MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GROUP'S OPERATIONS DURING THE TRACK RECORD PERIOD

Prospective investors should read the following discussion and analysis in conjunction with the consolidated financial information of the Group for the three years ended 31 December 2004 and the six months ended 30 June 2005 and 30 June 2004, all of which are set forth in the accountants' report set out in Appendix I to this prospectus. Except for the financial information as disclosed therein, the remainder of the Group's financial information presented in this section has been extracted or derived from the unaudited management accounts or other records of the Group which the Directors have taken reasonable care in their preparation. Prospective investors should read the whole accountants' report and not merely rely on the information contained in this section.

Consolidated income statements

	Year ended 31 December			Six months ended 30 June	
	2002	**2003**	**2004**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Revenue	144,638	68,121	197,710	46,617	22,514
Cost of sales	(113,815)	(49,161)	(146,481)	(25,638)	(18,971)
Gross profit	30,823	18,960	51,229	20,979	3,543
Other income	739	621	1,172	3,668	383
Fair value adjustments on investment properties	9,966	10,141	7,725	17,876	3,871
Write back of provision for net realisable value for properties held for sale	51	44	–	–	–
Write off of an investment property upon re-development	–	–	–	(3,774)	–
Selling expenses	(2,381)	(1,106)	(3,852)	(747)	(942)
Administrative expenses	(13,043)	(6,692)	(7,004)	(588)	(560)
Finance cost	(8,278)	(2,565)	–	(747)	–
Profit before taxation	17,877	19,403	49,270	36,667	6,295
Taxation	–	(46)	(16,195)	(10,964)	(2,254)
Profit for the year/period	17,877	19,357	33,075	25,703	4,041
Attributable to:					
Equity holders of the Company	16,811	18,470	31,389	24,530	3,845
Minority interests	1,066	887	1,686	1,173	196
	17,877	19,357	33,075	25,703	4,041
Dividends	–	–	–	–	–

During the Track Record Period, the Group has recorded upward fair value adjustments on investment properties amounted to approximately HK$10.0 million, HK$10.1 million, HK$7.7 million and HK$17.9 million respectively in its consolidated income statements. According to HKAS40, the Hong Kong Accounting Standard for investment properties issued by the HKICPA, investment properties could be recognized by using either the fair value model or the cost model. The Directors have selected the fair value model to report the value of investment properties because they are of the view that periodic fair value adjustments in accordance with the then prevailing market conditions, irrespective of whether such market trend moves upwards or downwards, should be recorded so that the Group's financial statements present a more updated picture of the fair value of the Group's investment properties. The auditors and reporting accountants of the Company, namely Grant Thornton, concurs with the Directors' view in this respect. **However, prospective investors should be aware that upward fair value adjustments, which reflect unrealized capital gain of the Group's investment properties at the relevant balance sheet dates while not profit generated from day to day investment properties' rentals of the Group, are largely dependent on the prevailing property markets and does not generate cash inflow to the Group for dividend distribution to Shareholders of the Company until such investment properties are disposed of. Moreover, prospective investors should be aware that property values are subject to market fluctuation and there can be no assurance that the Group will continue to record similar level of fair value adjustments on investment properties in future. Should there be any severe downward adjustments in the Group's investment properties in future, the Group's results may be adversely affected.**

Overview

The Group principally engages in property development, property investment and other ancillary activities. During the Track Record Period, the Group strived to develop high quality residential properties in Suzhou.

Critical Accounting Policies

The consolidated financial information of the Group has been prepared under the historical cost convention and in accordance with HKFRS. The preparation of financial statements in conformity with HKFRS requires the Group to adopt accounting policies and make estimates and assumptions that effect amounts reported in the Group's financial statements. In applying these accounting policies, the Group makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Accordingly, actual results could differ from those estimates. The estimates and assumptions might cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Many of these policies, estimates and judgements are common in the property development industry; others are specific to the Group's businesses and operations. The Group bases its estimates on historical experience and on various other factors that the Directors believe to be reasonable. The Group has identified the following critical accounting policy with respect to its financial presentation:

Recognition of revenue from sale of properties

The assessment of when an entity has transferred the significant risks and rewards of ownership to buyer requires examination of the circumstances of the transaction. In most cases, the transfer of risks and rewards of ownership is evidenced by the passing of possession of properties to the buyer when the property hand-over confirmation is executed by the Group and the buyer. The Group believes that sales recognised in accordance with this accounting policy is appropriate and is the current practice in the PRC.

Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both is classified as investment property. Investment properties comprise land held under operating lease and building held under finance lease. Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it was a finance lease.

Investment properties held are measured initially at its cost, including related transaction cost. After initial recognition, investment properties are carried at fair value. Fair value is determined annually by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment properties. The carrying amounts recognised in the consolidated balance sheet reflect the prevailing market conditions at the balance sheet date. Any gain or loss resulting from either a change in fair value or the sale of investment properties is immediately recognised in the consolidated income statement.

The fair value of the investment properties are determined by DTZ Debenham Tie Leung Limited, a firm of independently qualified professional surveyors and the fair value of investment properties as at respective year/period end. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

In making the judgment, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet dates and appropriate capitalization rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Taxation

According to the requirements of the "Provisional Regulations of the PRC on LVAT (中華人民共和國土地增值稅暫行條例)" which were promulgated on 13 December 1993 and took effect on 1 January 1994, and the "Detailed Implementation Rules on the Provisional Regulations of the PRC on LVAT (中華人民共和國土地增值稅暫行條例實施細則)" which were promulgated and took effect on 27 January 1995, all units and individuals receiving income from the sale or transfer of state-owned land use rights, buildings and their attached facilities are required to pay the LVAT. As advised by Grandall Legal Group (Shanghai), the legal advisers to the Company as to PRC law (the "PRC Legal Adviser"), according to such regulations and rules, tax payers have to report to the local tax bureau in respect of the LVAT issues within 7 days from the date of signing the sale and disposal agreement of properties. For those tax payers who frequently engage in the activities of sale and disposal of properties such that they can hardly report to the local tax bureau in respect of the LVAT issues after each occurrence of these activities, they can, upon obtaining consent from the relevant tax bureau, report on a mutually agreed regular basis.

Based on the "Notice in respect of Land Value-added Tax on contract signed before 1 January 1994 for development and transfer of Property (關於對一九九四年一月一日前簽訂開發及轉讓合同的房地產徵免土地增值稅的通知)" issued by the Ministry of Finance (財政部) and the State Administration of Taxation (國家稅務總局) of the PRC, 27 January 1995 LVAT is exempted in connection with the first transfer of land and buildings which took place within 5 years from 1 January 1994 in circumstances where either the project-listing (立項) or the contracts for the development of such land and buildings were concluded prior to 1 January 1994 and the requisite capital had already been injected. Subsequently, on 24 December 1999 the Ministry of Finance and the State Administration of Taxation of the PRC issued the "Notice in respect of the extension of the period for the LVAT exemption policy (關於土地增值稅優惠政策延期的通知)" and extended the period of LVAT exemption until the end of 2000.

On 25 July 2005, the Group reported the sale and disposal of the properties to the Suzhou Local Tax Bureau (蘇州市地方稅務局) in respect of LVAT, in which the Group demonstrated with detailed calculations that SGVDM would not be subject to LVAT from the date of incorporation of SGVDM to the year ended 31 December 2004 and applied for assessment and settlement of the Group's LVAT, if any, upon completion of sales of substantially all of the properties in Suzhou Garden Villa and Suzhou Garden Court which would be expected to be the end of 2005. On 16 August 2005, the Suzhou Local Tax Bureau formally agreed in writing to the Group's proposed schedule for assessment and settlement of LVAT and up to the Latest Practicable Date, the Suzhou Local Tax Bureau has not indicated any disagreement on the Group's calculation.

As advised by the PRC Legal Adviser, the Group will only be subject to LVAT if there is any value-added amount for the properties sold computed in accordance with the relevant PRC laws and regulation. Based on the calculation prepared by the Group with regard to SGVDM's exposure on LVAT, which were verified by Grant Thornton, the Company's auditors and reporting accountants, there was no value added for the purpose of computing the LVAT exposure for the sales of all properties in Suzhou Garden Villa and Suzhou Garden Court. Since Suzhou Garden Villa and Suzhou Garden Court are the only two completed projects developed by SGVDM from the date of incorporation of SGVDM to the six months ended 30 June 2005, the Group is not subject to LVAT and therefore no provision on LVAT is expected to be made by SGVDM for the whole Track Record Period. As at the Latest Practicable Date, LVAT has never been charged by the relevant tax authorities on the sale and disposal of the SGVDM's properties. In addition, according to a certification (證明) endorsed by the Suzhou Local Tax Bureau, up to 31 May 2005, SGVDM has paid all local tax and did not have any outstanding tax liabilities. Based on the above, no provision for LVAT has been made by the Group for all years prior to 2001, for each of the three years ended 31 December 2004 and the six months ended 30 June 2005. All potential exposure to LVAT of SGVDM arising from sale of properties and developed land is covered by an undertaking of indemnity given by Belbroughton, Seal United, Mr. CF Tao and Mrs. Nancy Tao pursuant to the deed of indemnity referred to in the paragraph headed "Estate Duty and Tax Indemnity" in Appendix VII to this prospectus.

