VANKE 万科企业股份有限公司 CHINA VANKE CO., LTD

(Incorporated in the People's Republic of China with limited liability)

2006 Interim Results

Important Notice: The Board of Directors (the "Board") of China Vanke Co., Ltd. (the "Company") and its subsidiaries (the "Group") is pleased to announce the interim results of 2006, which was adjusted to conform with International Financial Reporting Standards. The Group's interim financial results have not been audited.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30 JUNE 2006

	2006 January–June ***RMB***	2005 January–June ***RMB*** *(restated)*
Revenue	6,241,202,480	4,105,896,297
Cost of sales	(3,978,944,643)	(2,614,512,185)
Gross profit	2,262,257,837	1,491,384,112
Other operating income	45,353,522	14,338,778
Distribution costs	(217,775,680)	(174,635,021)
Administrative expenses	(306,965,902)	(212,264,404)
Other operating expenses	(32,128,375)	(4,209,408)
Profit from operations	1,750,741,402	1,114,614,057
Financial income	24,561,177	(4,087,083)
Financial expenses	(52,506,683)	(1,414,279)
Share of losses less profits of associates	6,467,244	910,030
Share of losses of jointly controlled entities	(13,470,178)	
Investment revenue	105,954,687	
Profit before tax	1,821,747,649	1,110,022,725
Taxation	(545,001,883)	(292,228,959)
Profit after tax	1,276,745,766	817,793,766
Minority interests	(6,167,141)	(18,139,886)
Profit attributable to equity shareholders	1,270,578,625	799,653,880
Basic earnings per share	0.32	0.23
Diluted earnings per share	0.32	0.23

Notes:

1. The interim results are in accordance with the International Financial Reporting Standards（"IFRS"）.
2. The Group's applicable tax rate represents the weighted average of the PRC income tax rates, which range between 15% and 33%.
3. The calculation of earnings per share is based on the net profit for the period attributable to shareholders of RMB1,270,578,625 (the corresponding period of 2005: RMB799,653,880) and on the number of ordinary shares outstanding during the year of 3,969,898,751 shares (the corresponding period of 2005: 3,410,971,780 shares).

NET IMPACT OF IFRS ADJUSTMENTS ON NET PROFIT AND NET ASSETS FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Profit attributable to equity shareholders for the period ended	*Net assets as at*
	30-Jun-06	*30-Jun-06*
	RMB	RMB
As determined pursuant to PRC accounting regulations	1,220,795,888	10,402,888,162
Adjustments to align with IFRS:		
Recognition and amortisation of negative goodwill	(389,342)	2,589,558
Recognition and amortisation of goodwill	52,158,069	60,599,852
Deferred tax assets	394,707	26,045,679
Revaluation of properties	273,527	(16,489,318)
Capitalised borrowing costs released to cost of sales	(2,654,224)	(46,914,259)
Transaction costs released to share premium upon conversion of convertible bonds	-	(1,868,169)
Discount released to share premium upon conversion of convertible bonds	-	64,380,212
Discount on convertible bonds	-	483,012
As restated in conformity with IFRS	1,270,578,625	10,491,714,729
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SIGNIFICANT EVENT

The Board resolved not to have any profit appropriation and transfer of capital surplus reserve to share capital for the six months ended 30 June 2006.

Management's discussion and analysis

Operating environment: Macroeconomic measures persist

The Company's management noticed that as the property industry reached a turning point since the end of 2004, there would be significant changes with far-reaching effect in the operating environment; to the Company, such changes would bring forth both challenges and opportunities for development. Whether the Company can grasp opportunities in the next few years to sustain rapid and healthy development depends on its ability to make early precise judgment and effective response.

From a long-term perspective, the Company regards the most distinguished feature of a turning point as the promotion of a more rational and disciplined development of the industry by the continued promulgation of austerity policies. Against such a backdrop, it is expected that there will be reallocation of resources in the industry, with gradual improvement in the "survival of the fittest" mechanism and continued increase in concentration.

Looking ahead, the property industry on the one hand will continue to be recognised as the pillar industry, the macroeconomic policies on the other hand will continue to be carried out. The objective of the austerity measures continues to target at reining in excessive property investment in certain cities and controlling the rapid increase in property prices. With the implementation of a series of macroeconomic measures against finance, credit and borrowing, land, taxation, sales, the property industry will face a new era of development.

