VANKE 万科企业股份有限公司 CHINA VANKE CO., LTD.

2004 Annual Report

Important Notice: The Directors individually and collectively accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report and confirmed that to the best of their knowledge and belief, there are no other facts that the omission of which would make any statement in this announcement misleading.

Directors Song Lin, Wang Yin and Eric Li Ka Cheung were not able to attend the board meeting in person due to their business engagements. These directors have authorised director Li Chi Wing to represent them and vote on their behalf at the board meeting. The Company's Chairman, Wang Shi, General Manager, Yu Liang, and Supervisor of Finance, Wang Wenjin, declare that: the financial reports contained in the annual report are guaranteed to be authentic and complete.

A. To Shareholders

The Company sustained stable growth in operating results for the year 2004, with substantial improvement in cost-efficiency. Turnover and net profit of the Company amounted to RMB7,257 million and RMB874 million, representing increases of 21.5 per cent and 67.8 per cent respectively. The Company had also realised a return on net assets ratio of 13.9 per cent, which was a record high in recent years.

2004 was also the 20th anniversary of China Vanke. To the Company, “20” does not only give a numerical meaning to the language of time, but more importantly, it indicates the time for a new start. During the year, the Company conducted an exhaustive report, summing up its performance in the past two decades from a strategic perspective, and proposed a medium to-long term plan for the next 10 years.

Past 20 Years: Upholding Company’s Values

From 1984 to 2004, China Vanke’s sales revenue jumped by 125 times from RMB58 million to RMB7,257 million, while the net profit saw a leap of 175 times from RMB5 million to RMB874million.

To man, “20 years” signifies the start of the golden age; to an enterprise, “20 years” also bears the symbolic meaning of a bright future ahead. Indeed, when zeroing in on the aspect of “experience”, a 20-year heritage is insignificant when it is juxtaposed with world prestigious century-old establishments. Yet, it takes only “20 years” to witness the entire process of the PRC’s development into a neo-capitalist economy since it started to take-off in the ‘80s. Among those companies that had been set up at about the same time as China Vanke, only few could stand the test of time and remain in the market.

China Vanke is one of the earliest listed companies in the PRC. From 1991 to 2004, China Vanke’s revenue and net profit had been growing at a compound annual growth rate of 25 per cent and 31 per cent respectively. China Vanke’s success in reporting continuous growth in net profit for 13 consecutive years is literally unmatched by any companies that were listed at about the same time as China Vanke.

Market is a continuous process of trial and error. During the past 20 years, the social environment of the PRC underwent significant changes. To these, China Vanke had also made drastic adjustments to its businesses. Property development, the final choice of business in which the Company decided to engage, has been developed from scratch. The opportunities and risks faced by the Company, judgment and choices made by the Company, perplexity and happiness experienced by the Company during these 20 years can provide good reference for other domestic companies now in the development stage. China Vanke also takes pleasure in sharing with society experiences and lessons it learned during the past 20 years.

As mentioned in the book “Built to Last”, to be a visionary and lasting company with the ability to face drastic changes for decades and still achieve successful development, the first and also the most important step is to identify a clear core ideology and establish core values that will always be upheld under any circumstances.

In reviewing the Company's development in the past two decades, China Vanke is mostly proud of its persistence with upholding core values even in the face of benefit temptation and persistence with its professionalism when the industry was yet to reach its mature stage. China Vanke's core values include: always respect others, pursue fair returns and always remember its social responsibilities.

Respecting others is China Vanke's original intention when it was established. During the past 20 years, China Vanke unswervingly showed respect to customers, shareholders, staff and others in society. China Vanke strongly believes that the secret of the market is to achieve a win-win situation. Only by showing respect to others can harmony be created; which can in turn create a win-win situation.

China Vanke believes that impartiality will eventually emerge in the market, while extortionate profits will not exist for long. The only way to gain trust from the market is to keep on providing satisfactory goods and services to customers; the only way to ride out competition is to keep on generating values for the customers.