In accordance with HKAS 12, Income Taxes, a deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. The management of the Group has assessed the probability of future taxable profit for set off at each balance sheet date as follows:

Prior to 1 January 2002, the Group continued to make losses since 1994 due to the significant borrowing costs incurred each year. Since the Group did not actively market the sale of its investment properties of Suzhou Garden Villa during the year ended 31 December 2001, the management of the Group did not foresee a significant cash inflow contributed from the sales of Suzhou Garden Villa which could pay off the outstanding loans and reduce the interest expense in the foreseeable future at that time. Therefore, no deferred tax assets arising from unused tax losses were recognised on or before 1 January 2002.

By 31 December 2002, the Group had disposed of certain investment properties successfully. These disposals contributed significant cash inflow to the Group and the Group settled all outstanding bank loans in January 2003. On assessing the probability of future tax profit at 31 December 2002, the management of the Group took a prudent approach at that moment to assess the potential profit to be generated from disposal of the unsold properties held for sale and investment properties because they had not actively marketed Suzhou Garden Villa and only had a few confirmed sales contracts at 31 December 2002. As a result, deferred tax assets were not fully recognised as of 31 December 2002.

Year ended 31 December 2002 compared to year ended 31 December 2003

Revenue

The Group's revenue decreased by approximately HK$76.5 million, or 52.9%, from approximately HK$144.6 million in 2002 to approximately HK$68.1 million in 2003. The decrease was principally attributed to the decrease in revenue generated from the sale of properties. In 2002, the Group had decided, on the then prevailing market condition, to focus more on property development and hence sold significant part of investment properties in late 2002. The investment properties sold in 2002 included 2 villas and 117 apartments in Phase I to Phase III of Suzhou Garden Villa, which generated revenue amounted to approximately HK$120.0 million for the Group whereas in 2003 only 1 villa and 46 apartments in Phase I to Phase III of Suzhou Garden Villa had been sold which generates approximately HK$52.4 million of revenue for the Group. The Group's revenue generated from rental income also dropped by 55.6% from approximately HK$17.8 million to approximately HK$7.9 million in 2003.

Cost of sales

The Group's cost of sales decreased by approximately 56.8% from approximately HK$113.8 million in 2002 to approximately HK$49.2 million in 2003. The decrease in cost of sales was in line with the decrease in revenue.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately 38.3% from approximately HK$30.8 million in 2002 to approximately HK$19.0 million in 2003. This was mainly attributable to the decrease in the Group's revenue in 2003 as compared with that of 2002. Despite the decrease in gross profit, the Group's gross profit margin increased from approximately 21.3% in 2002 to approximately 27.8% in 2003, which was mainly due to the increase of the unit selling price of the properties held for sales attributable to the stable growth in the property market.

Fair value adjustments on investment properties

The Group's fair value adjustments on investment properties slightly increased by 1.0% from approximately HK$10.0 million in 2002 to approximately HK$10.1 million in 2003. The slight increase was mainly due to the netting effect of fewer investment properties, in terms of GFA, were held by the Group as at 31 December 2003 as compared with that as at 31 December 2002, and an appreciation in value of the Group's investment properties during 2003.

Selling expenses

The Group's selling expenses decreased by approximately 54.2% from approximately HK$2.4 million in 2002 to approximately HK$1.1 million in 2003. The decrease was due to the fact that except sales of remaining properties of the 3 phases of Suzhou Garden Villa, no other new development projects were launched in 2003.

Administrative expenses

The Group's administrative expenses decreased by approximately 48.5% from approximately HK$13.0 million in 2002 to approximately HK$6.7 million in 2003. The decrease was mainly due to the decrease in revenue, which in turn led to decrease in expenses such as travelling and bank charges. Besides, there was a written off of HK$4.0 million in the amount due from related company.

Finance costs

The Group's finance costs decreased by approximately 68.7% from approximately HK$8.3 million in 2002 to approximately HK$2.6 million in 2003, which was mainly due to the repayment of all bank borrowings by the Group during 2003.