According to the government's work report at the beginning of the year, while the property industry remained to be recognised as the pillar industry, the macroeconomic austerity policies will continue to be strictly implemented to rein in excessive property investment in certain cities and to control rapid growth in property prices, and to further fine-tune the policies on finance, credit and borrowing, land, taxation and sales, in order to continue to regulate the market order of the property industry. In May, the State Council held an executive meeting to research into the possible measures to promote healthy development of the property industry. The State Council thus further identified six measures to rein in excessive growth in property prices that occurred in a few major cities, to rectify the irrational structure of property supply, and to regulate the property market order. At the end of May, nine ministries jointly promulgated the "Opinions on adjustment to housing supply structure to stabilise housing prices", and later promulgated "Certain opinions on the implementation of the requirements for the size and proportion of newly constructed residential buildings" and "Opinions on the regulation of foreign investors' entry to the property market and their management". The promulgation of this series of policies will have far-reaching impact on the operating environment of the industry. This is coherent with the Company's judgement.

According to the "Opinions on adjustment to housing supply structure to stabilise housing prices" promulgated by nine ministries, the objective of "Size less than 90 sq m will account for 70 per cent" proposed for adjusting residential property structure will have impact on the pace of operation of property developers. In particular, some of the projects that have been acquired but are not yet under construction will be subject to planning adjustment, and it will take more time for them to apply for approval and construction. Since there is a big gap between the aforesaid requirements and the current market supply structure as well as the actual structure of projects currently pending for construction, almost all the property companies will inevitably have to put off their operating plans, and the Company cannot be excepted.

But fortunately, trend for smaller homes is what the Company has predicated since 1997, and since 2001, the Company's product research and development department has also given priority to "small and medium homes" in their research. As such, the impact of the planning adjustment on the Company's operating plan will be smaller than the industry average. With good reasons, the Company's management also believes that such adjustment will not affect the Company's realisation of its operating results and growth targets for the years 2006 and 2007. When the Company acquires it project resources in the future, it will gradually enjoy the first-mover advantage in the research on small and medium residential properties.

Grab the opportunities to realise rapid growth

At the start of the period, the management believes that the deepening of the macroeconomic policies in the industry will provide opportunities of the Company's rapid growth. Land and lending policies will help expedite industry consolidation, while the intensified macroeconomic measures will gradually activate the land reserves. Through resources integration, the Company will be able to acquire quality project resources in a more efficient manner. The completion of non-tradable share reform and diversified financing arrangement will provide a steady flow of capital for the Company's rapid growth.

Based on the above-mentioned analysis, the Company's management believes, starting from 2006, the Company completely fulfills the condition for entering the stage of rapid development. The Company will persevere with its cities-and-economic-hubs-oriented strategy with Pearl River Delta, Yangtze River Delta and Bohai-Rim region being the core development areas, and intensified our project development effort. With respect to the detailed operational arrangement for 2006, the Company plans to increase its land bank by approximately 10 million sq m. Shenzhen, Guangzhou, Shanghai, Tianjin, especially Beijing remain the core development areas. The Company also emphasises the acquisition of premium projects to improve its land resources portfolio, and through rapid development of a number of projects, it will capitalise on the turnover of capital and economies of scale, to enhance the efficiency of human resources and capital utilisation, as well as to strengthen market control and brand influence.

The persistent implementation of the macroeconomic policies is one of the prerequisites for the Company to enter the stage of rapid growth starting from 2006. As at the end of the reporting period, the management, full of confidence and with good reasons, insists on the existing strategy.

During the period under review, this strategy has been implemented smoothly. More of the land reserves available on the market will be activated, thanks to the stringent management of lending and the minimisation of the requirements for handling idle land. Leveraging the Company's edge in brand, credibility in the capital market and expertise in development, as well as its accurate predication of the industry trend, the Company is able to acquire higher quality project resources in a more effective manner. During the period under review, the Company added 36 new projects. Based on the proportion of the equity interests owned by China Vanke, the total area of these projects is 5,670,000 sq m (of which, 22 projects with a total planned GFA of 3,390,000 sq m as determined in accordance with the proportion of the equity interests owned by China Vanke are acquired through public methods or have completed the related transfer procedures,). As at the end of the period under review, the total planned area of the Company's projects in proportion to the Company's equity holding was 15.65 million sq m (of which, 11.54 million sq m of planned GFA as determined in accordance with the proportion of the equity interests owned by China Vanke is acquired through public methods or have completed the related transfer procedures).

During the period under review, the Company and State-owned Assets Supervision and Administration Commission of Chaoyang District joined hands, and successfully acquired the 60 per cent equity interest in Chao Wan Centre. The Company also forged an alliance with Taida and Wantong for the co-development of Tianjin Fashion Square project. Together with China National Cereals, Oils and Foodstuffs Corp, the Company will develop Wan Heng project in Beijing and a metallurgical plant in Suzhou. The Company expects that, in the foreseeable future, more project acquisitions will be made through resources integration.

