obtained project resources with an aggregate area of 2.692 million sq m, of which 1.741 million sq m are attributable to the Hangzhou projects. The Company can thus intensify its effort in project development, taking an important step towards the goal of rapid growth.

2. Impact of the Transaction on the Company's operating results:

Through the Transaction, the Company has acquired 100 per cent equity interest in Shanghai Nandu, 80 per cent equity interest in Zhejiang Nandu and 70 per cent equity interest in Suzhou Nandu. The area of Vanke's newly added land resources amounts to 2.692 million sq m. These resources will generate a considerable revenue for the Company, thereby creating favourable conditions for the Company's sustainable development.

The cost of the projects acquired through the Transaction is lower than the market price, which can further enhance the Company's return on assets ratio. These projects are expected to become Vanke's new source of profit growth.

Most of the projects acquired through the Transaction are now in the development stage. This stage has a relatively quick cash flow, which can further augment the Company's efficient usage of capital. Given the Company's current capability and arrangement of payment by instalment for the Transaction, the Company is capable of completing the Transaction with its internal resources.

In view of the initial payment for part of the Transaction amount and the remaining unpaid consideration that has been settled on credit and the impact of incorporating Zhejiang Nandu and Suzhou Nandu in the accounting statements, it is expected that, upon the completion of the Transaction, there will be some upward

adjustment to the Company's assets and liabilities ratio, which in turn will have impact on the Company's ability to raise funds through debt financing.

3.3 Elaboration and explanation on changes in accounting policies, accounting valuation and consolidation and material accounting discrepancy

Applicable Not applicable

1. Compared with the first half of 2006 accountant's report, there had been no changes in the accounting policies, accounting valuation during the period under review.

2. Business units involved in the changes in the consolidated financial statements during the period under review and the reasons for the changes.

A · During the reporting period, the Company newly established Shenzhen Vanke Jiuzhou Real Estate Development Co., Ltd. The company has a registered capital of RMB10 million, of which, Shenzhen Vanke Real Estate Company Limited, the Company's subsidiary, holds a 90 per cent equity interest. As Shenzhen Vanke Jiuzhou Real Estate Development Co., Ltd. is principally engaged in the property development, it had been incorporated into the Company's consolidated statements during the reporting period.

B · Shenzhen Pleasant Villa Real Estate Development Co., Ltd. has a registered capital of RMB10 million, of which, Shenzhen Wanchuang Architectural Design Company Limited, a subsidiary of the Company, holds a 100 per cent equity interest. As Shenzhen Wanchuang Architectural Design Company Limited is principally engaged in property development, it had been incorporated into the Company's consolidated statements during the reporting period.

C · Xiamen Vanke Real Estate Company Limited has a registered capital of RMB20 million, of which Shenzhen Vanke Real Estate Company Limited, a subsidiary of the Company, holds a 100 per cent equity interest. As Xiamen Vanke Real Estate Company Limited is principally engaged in property development, it had been incorporated into the Company's consolidated statements during the reporting period.

D · Guangzhou Vanke Star Real Estate Company Limited has a registered capital of US\$18.6 million, of which Guangzhou Vanke Real Estate Co., Ltd., a subsidiary of the Company, holds a 50 per cent equity interest. Guangzhou Vanke Star Real Estate Company Limited is principally engaged in property development. As the Company owns a controlling stake in Guangzhou Vanke Star Real Estate Company Limited, it had been incorporated into the Company's consolidated statements during the reporting period.

E · Suzhou Vanke Real Estate Company Limited has a registered capital of RMB30 million, of which Shanghai Vanke Real Estate Group Company Limited, a subsidiary of the Company, holds a 100 per cent equity interest. As Suzhou Vanke Real Estate Company Limited is principally engaged in property development, it had been incorporated into the Company's consolidated statements during the reporting period.

F · Suzhou Vanke Property Co., Ltd. has a registered capital of RMB336.056 million, of which Shanghai Vanke Real Estate Group Company Limited, a subsidiary of the Company, holds a 55 per cent equity interest. As Suzhou Vanke Property Co., Ltd. is principally engaged in property development, it had been incorporated into the Company's consolidated statements during the reporting period.