Taxation

The Group commenced to make provision for taxation in 2003 with an amount of approximately HK$46,000, which was due to the fact that NH Development commenced to record a positive retained earnings in 2003. The Hong Kong Profits Tax rate applicable to NH Development for the year ended 31 December 2003 was 17.5%. No PRC Income Tax was charged against SGVDM due to the fact that SGVDM had an accumulated loss to set-off the profits generated in the years ended 31 December 2002 and 2003.

Profit attributable to the equity holders of the Company

Despite a decrease in revenue, the Group's profit attributable to the equity holders of the Company increased by 10.1% from approximately HK$16.8 million in 2002 to approximately HK$18.5 million in 2003. The increase was mainly attributable to the combined effect of reduction in administrative expenses, selling expenses and finance cost as well as the increase in profit margin percentage regarding the sales of properties held for sales.

Year ended 31 December 2003 compared to year ended 31 December 2004

Revenue

The Group's revenue increased by approximately HK$129.6 million, or 190.3%, from approximately HK$68.1 million in 2003 to approximately HK$197.7 million in 2004. The increase was mainly due to the launch of Suzhou Garden Court, which was completed in 2004. The Group's revenue generated from the sale of properties held for sale increased by approximately HK$170.2 million. The Group sold 16 apartments in Phase I to Phase III of Suzhou Garden Villa and 277 apartments in Suzhou Garden Court in 2004 which aggregately generated approximately HK$188.7 million of revenue for the Group. In 2003, the Group has only sold 1 villa and 46 apartments in Suzhou Garden Villa. Along with the Group's focus on property development, the Group continued to sell investment properties in 2004. As a result, the Group's revenue generated from rental income decreased further by 72.2% from approximately HK$7.9 million in 2003 to approximately HK$2.2 million in 2004.

Cost of sales

The Group's cost of sales increased by approximately 197.8% from approximately HK$49.2 million in 2003 to approximately HK$146.5 million in 2004. The increase in cost of sales was in line with the increase in revenue.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 169.5% from approximately HK$19.0 million in 2003 to approximately HK$51.2 million in 2004. This was mainly attributable to equity holders of the Company increased in the Group's revenue in 2004 as compared with that of 2003. The Group's gross profit margin remain stable compared to that of 2003.

Fair value adjustments on investment properties

The Group's fair value adjustments on investment properties decreased by approximately 23.8% from approximately HK$10.1 million in 2003 to approximately HK$7.7 million in 2004. The decrease was mainly attributable to the netting effect of fewer investment properties, in terms of GFA, were held by the Group as at 31 December 2004 as compared with that as at 31 December 2003 and an appreciation in value of the Group's investment properties during 2004.

Selling expenses

The Group's selling expenses increased by approximately 254.5% from approximately HK$1.1 million in 2003 to approximately HK$3.9 million in 2004. The increase was mainly attributable to the launch of Suzhou Garden Court in 2004.

Administrative expenses

The Group's administrative expenses increased slightly by approximately 4.5% from approximately HK$6.7 million in 2003 to approximately HK$7.0 million in 2004. The administrative expenses remained stable.

Finance costs

The Group had no finance costs in 2004 as interest bearing borrowings of the Group had been repaid in 2003.

Taxation

The Group's provision for taxation increased by approximately HK$16.1 million in 2004. The increase was mainly attributable to the fact that SGVDM still had accumulated tax losses to offset the profit generated in 2003 while the accumulated tax losses have been fully utilized in 2004. The effective tax rate in 2004 was 33.1% which conformed with the 33% PRC Income Tax rate applicable to SGVDM.

Profit attributable to the equity holders of the Company

The Group's profit attributable to the equity holders of the Company increased by 69.7% from approximately HK$18.5 million in 2003 to approximately HK$31.4 million in 2004. The increased was mainly attributable to the significant increase in revenue due to the launch of Suzhou Garden Court in 2004.

Six months ended 30 June 2004 compared to six months ended 30 June 2005

Revenue

The Group's revenue increased by approximately HK$24.1 million, or 107.1%, from approximately HK$22.5 million in the six months ended 30 June 2004 to approximately HK$46.6 million in the six months ended 30 June 2005. The increase was mainly due to the increase in revenue generated from the sale of properties which increased by 145.7% from approximately HK$17.5 million in June 2004 to approximately HK$43.0 million in June 2005. The Group has sold 2 villas and 56 apartments in Suzhou Garden Court in the six months ended 30 June 2005 whereas there were only 15 apartments in Phase I to Phase III of Suzhou Garden Villa sold in the six months ended 30 June 2004.