The Company also strong believes that only a regulated and harmonious commercial society and market environment with sustainable development can foster the development of a century-old company as mentioned in "Built to Last". China Vanke dares not forget its commitment and responsibilities for society and the industry.

Past 20 Years: Methodology Selection

Putting these values into practice for the past 20 years, the Company made a definite selection of methodology, which is: simplicity, transparency, regulation and balance.

Like many companies in the PRC, China Vanke made several detours by diversifying its business at the start. However, the Company finally realised that despite there were a number of successful conglomerates worldwide, their success mostly relied on a mature business environment, an established social credit system and relatively low transaction cost. Yet, the Company, operating in a market that was still in its initial stage of development, grew up based on the experience it gained bit by bit, and therefore professionalism was the only possible way to be successful. As such, the Company spent as long as 10 years to complete the process of professionalism. From 2001 onwards, the Company has firmly positioned itself as a professional urban residential property developer.

China Vanke also realised that success in a modern society is achieved through collaboration with others. Collaboration is based on trust, and the first step to establishing trust is mutual understanding. The higher level of transparency a company has, the easier it obtains the opportunities for collaboration and success. Based on this understanding, China Vanke has enhanced its internal and external communication and understanding with deepest sincerity. Since Shenzhen Stock Exchange introduced a rating system for information disclosure, the Company has been one of the few companies receiving “Excellent” rating every year.

At the initial development stage of a commercial economy, some companies facing benefit temptation may choose the approach of opportunism or conspiracy culture. Yet, it will be difficult for a mechanism for impartiality to work if honesty does not exist in modern commercial society. China Vanke insists on strictly complying with market rules, while striving to facilitate continued improvement in industry regulation. Such efforts had gained recognition from society. In 2004, the Company ranked second in “The Most Respected Enterprise in the PRC” survey. With its corporate governance and morals, the Company was also voted as the No. 1 company in the “Best Corporate Citizenship in the PRC” poll.

In the short market development history of the PRC, a number of companies achieved quick expansion within a short period of time, or even became the star company at a particular time. Unfortunately, they could not stand the test of time. Despite China Vanke’s aspiration for rapid growth, we will definitely not put the interests of our shareholders at risk in return for momentary glory. China Vanke believes competition amongst companies is a long-distance race instead of a short one, and a balanced performance is the trump card to win in long-term competition. As such, China Vanke is the first among other PRC companies to establish a “balanced scorecard” performance review and appraisal system.

The Coming 10 years: An Era of Opportunities and Challenges

In 2004, the Gross Domestic Product (“GDP”) of China continued to grow at a rapid pace of 9.5 per cent. However, there were signs of overheat in certain structural investments. Therefore, the central government promulgated the fifth round of macro-economic measures, and continued to tighten its land and financial policies. The central government also increased the interest rate at the end of October 2004, which was the first time in the past nine years. The property prices grew excessively, and the proportion of property purchased for investment was higher than expected in certain cities, in particular Shanghai. Such phenomenon has led to general concern, and doubts about the maintenance of continued rapid growth in the real estate industry.

The Company believed that the strongest support to market is the effective consumer demand, while government policy constituted an important component of the market environment, and should not be ignored. However, the aim of the policy was to help minimizing the risk brought along by market fluctuation, but not to create nor eliminate a self-evoluted real market. Housing is the basic necessity of the mankind and one of the most important material foundations for improving the quality of life. The residential market trend is determined by the growth, changes in economic, demographic structure, and inhabitation behaviour.

After over 20 years' development, China has secured a pivotal position in the world's economy, especially the import and export trade, the fastest growing economy in the world. In next 10 years, the population of China will continue to increase, and family size would become smaller. As the industrial and commercial sectors are fully developed, China is undergoing the fastest urbanization process in the world.