In the second half of the year, the Company will, in accordance with its plan, carry out the private placement of the Company's shares.

Meticulous operation to achieve satisfactory results for the period

The changes in the operating environment will not only provide opportunities, but also challenges. While grabbing the opportunities for development, the Company will certainly not be lax in keeping an eye and its efforts to maintain satisfactory results for the period.

During the period under review, the Company realised a revenue and profit attributable to equity shareholders of RMB6.24 billion and RMB1.27 billion respectively, representing increases of 52.01 per cent and 58.89 per cent from those of the same period last year.

During the period under review, the Company's sales performance had been satisfactory. From January to June, the Company realised sales area and sales revenue of 1.223 million sq m and RMB7.39 billion respectively, representing increases of 33.2 per cent and 27.0 per cent from those of the previous year respectively. In June, after the joint promulgation of the "Opinions on adjustment to housing supply structure to stabilise housing prices" by nine ministries, the Company continued to report satisfactory sales, with sales area and sales revenue of 214,000 sq m and RMB1,260 million, representing increases of 35.9 per cent and 37.5 per cent from those of June last year respectively.

During the first half of the year, the Group's booked area and booked revenue amounted to 901,000 sq m and RMB6.15 billion respectively, representing increases of 51.9 per cent and 53.2 per cent from those of the same period last year respectively. Of the total booked area, the Shanghai Company reported a booked area of 194,000 sq m, mainly attributable to the sale of Shanghai Vanke Holiday Town project and Shanghai Langrun Court project; the Shenzhen Company reported a booked area of 199,000 sq m, mainly attributable to the sale of the Fifth Garden project and Vanke City project. These two areas remained as the Company's major sources of profit contribution. In other cities, projects such as Tianjin Crystal City and Guangzhou Four Seasons Flower City accounted for a relatively large proportion in the Group's profit for the interim period.

As at the end of the period under review, the Company had an area of 913,000 sq m sold but not yet booked, which involved an amount of approximately RMB5.34 billion as construction was yet to complete.

Facing the future: A Reform Pioneer and A Corporate Citizen

At the start of the period under review, the Company's management, in accordance with their judgment on the development trend of the industry, made it clear that the Company should continue to intensify its revolutionary process, following the path of revolution it took in the past few years, in order to establish a better platform for development in a new operating environment that is approaching.

The management believed that competition intensifies and gross profit margin returns to the normal level are signs that the industry is maturing. However, the return on assets of premium enterprises will not, due to the above factors, decline. To achieve success in the future, enhancing operational efficiency is necessary. The Company has to constantly enhance its product innovation, revolutionise its production method, accelerate the progress of standardisation and prefabricated homes, escalate the pace of project development, fully utilise the turnover of capital and production scale, enhance efficiency of human resources and capital usage, as well as strengthen market control and brand influence.

As the industry moves toward maturity, the management believed that the demand of customers will be more rational and their requirements for product differentiation and customerisation will be higher. The Company needs to conduct exhaustive study of customers, intensify its implementation of customer segmentation strategy, and accelerate product categorisation progress, with the aim of better serving the needs of customers and enabling the Company to obtain a source of operating returns that will never dry up.

In light of the intensified austerity measures, the management believed that the core resources of the real estate industry: land, capital and specialists require more efficient allocation. They cannot adapt to new environment, by simply relying on organic growth. The Company needs to refine its product mix to achieve better economies of scale and to shift to an operating model that has higher efficiency. Being an enterprise with the strongest profitability and a mature collaborative mentality, the Company will become a preferred partner of all kinds of resources owners and controllers. Moreover, the Company will remain extremely flexible in collaboration, with the aim of becoming the nexus of industry resources integration.

With unrelenting effort in various aspects, the Company's edge in its expertise had been further recognised during the period under review. The result of the authoritative "Golden Prize of Zhan Tianyou Excellent Residential Community Award" in China for this year had been announced. Five projects of China Vanke including Guangzhou Vanke Four Seasons Flower City, Shenzhen Vanke East Coast, Shanghai Vanke Four Seasons Flower City, Tianjin Vanke Holiday Town and Chengdu Vanke Metropolitan Apartments were granted awards out of the 20 golden prizes, representing a quarter of the total number of awards. Tianjin Vanke Dongli Lake and Shanghai Vanke Langrun Court came first and second among the six special prizes of the national "2006 Double Savings and Double Outstanding Trophy of Residential Project Competition", which aims at promoting energy saving and economical use of land.