Cost of sales

The Group's cost of sales increased by approximately 34.7% from approximately HK$19.0 million in the six months ended 30 June 2004 to approximately HK$25.6 million in the six months ended 30 June 2005. The increase in cost of sales was due to the increase in cost of sales of Suzhou Garden Court compared to the first 3 phases of Suzhou Garden Villa.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 5 times from approximately HK$3.5 million in the six months ended 30 June 2004 to approximately HK$21.0 million in the six months ended 30 June 2005. The significant increase in gross profit is contributed by the increase in revenue in sales of properties and the increase in unit selling price. The increase in gross profit margin was the combined effect of increase in average unit selling price and the decrease in construction cost on a per square metre basis for Suzhou Garden Court as compared to Suzhou Garden Villa.

Fair value adjustments on investment properties

The Group's fair value adjustments on investment properties increased by approximately HK$14.0 million which mainly attributable to the reclassification of two new projects under re-development which previously stated at cost and included in the category of land and building to investment properties as at 30 June 2005. The projects are then revalued when the construction work commenced during the period with reference to the open market value to reflect their fair values as at the period end.

Selling expenses

The selling expenses decreased by approximately 22.2% from HK$0.9 million in the six months ended 30 June 2004 to HK$0.7 million in the six months ended 30 June 2005 mainly due to the launch of Suzhou Garden Court in 2004.

Administrative expenses

The administrative expenses slightly increased by approximately 5.4% from HK$0.56 million in the six months ended 30 June 2004 to HK$0.59 million in the six months ended 30 June 2005.

Finance costs

The Group's finance costs mainly representing the construction loan from bank which drawn down during the six months ended 30 June 2005 to finance the construction project of Suzhou Garden Towers. No such bank borrowings were drawn down in the six months ended 30 June 2004.

Taxation

The tax expense increased by approximately HK$8.7 million from HK$2.3 million in the six months ended 30 June 2004 to HK$11.0 million in the six months ended 30 June 2005. This is mainly due to the increase in turnover by 107.1% as well as during the six months ended 30 June 2004, SGVDM still has accumulated tax losses to be utilized, and hence no income tax is charged during the period. Whereas during the six months ended 30 June 2005, the Group has already utilized all accumulated losses and the taxation expenses was derived at the PRC income tax rate of 33%. Besides, there is a deferred tax charge amounted to HK$5.1 million arising from the revaluation of investment properties during the period.

Profit attributable to the equity holders of the Company

As a result of the factors discussed above, the Group's profit attributable to the equity holders of the Company for the six months ended 30 June 2005 increased by HK$20.7 million, or 5.4 times from approximately HK$3.8 million for the six months ended 30 June 2004 to approximately HK$24.5 million for the six months ended 30 June 2005.

INDEBTEDNESS

Borrowings

As at the close of business on 30 September 2005, being the latest practicable date for the indebtedness statement prior to the printing of this prospectus, the Group (including NH Investments, the "Enlarged Group") had outstanding borrowings of approximately HK$86.7 million, consisting of bank overdraft of HK$18.7 million, short term bank loan of HK$26.9 million and long term bank loan of HK$41.1 million.

COLLATERALS

As at 30 September 2005, the Group's bank borrowings of approximately HK$86.7 million were secured by the followings:-

(i) the land use right and the shopping arcade of Suzhou Garden Towers with a valuation of approximately RMB71.8 million;

(ii) the shops on Level 1 of Block 11, Suzhou Garden Court with a valuation of approximately RMB17.7 million;

(iii) the land use right of Suzhou Garden Place with a valuation of approximately RMB15.2 million;

(iv) a corporate guarantee for US$1.0 million from Miripa (BVI) Ltd., a company beneficially and ultimately owned by Mr. CF Tao and Mrs. Nancy Tao;

(v) a pledge of fixed deposit in name of NH Investments in Hong Kong dollars for not less than HK$17.0 million;

(vi) a mortgage on the 23rd Floor of and Car Parking Space Nos.28 and 51 on the 2nd Floor of Fortis Bank Tower at 77-79 Gloucester Road and Nos.117-119 Jaffe Road, Hong Kong, with all the rentals therefrom assigned provided by Fontwell Holdings Limited, a company ultimately and beneficially owned by Mr. CF Tao, Mrs. Nancy Tao, Ms. Miriam Tao, Mr. Richard Tao, Mr. Paul Tao, Mr. SP Tao and Ms. Chevalier Veronica Tao;