G · Ningbo Vanke Real Estate Development Co., Ltd. has a registered capital of RMB150 million, of which Shanghai Vanke Real Estate Group Company Limited, a subsidiary of the Company, holds a 100 per cent equity interest. As Ningbo Vanke Real Estate Development Co., Ltd. is principally engaged in property development, it had been incorporated into the Company's consolidated statements during the reporting period.

H · Tianjin Vanke Xinlicheng Real Estate Company Limited has a registered capital of RMB200 million, of which Tianjin Vanke Real Estate Co., Ltd, a subsidiary of the Company, holds a 55 per cent equity interest. As Tianjin Vanke Xinlicheng Real Estate Company Limited is principally engaged in property development, it had been incorporated into the Company's consolidated statements during the reporting period.

I · Tsingdao Vanke Yinshengtai Real Estate Development Co., Ltd. has a registered capital of RMB200 million, of which the Company holds a 80 per cent equity interest. As Tsingdao Vanke Yinshengtai Real Estate Development Co., Ltd. is principally engaged in property development, it had been incorporated into the Company's consolidated statements during the reporting period.

J · On 9 August 2006, Chengdu Vanke Real Estate Co., Ltd., a subsidiary of the Company, and Chengdu Yindong Development Co., Ltd. and others, being original shareholders of Chengdu Beifu, entered into an agreement for the transfer of 90 per cent equity interest in Chengdu Beifu Property Co., Ltd. ("Chengdu Beifu"). As at 31 August 2006, the Company had paid 50 per cent of the consideration for the acquisition of the aforesaid equity interest. The procedure for the change in shareholding and transfer of ownership had been completed. As such, Chengdu Beifu had been incorporated into the Company's consolidated statements during the reporting period.

Established on 18 January 2002, Chengdu Beifu has a registered capital of RMB10

million. Chengdu Beifu is principally engaged in property development.

K、 On 3 August 2006, the Company entered into an agreement with Shanghai Zhongqiao Company Infrastructure (Group) Co., Ltd. for the acquisition of a 21 per cent equity interest in Suzhou Nandu Jianwu Company Limited (“Suzhou Nandu”). On 4 August 2006, the Board of Directors considered and approved the aforesaid agreement. The Company originally held 49 per cent equity interests in Suzhou Nandu. Upon the completion of the acquisition, the Company will hold a 70 per cent equity interest in Suzhou Nandu. As such, Suzhou Nandu and its subsidiaries had been incorporated into the Company’s consolidated statements during the reporting period. Suzhou Nandu Jianwu Company Limited is a registered company in the Suzhou City with a valid legal entity status. The company is located in the Kua Tang Sub-district of Suzhou Industrial Park, with a registered capital of RMB300 million. As at 22 August 2006, the Company had already paid 50 per cent of the consideration for the aforesaid acquisition..

L、 On 3 August 2006, the Company entered into agreements with Shanghai Zhongqiao Company Infrastructure (Group) Co., Ltd. and Shanghai Nandu Industrial Investment Co., Ltd. respectively for the acquisition of a 35 per cent equity interest and a 25 per cent equity interest in Nandu Property Group Co., Ltd. (“Zhejiang Nandu”) respectively. On 4 August 2006, the Board of Directors considered and approved the aforesaid agreements. The Company originally held 20 per cent equity interests in Zhejiang Nandu. Upon the completion of the acquisition, the Company will hold an 80 per cent equity interest in Zhejiang Nandu. As such, Zhejiang Nandu and its subsidiaries had been incorporated into the Company’s consolidated statements during the reporting period. Zhejiang Nandu is a registered company in Zhejiang Province, with a valid legal entity status. Zhejiang Nandu has a registered capital of RMB150 million. As at 22 August 2006, the Company had already paid 50 per cent of the consideration for the aforesaid acquisition. The change in shareholding and transfer procedure had been completed..

M、 The Company originally owns a 60 per cent equity interest in Dongguan Songshanju Property Co., Ltd. (“Dongguan Songshanju”). Since the Company has obtained a controlling stake in Dongguan Songshanju, the company had been incorporated into the Company’s consolidated statements during the reporting period. Dongguan Songshanju has a registered capital of RMB10 million and is principally engaged in property development and operation.