Apart from its expertise, keeping the Company's edge in good corporate governance is also a necessary condition for building a lasting company. During the period under review, the Company's Phase One (2006 - 2008) of The Restricted Stock Incentive Plan had been passed at the shareholders' meeting. The implementation of the restricted stock incentive plan will ensure that a control mechanism between the shareholders and professional management team built upon common interest is established, high-calibre managerial talent and core staff will be attracted and retained, the Company's incentive mechanism in the mid to long term will be fine-tuned, the corporate governance and the Company's competitiveness will be enhanced.

During the period under review, the Company's corporate governance structure, moral standards and brand image had gained increased social recognition. During the period under review, the Company had been named "The Most Respected Enterprise in the PRC" jointly by The Economic Observer Newspaper and the Management Case Center of Peking University for four consecutive years; the Company ranked first among the "Top 100 Property Development Enterprises in the PRC" by the Enterprise Research Institute of the Development Research Center of the State Council of the PRC, the Institute of Real Estate Studies, Tsinghua University and the Institute of China Index for three consecutive years. In addition, the Company had been named "China's Most Valuable Listed Companies" by CCTV; the Company had also received "The Best Large Company Award", "The Best Communications Award", "The Best Shares Reform Award" and "The Best Executive Award" at the second session of the "IR Selection for A-Share Company of China". The first PRC's corporate governance evaluation system put into practical use also gave China Vanke the highest rating among the same class of listed companies participated in the evaluation.

To ensure that the Company's corporate citizen-related activities are more organised and focused, the Company has appropriated funds for the "Corporate Citizen" project following the approval of the shareholders' meeting. The funds are to finance the Company's "Corporate Citizen" development plan. The approval of the funds fully reflects the Company's shareholders share the common interest in taking the road to "Corporate Citizen", and also lays a solid foundation for the Company's further implementation of its "Corporate Citizen" mission.

During the period under review, under the guidance of the Ministry of Construction of the PRC, the campaign on gathering "Solutions to Housing Problems of Low to Middle-income Group"launched by the Company ended on high note, with positive response from the society. At the same time, the Company achieved preliminary results from its research on "Housing suitable for low to middle-income group". The Company will leverage its over 10 years of experience in property development to be the first in the industry to conduct an extensive research on such type of housing requirements, and based on this develops a series of prototype of "housing suitable for low to middle-income group", with the aim of providing information to the relevant department with respect to enhancing economy housing design and quality of living of the lowest income group in urban areas. Meanwhile, the Company and the "World Architecture" magazine jointly organised "WA – Vanke Possible Housing Design Competition", which is held once every two years with the aim to incubate young architects. The theme of this session was "Possibility of 80 sq m", which aimed at exploring the space for living of small and medium homes and promoting intensive and efficient use of space.

PLANS FOR THE SECOND HALF OF THE YEAR

For the second half of the year, one of the Company's priorities is to continue implementing the plan for construction and completion of work set out at the start of the year. The Company will make timely adjustment to the planning design for projects pending for construction in accordance with the requirements for adjusting the supply structure in various areas. It will leverage its first-mover advantage in the exploration of the small and medium housing segment to minimise the impact of the longer time taken to apply for approval and construction on the Group’s pace of development in the second half of the year and in the following year. The Company will also capitalise on its edge in product innovation, customer segmentation and customer loyalty, in response to the wait-and-see market attitude that already emerges or may emerge, with the aim of maintaining a satisfactory sales performance. All this is to ensure that the Company can realise its planned operating results and growth in the second half of the year and in the first half of the following year.

During the second half of the year, the Company will continue to push ahead with its existing development strategies. It will take full advantage of the opportunities arising from the macroeconomic adjustments to the industry, and will ramp up its efforts in industry resources integration, as well as select and acquire projects that will generate steady revenue to the Group in 2007 and 2008. Parallel to its plan for sustainable rapid growth, the Company will strive to complete the private placement of the Company’s shares with specific target investors within the year, aiming at providing financial support to the Company’s capturing of the opportunities for project development.

In addition, the Company will continue to push ahead with revolutionising itself. In view of the development needs in the next three to five years, the Company will focus on raising its return on capital through innovating its business model. As such, the Company will, in the second half of the year, further enlarge its diversified source of financing, and implement extensive collaboration, in order to further enhance the capital usage efficiency and rate of return. In the long run, the Company will continue to push ahead with an exhaustive study of the residential property industrialization, building the core competitiveness in the face of a new market situation in the future.

Wang Shi
Chairman

Shenzhen, 1 August 2006