(vii) a mortgage on Units Nos.1 and 2 on the 19th Floor of Professional Building, Nos.19-23 Tung Lo Wan Road, Hong Kong, with all rentals therefrom assigned, provided by CLCL, a company beneficially and ultimately owned by Mr. CF Tao, Mrs. Nancy Tao, Ms. Miriam Tao, Mr. Richard Tao and Mr. Paul Tao;

(viii) corporate guarantee for HK$30,000,000 in favour of Asia Commercial Bank Limited provided by the Company.

The creditor bank has agreed in principal to release the collaterals under (iv), (vi) and (vii) above upon Listing.

Contingent liabilities

As at 30 September 2005, the Group had no material contingent liabilities.

Disclaimers

Save as aforesaid, and apart from intra-group liabilities, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 30 September 2005.

The Directors have confirmed that there have been no material changes in the Group's indebtedness and contingent liabilities since 30 September 2005.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30 September 2005, the Group had net current assets of approximately HK$39.7 million comprising current assets of approximately HK$154.3 million and current liabilities of approximately HK$114.6 million.

Current assets of the Group comprised cash and bank balances of approximately HK$44.8 million, deposits paid, prepayments and other receivables of approximately HK$24.1 million, Properties held for/under development of approximately HK$63.9 million, properties held for sale of approximately HK$18.8 million, and amounts due from related parties of approximately HK$2.7 million.

Current liabilities of the Group comprised account payables of approximately HK$18.7 million, accruals, deposits received and other payables of approximately HK$24.2 million, bank borrowings of approximately HK$45.6 million provision for taxation of approximately HK$1.2 million and amount due to related parties of approximately HK$24.9 million. The increase in amount due to related parties as at 30 September 2005 as compare with the amount as at 30 June 2005 was mainly due to the dividend payable amounted to approximately HK$20.1 million to the original shareholders of NH Investments arisen after the acquisition of NH Investments which was completed on 13 July 2005. The amount due to related parties of approximately HK$24.9 million would be fully settled prior to Listing.

Liquidity

As at the Latest Practicable Date, the Group has financed its working capital, capital expenditures and other capital requirements primarily through internally generated cash flows, proceeds from sale of properties and borrowings.

The following table presents selected cash flow data from the Group's consolidated cash flow statements for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net cash generated from/(used in) operating activities	(45,288)	30,868	(22,784)	(29,405)
Net cash generated from/(used in) investing activities	118,510	51,202	18,357	(21,707)
Net cash generated from/(used in) financing activities	(62,629)	(71,189)	–	33,019
Cash and cash equivalents at the end of the year/period	16,026	26,637	21,909	3,931

Operating activities

Cash used in operations comprises mainly amounts paid for the property development activities, which are reflected in the consolidated balance sheet as an increase in the outstanding balance of the properties under development. The cash generated from operations refers to the proceeds from sale of properties, including pre-sales of properties under development.

The net cash generated from operating activities in 2003 was approximately HK$30.9 million, compared to HK$45.3 million cash used in operating activities in 2002. The positive net cash generated from operating activities in 2003 was mainly due to the receipts in advance regarding the pre-sale of Suzhou Garden Court.

In 2004, the net cash used in operating activities was HK$22.8 million, as compared to HK$30.9 million net cash generated from operating activities in 2003. The net cash used in operating activities in 2004 was primarily used for the settlement of accounts payables and the income tax, with 2004 being the first year that the Group is subject to PRC income tax upon the use up of its accumulated losses brought forward.

In the six months ended 30 June 2005, the cash used in operating activities was HK$29.4 million. Such amount was incurred for the commencement of the construction work for Suzhou Garden Place and Suzhou Garden Towers.

Investing activities

The net cash generated from investing activities in 2002, 2003 and 2004 was primarily due to the disposal of a significant part of investment properties since late 2002 as the Group had then decided to focus more on property development.

The cash generated from investing activities in 2003 was HK$51.2 million. This mainly represented the sale proceeds received from sale of investment properties. The Group has no material capital expenditure thereon up to the Latest Practicable Date.

Financing activities

The net cash used in financing activities in 2002 and 2003 was referring to the repayment of bank loans drawdown for the construction of Suzhou Garden Villas in prior years. All bank loans were fully repaid in 2003.