3.4 Relevant explanations by the Board and the Supervisory Committee in respect of “qualified” audit opinion

Applicable Not applicable

3.5 Warning of and explanation for the accumulated profit attributable to shareholders from the beginning of the year to the end of the next reporting period forecast to be a probable loss or to be significantly differed from that of the corresponding period of last year

Applicable Not applicable

3.6 Rolling adjustments to the annual operating plan or budget previously disclosed by the Company

Applicable Not applicable

3.7 Special undertaking given by original holders of non-tradable shares during the process of the Non-tradable Shares Reform and its implementation

Applicable Not applicable

Name of the shareholder	Special undertaking	Implementation
China Resources Co., Limited ("CRC")	From the date on which the non-tradable shares held become tradable, CRC will not list and trade or transfer these shares within 12 months under its legal obligation, which when fulfilled, CRC can sell its original non-tradable shares by listing and trading them on the stock exchange, with a upper limit of no more than 5 per cent of the total number of Vanke's shares within 12 months and no more than 10 per cent within 24 months, at a selling price of not less than 120 per cent of the exercise price of the put warrants issued during the Non-tradable Share Reform (the selling price will be adjusted during the statutory share disposal restriction period according to the adjustment method of the put warrant's exercise price)	Strictly complied with the aforesaid undertaking

Consolidated income statement for the nine months ended 30 Sep 2006

(Expressed in Renminbi Yuan)

	2006 Jan-Sep	2005 Jan-Sep (restated)
Revenue	7,978,619,248	5,267,134,197
Cost of sales	(5,159,584,221)	(3,321,444,996)
Gross profit	2,819,035,027	1,945,689,201
Other operating income	39,337,606	18,962,478
Distribution costs	(372,604,298)	(335,727,506)
Administrative expenses	(475,082,485)	(297,838,289)
Other operating expenses	(27,737,252)	(9,621,378)
Operating profit before financing costs	1,982,948,598	1,321,464,506
Financial income	39,448,210	47,569,372
Financial expenses	(104,819,861)	(70,333,913)
Share of profits less losses of associates	5,246,663	(23,915,500)
Share of losses of jointly controlled entities	16,760,374	(9,281,623)
Investment revenue	105,968,385	-
Profit before taxation	2,045,552,369	1,265,502,842
Income tax	(589,066,981)	(363,686,184)
Profit for the period	1,456,485,388	901,816,658
	=====	=====
Attributable to:		
Equity shareholders of the Company	1,453,369,550	884,515,987
Minority interests	<u>3,115,837</u>	<u>17,300,671</u>
Profit for the period	1,456,485,388	901,816,658
	=====	=====
Earnings per share		
Basic	0.372	0.259
	=====	=====
Diluted	0.369	0.223
	=====	=====

Consolidated balance sheet as at 30 Sep 2006

(Expressed in Renminbi Yuan)

	<i>30 Sep 2006</i>	<i>31 Dec 2005</i>
Non-current assets		
Property, plant and equipment	391,980,955	217,974,889
Investment properties	75,968,636	91,020,125
Construction in progress	68,416,630	19,699,697
Interests in associates	312,501,378	1,095,550,599
Interests in jointly controlled entities	240,479,503	158,367,843
Other investments	97,292,280	39,407,447
Deferred tax assets	40,157,713	25,650,972
Properties held for development	15,487,993,497	7,637,079,936
Total non-current assets	16,714,790,592	9,284,751,508
	-----	-----
Current assets		
Inventories	9,910,689	41,520,598
Completed properties for sale	2,346,555,023	2,298,059,418
Properties under development	14,942,907,087	5,612,914,315
Trade and other receivables	3,356,251,936	1,787,740,574
Investment hold for trading	1,009,054	-
Cash and cash equivalents	5,459,989,178	3,249,034,710
Total current assets	26,116,622,967	12,989,269,615
	=====	=====
TOTAL ASSETS	42,831,413,559	22,274,021,123
	=====	=====
CAPITAL AND RESERVES		
Share capital	3,969,898,751	3,722,687,670
Reserves	6,111,529,854	4,650,718,366
Total equity attributable to equity shareholders of the Company	10,081,428,605	8,373,406,036
Minority interests	2,325,818,668	541,095,823
TOTAL EQUITY	12,407,247,273	8,914,501,859
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Consolidated balance sheet as at 30 Sep2006 (continued)