According to research findings, over the next decade, the urban population in China will increase from 537 million in 2005 to 660 million in 2015. The average family size in the urban area will decrease from 3.53 persons in 2005 to 3.25 persons in 2015. During the period from 2005 to 2010, the additional demand for residential property, as a result of population growth, smaller family size and aging population will amount to 369 million sq.m per annum, 162 million sq.m per annum and 4 million sq.m per annum respectively, adding up to an aggregate of 535 million sq.m per annum; while for the period from 2010 to 2015, the additional demand for residential property resulting from the above-mentioned factors will amount to 302 million sq.m per annum, 144 million sq.m per annum and 7 million sq.m per annum respectively, adding up to an aggregate of 453 million sq.m per annum. Comparing to the current supply of 338 million sq.m of residential property each year, there is bound to be a vigorous demand for the commodity residential property in the future.

There are other statistic we need to take into consideration for the major commodity residential markets. In 2005, there will be 3.38 million secondary graduates in China. According to the survey conducted by JobsDB.com.cn and CJOL.com, 91 per cent of graduates chose go to Shenzhen, Jiangsu, Zhejiang, Guangzhou, Shanghai and Beijing for job hunting. In addition, there are 520,000 overseas students, of which 80 per cent would like to return home for their career development after graduation. These graduates will result in an increase of 2 million high education families and a demand for over 150 million sq.m residential property every year, and the major demand will be satisfied by the commodity residential property.

Based on the above analysis, we can conclude that commodity residential market will remain one of the most promising industries with enormous room for development. From the point of the financial market and consumer preference, industry centralization will be inevitable.

An enormous amount of capital is required to support the rapid development of the commodity residential industry. To solve the financing problem thoroughly, innovative financial product and multi-financing channels are definitely necessary, and these would rely on the establishment of a trustful relationship between the financial enterprises and property developers. At present, corporate governance and risk management abilities of only a handful of property companies are generally recognized by the financial sector.

Residential property is a distinctive product, requiring consumers and the property developers to develop a trustful relationship for tens of years. To many people, home purchasing is the largest expenditure in their lifetime, therefore, they will be very conscientious in choosing the supplier, leading to an increasing importance in the brand recognition. Take the Company's survey on the customer satisfaction in recent three years as examples, the brand name and reputation have replaced location the most consideration for the consumers when choosing a property. In any single market, there are only a handful of brands widely-recognised by the consumers.

The enormous prospect for industry development and the inevitable industry centralization provide the market leader, such as China Vanke, room for imagination. In addition to the enormous opportunity, we should also be well aware of present challenges.

One of the challenges is the penetration of overseas competitors. Although the world property development history has proved the commodity residential market is one of the less likely industries for globalization, and the largest US property developer's cross-country operations are only restricted to the countries near the border, we should be aware that many companies outside China, representing by Hong Kong developers, have already penetrated into the China market. Their capital size and international financing capability has far exceeded those of the average PRC enterprises.

More significantly, the ultimate competition in the industry is the competition of core technology. At present, the best Japan residential property developer owns thousands of technology patents, whereas, China Vanke, which is the forefront of the industry in China, has only owned or is applying for tens of technology patents.

The second challenge is the present residential property development in the PRC is in an coarse and extensive mode, which fails to meet the demand for sustainable development in the future. There needs to be a resolution in the existing production and operation practice of the industry.

Property development is a resource-intensive industry. Not only the building construction consumes a large amount of steel, cement and labour; inhabitation also requires a large amount of resources. However, the resource per capita in China is relatively low, and the energy available per capita is less than half of the world's average. On the other hand, the proportion of mass produced residential properties in the PRC is far below that of developed countries. The construction quality of Chinese residential property is one grade below the that of the developed countries. Many of the properties have significant defects, and such a development has reached an alarming level. Chinese developers must pay more attention to the details and sophistications in construction, otherwise, they will not be able to provide quality residences to the future consumers.

The coming 10 years: Strategic planning for the future leader

Meeting the opportunities and the challenges in the coming 10 years, the Company, as an industry leader, need to free oneself from all desires and earthy attachments and has the courage to achieve nirvana, like a phoenix rising from death. To succeed in transcending the Company itself, China Vanke has to first made significant strategic adjustments.

In view of this, the Company made a mid-to-long term development plan for the next 10 years through repeated research throughout the year. The strategy of the Company will shift from professionalism to meticulousness, and its strategic goal for the future 10 years is to achieve "quality growth".