The net cash generated in financing activities in 30 June 2005 represented the bank loan drawn down for the construction of Suzhou Garden Towers.

The Group continues to rely on the cash flow from operating activities and banking facilities to finance its operation and expansion of the property development and investment business. The relative cost of capital resources depends on the fluctuation of the Hong Kong Inter Bank Borrowing Rate ("HIBOR"), HK dollar best lending rate and RMB loan interest rate as announced by The People's Bank of China since the Group's bank loan is subject to interest charge by reference to the HIBOR and HK dollar best lending rate and RMB loan interest rate. The Group's banking facilities were secured by some of the Group's leasehold properties, corporate guarantees and the security provided by certain connected persons of the Company as disclosed under section "Financial Assistance from Connected Persons for the Benefit of the Group". The banking facilities which were secured by the security provided by the connected persons will be replaced by the corporate guarantee from the Company upon Listing.

Cash and cash equivalents

The Group's cash and cash equivalents for the three years ended 31 December 2004 and the six months ended 30 June 2005 were approximately HK$16.0 million, HK$26.6 million, HK$21.9 million and HK$3.9 million respectively.

Borrowings

The Group's borrowings with maturity profile for the three years ended 31 December 2004 and the six months ended 30 June 2005 are set out as follows:

	At 31 December			At 30 June
	2002	**2003**	**2004**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current portion within one year	71,189	–	–	36,246
Non-current portion included under non-current liabilities	89,251	89,251	89,251	39,259
	160,440	89,251	89,251	75,505

The Group aims to maintain its financial strength by adopting prudent financial practices. The financing activities of each project of the Group are closely monitored by the Directors. At the beginning stage of a project, the Group would use its internal resources to finance most of the capital expenditures whilst in a later stage of a project, the project development costs and construction would be financed by bank borrowings.

In the six months ended 30 June 2005, total outstanding borrowings represent bank loans and overdrafts amounted to approximately HK$75.5 million. Certain investment properties amounted to HK$56.6 million were pledged to secure the bank loan. Part of the bank borrowings would be repaid upon Listing by using the proceeds.

Capital structure

As at 30 September 2005, the Group had net tangible assets of approximately HK$201.0 million, comprising non-current assets of approximately HK$207.5 million (comprising property, plant and equipment, investment properties and leases and interest in associate), net current assets of approximately HK$39.7 million and non-current liabilities of approximately HK$46.2 million (comprising bank borrowings and deferred tax liabilities).

PROPERTY INTERESTS AND PROPERTY VALUATION

The properties interests of, and the interests in these properties that are attributable to the Group valued by DTZ Debenham Tie Leung Limited, an independent property valuer as at 31 August 2005 was RMB160,045,000. There is a net revaluation surplus, representing the excess market value of the properties over their book value as at 30 June 2005 (after adjusting for units sold during the period from 1 July 2005 to 31 August 2005).

For further details of the property interests of the Group and the text of the letter and valuation certificates of these property interests prepared by DTZ Debenham Tie Leung Limited, please see Appendix V to this prospectus.

Disclosure of the reconciliation of the interest in the properties attributable to the Group and the valuation of such property interest as required under Rule 5.07 of Listing Rules is set out below:

	RMB'000	*RMB'000*
Net book value as at 30 June 2005		
Property, plant and equipment	3,538 [Note]	
Properties held under development	52,552	
Properties held for sales	24,454	
		80,544
Movement for the period from July to August 2005		
Addition		9,480
Disposal		(7,304)
Depreciation		(12)
Net book value as at 31 August 2005		82,708
Valuation surplus		77,337
Valuation as at 31 August 2005		160,045

Note: Among the property, plant and equipment amounting to an aggregate of approximately RMB10,341,000 (equivalent to approximately HK$9,756,000) as at 30 June 2005, facilities like tennis courts and swimming pools amounting to approximately RMB6,803,000 (equivalent to approximately HK$6,418,000) are excluded from the valuation in Appendix V to this prospectus and are therefore also excluded from this reconciliation.

WORKING CAPITAL

The Directors are of the opinion that, taking into consideration the financial resources available to the Group including the Group's internal financial resources, present available banking facilities and the estimated net proceeds from the Share Offer, the Group has sufficient working capital for the Group's present requirements, that is for at least the next 12 months from the date of this prospectus.

DIVIDEND POLICY

The Company has not declared or paid any dividends since its incorporation.