(Expressed in Renminbi Yuan)

	<i>30 Sep 2006</i>	<i>31 Dec 2005</i>
Non-current liabilities		
Interest-bearing loans and borrowings	5,660,258,603	1,181,282,713
Convertible bonds	-	843,505,199
Other long term liabilities	75,050,645	447,774,990
Total non-current liabilities	5,735,309,248	2,472,562,902
	-----	-----
Current liabilities		
Interest-bearing loans and borrowings	7,497,509,947	1,562,980,000
Trade and other payables	17,681,402,004	9,256,505,694
Provisions	25,300,020	23,979,011
Current taxation	(515,354,933)	43,491,657
Total current liabilities	24,688,857,038	10,886,956,362
	=====	=====
TOTAL LIABILITIES	30,424,166,286	13,359,519,264
	=====	=====
TOTAL EQUITY AND LIABILITIES	42,831,413,559	22,274,021,123
	=====	=====

Consolidated cash flow statement for the nine months ended 30 Sep 2006

(Expressed in Renminbi Yuan)

2006

Jan-Sep

Operating activities

Profit before taxation	2,045,552,369
Adjustments for:	
Depreciation	28,733,271
Gain/loss on disposal of property, plant and equipment	847,325
Increase / (decrease) in provision for debts and doubtful debts	24,483,800
(Write back on provision)/provision for impairment of fixed assets	20,032,379
Amortization of transaction cost of convertible bonds	1,436,507
Interest income	(34,787,878)
Interest expense	98,935,804
Dividend income	(677,600)
Profit / (loss) on disposal of an associate or subsidiary	51,713
Operating profit before changes in working capital and provisions	2,184,607,690
Increase in amount due from associates	247,930,869
Increase in amounts due from jointly controlled entities	107,971,584
Increase in trade and other receivables	(1,455,034,585)
Increase in trade and other payables and other long term liabilities	4,252,209,447
Increase in inventories	21,731,287
Decrease/(increase) in properties under development	(4,143,800,120)
(Increase)/decrease in completed properties for sale	644,259,478
Operating profit before changes in working capital and provisions	1,859,875,650
(Increase)/decrease in properties held for development	(5,209,995,907)
Provisions used	1,321,009
Increase/(Decrease) in amounts due to associates	(1,942,826)
Decrease in other tax payable included in taxation	(74,397,007)
Cash generated from operations	(3,425,139,081)
Income taxes paid	(864,653,351)
Net cash from operating activities	(4,289,792,432)

Consolidated cash flow statement for the nine months ended 30 Sep 2006

(continued)

(Expressed in Renminbi Yuan)

	2006 Jan-Sep
Investing activities	
Proceed of capital injection from minority interests	950,209,422
Disposal of subsidiaries, net of cash acquired	4,648,303
Acquisition of subsidiaries, net of cash acquired	(935,533,437)
Acquisition of interests in jointly controlled entities	77,002,888
Acquisition of other investment	(52,693,317)
Proceeds from disposal of fixed assets	829,806
Proceeds from disposal of investment properties	11,862,171
Acquisition of property, plant and equipment	(32,122,089)
Acquisition of construction in progress	(48,716,933)
Proceeds from disposal of other investments	(51,713)
Interest received	34,787,878
Dividend received from other investments and an associate	677,600
Net cash used in investing activities	10,900,579

Financing activities	
Interest paid	(200,967,582)
Net proceeds from/(repayment of) loans and borrowings	7,255,141,492
Cash refund for conversion of convertible bonds	756,546
Redemption of convertible bonds	(4,498,750)
Dividend paid to minority shareholder of a subsidiary	(6,764,732)
Dividend paid	(558,035,847)
Net cash (used in)/from financing activities	6,485,631,127
	=====
Net increase in cash and cash equivalents	2,206,739,275
Cash and cash equivalents at 1 January	3,249,034,710
Effect of foreign exchange rates	4,215,193
Cash and cash equivalents at 30 Sep	5,459,989,178
	=====