The Company has entered into a stage of rapid growth, meanwhile, we will continue to pursue the quality of growth. Quality growth implies that we have to enhance the capital efficiency and return on human resources, increase the loyalty of the customers, strengthen product and service innovation. To achieve a quality growth, the Company maps out three strategies.

First: customer segmentation

China Vanke will accomplish its significant operation system reform. The project-oriented operation system of the Company will be shifted to customer value-oriented operation system. Under a competitive and open market, the only source of the continuous competitive edge of a company is the customer value. Without accurate understanding and confidence, the core competitiveness of a company cannot be shaped.

Under customer segmentation strategy, in addition to analyse its customers according to the "physical" characteristics of the customers such as profession, salary, age group etc, the Company will base on the internal value of the customers and their different life cycles to establish a gradient product system. Through creating value for the customers, the Company can retain the customers forever.

Under the ever-changing market environment, the strategy of the Company changed from coarse to fine. To stay ahead of the market to understand customer value and establish its core capabilities, will be the key to China Vanke's second professionalisation.

Second: Urban zone focus

Currently, economic zone is being formed around certain Mainland cities and these cities constitute the elevators for economic development in the PRC. The three urban zones namely Yangtze River Delta, Pearl River Delta and Bohai Rim region which together occupied only 4.1 per cent of the total area of Mainland China, however their GDP, accounted for 40 per cent of the country's total GDP. The residents' saving balance in the urban zones accounted for one fourth of the whole country's savings, and their expenditure per capita is twice of the national average.

In the next decade, China Vanke will focus its business on the urban economic zones, in particular Yangtze River Delta, Pearl River Delta and Bohai Rim region. China Vanke will centralize its resources to accomplish integrated expansion and be the market leader in these zones.

Third: Product innovation

To decide how to provide safe, environmental friendly, livable and communicable properties to customers on a limited land is not only an opportunity but a challenge to the property development market in the PRC. In order to solve this issue, China Vanke has to adopt industrialisation.

We will base on customer value segmentation to develop a range of residential properties and establish the standards of China Vanke residential properties; through systematic mass production to enhance the quality and price and function ratio; and apply the standards of harmony, nature and ecology to research and develop the future properties, and contribute more autonomic intellectual property in the property development market.

According to the strategy, China Vanke will continue to remain as the "leading residential property developer in the PRC". Such positioning implies that we strive to lead the direction of the market development and stay in the forefront of the market. We believe that a "leader" should be reflected the following aspects:

In the aspect of the customer and brand name, we shall provide customers' needs and continues to create new products and services in order to retain the customer loyalty and market reputation.

In the aspect of operation scale, we shall maintain a stable growth in operation scale and stay in the forefront of the market.

In the aspect of return to shareholders, we shall maintain continued growth in results in order to provide satisfactory returns to investors.

In the aspect of industry responsibility, we shall provide an overall standard for the market to follow.

In the aspect of community responsibility, we shall protect the wealth of all the interested parties and shall contribute to a harmonic society with sustainable development.

Currently, in a survey titled "Who do you think is the market leader in the property development market in the PRC" conducted by sina.com, the most popular website in China, China Vanke was named by 75 per cent of the respondents.

Without the support of our shareholders, China Vanke would not have achieved what it had done, one would not be able to remain in its leading position; nor would it be able to advance into the future. China Vanke is fully confident to venture into a promising future with its shareholders.

B. Corporate Information

1. Company Name (Chinese): 万科企业股份有限公司
   Company Name (English): China Vanke Co., Ltd. (Vanke)
2. Legal Person Representative: Wang Shi
3. Secretary of the Company's Board of Directors: Shirley L. Xiao
   E-mail Address: xiaol@vanke.com
   Investor Relation: Liu Long
   E-mail Address: liulong@vanke.com

4. Contact Address: The Company's business address

5. Telephone Number: 0755-25606666

Fax Number: 0755-25531696

6. Registered Company Address and Office Address: Vanke Architecture Research Centre, No 63, Meilin Road, Futian District, Shenzhen, the People's Republic of China