The declaration of dividends is subject to the discretion of the Directors and any dividend for a particular year will subject to shareholders' approval. The level of dividends actually proposed will depend upon a number of factors, including the Company's earnings, the future capital requirements of the Group, the required distributable reserve for payment of such dividends, the Group's general financial condition, the provisions of relevant laws and other factors considered relevant by the Directors.

For the financial year ending 31 December 2005, the Company currently intends to pay annual cash dividends of not less than 20% of the Group's consolidated profit attributable to shareholders, subject to approval by shareholders at the forthcoming annual general meeting.

The profit available for distribution from the Group's PRC subsidiaries and its associated company determined in accordance to PRC accounting standards may differ from that derived by adopting HK accounting standards. Accordingly, the Company may not have sufficient distribution from its PRC subsidiaries and its associated company to support the profit distribution to its shareholders.

In the absence of any special circumstances or unforeseen events and subject to the aforesaid factors, it is the Company's intention to pay not less than 20% of the Group's consolidated profit attributable to Shareholders as dividends in the future.

DISTRIBUTABLE RESERVES

As at 30 June 2005, being the date to which the Company's latest audited financial statements were made up, the Company had no reserve available for distribution to the Shareholders.

UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following unaudited pro forma net tangible assets, being extracted from Appendix IIIB to this prospectus, is based on the unaudited pro forma financial information of the Group and NH Investments (the "Enlarged Group") as at 30 June 2005, the text of which is set out in Appendix IIIA to this prospectus, and adjusted as described below:

	Unaudited pro forma net assets of the Enlarged Group	Less: Intangible assets	Unaudited pro forma net tangible assets of the Enlarged Group	Estimated net proceeds from the Share Offer	Unadjusted pro forma net tangible assets	Unadjusted pro forma net tangible assets per Share
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(note 1)*	*HK$'000*	*HK cents* *(note 2)*
Based on an Offer Price per Share of HK$0.56	222,751	(32,356)	190,395	79,800	270,195	42.20
Based on an Offer Price per Share of HK$0.88	222,751	(32,356)	190,395	132,000	322,395	50.35

Notes:

1. The estimated net proceeds from the Share Offer are based on the Offer Price of HK$0.56 per Share and HK$0.88 per Share, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

2. The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Appendix IIIA to this prospectus and on the basis that 640,321,400 Shares were in issue on 30 June 2005 and that the Over-allotment Option is not exercised.

3. Details of the valuation of the Group's property interests as at 31 August 2005 are set out in Appendix V to this prospectus. The Group will not incorporate the revaluation surplus of the properties classified as property, plant and equipment, properties held under development and properties held for sale in its financial statements for the year ending 31 December 2005. It is the Group's accounting policy to state its property, plant and equipment at cost less accumulated depreciation and any impairment loss. The unaudited net book value of the Group's properties classified as property, plant and equipment as at 31 August 2005 was approximately HK$9.7 million. With reference to the valuation of the Group's property interests as set out in Appendix V to this prospectus, there was a revaluation surplus of the Group's relevant assets of approximately HK$1.3 million. If such revaluation surplus was incorporated in the Group's financial statements for the year ending 31 December 2005, an additional annual depreciation charge of approximately HK$8,600 would be incurred. Under the Group's accounting policies, properties held under development and properties held for sale are stated at the lower of cost and net realisable value. Accordingly, the surplus arising on the valuation of the Group's attributable interests in the properties will not be incorporated into the Group's financial statements for the year ending 31 December 2005. The investment properties of the Group are stated at fair value, the revaluation surplus up to 30 June 2005 had been included in the consolidated income statement of the Group for the six months ended 30 June 2005.

PROFIT FORECAST

The Directors forecast that, on the bases and assumptions set out in Appendix IV to this prospectus and in the absence of unforeseen circumstances, the profit attributable to the equity holders of the Company for the year ending 31 December 2005 will not be less than HK$55.7 million.

On a pro-forma basis and on the assumptions that the Share Offer had been completed and a total of 640,321,400 Shares were in issue throughout the year ending 31 December 2005, the forecasted earnings per Share is 8.70 HK cents, representing a price/earnings ratio of approximately 6.4-10.1 times.

DIRECTORS' CONFIRMATION

The Directors have confirmed that there are no circumstances as at the Latest Practicable Date that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules. The Directors have also confirmed that there has been no material adverse change in the financial or trading positions or prospects of the Company or its subsidiaries since 30 June 2005, the date on which latest audited consolidated financial statements of the Company and its subsidiaries were made up.