Postal Code: 518049

7. Home Page of the Company: http://www.vanke.com

E-mail Address: zb@vanke.com

8. Media for Disclosure of Information: "China Securities Journal", "Securities Times", "Shanghai Securities News" and "The Standard" of Hong Kong

Website for Annual Report Posting: www.cninfo.com.cn

9. Place for Annual Report Collection: The Office of the Company's Board of Directors

10. Stock Exchange on which the Company's shares are listed: Shenzhen Stock Exchange

11. Company's Share Abbreviation and Stock Codes on the Stock Exchange:

Vanke A, 000002

Vanke B, 200002

12. First registration date of the Company: 30 May 1984. location: Shenzhen

Latest registration date: 27 December 2004, location: Shenzhen

13. Corporate legal person registration no.: 4403011019092

14. Taxation registration code

Local taxation registration code: 440304192181490

State taxation registration code: 440301192181490

15. The name and address of the Certified Public Accountants engaged by the Company:

Name: KPMG Peat Marwick Huazhen Certified Public Accountants

Address: 8th Floor, Block East 2, East Plaza, 1 East Chang'an Street, Beijing

Name: KPMG Certified Public Accountants

Address: 8th Floor, Prince Bldg., 10 Charter Road, Central, Hong Kong

C. Accounts and Financial Highlights

1. Three-year financial information summary (Unit: RMB)

	2004	2003	2002
Revenue	7,257,182,725	5,973,268,303	4,374,017,880
Operating profit	1,253,693,234	815,198,517	525,852,261
Share of losses less profits of associated companies	(3,840,986)	(4,069,917)	(1,609,252)
Profit before tax	1,249,852,248	811,128,600	524,243,009

Taxation	(340,844,929)	(266,360,947)	(126,591,097)
Profit after tax	909,007,319	544,767,653	397,651,912
Minority interest	(34,647,464)	(23,619,957)	(15,627,034)
Net profit for the year	874,359,855	521,147,696	382,024,878
Basic earnings per share	0.39	0.26	0.20
Diluted earnings per share (note)	0.38	0.25	0.18
Dividend	0.15	0.05	0.10

2. Impact of IAS Adjustments on Net Profit (Unit: RMB)

(Expressed in Renminbi Yuan)	Net profit for the year Jan - Dec 2004
As determined pursuant to PRC accounting standards	878,006,255
Adjustments to align with IAS:	
Recognition and amortisation of goodwill	(670,684)
Deferred tax assets	6,830,597
Amortisation of difference in asset revaluation	157,343
Capitalised borrowing costs released to cost of sales	(9,963,656)
As restated in conformity with IAS	**874,359,855**

3. Change in shareholders' equity during the year under review (Unit: RMB)

Item	Share capital	Share premium	Convertible bonds reserve	Statutory reserves	Retained profits	Foreign exchange reserve	Total
Start of the year	1,395,849,444	1,448,059,704	59,640,247	1,569,250,384	256,122,945	11,026,043	4,739,948,767
Increase during the year	877,778,427	604,811,697	86,829,533	482,903,440	874,359,855		2,926,682,952
Decrease during the year		606,300,764	63,627,449		710,266,229	396,670	1,380,591,112
End of the year	2,273,627,871	1,446,570,637	82,842,331	2,052,153,824	420,216,571	10,629,373	6,286,040,607

Reasons for the changes:

1) Increase in statutory reserves was due to appropriation from 2004 net profit in accordance with the Board's profit appropriation proposal

2) Increase in statutory public welfare fund was due to appropriation from 2004 net profit in accordance with the Board's profit appropriation proposal
3) The amount decreased in retained profits during the year was due to the preparation of appropriation for dividend distribution from the net profit for 2004 and the implementation of dividend distribution and transfer of capital surplus reserve to share capital proposals of 2003.
4) Increase in share capital was due to the transfer of capital surplus reserve to share capital, profit appropriation and bonus share distribution, and conversion of the Company's convertible bonds in 2003. Increase in capital surplus reserve was due to conversion of the Company's convertible bonds.

D. Change in Share Capital and Shareholders

1. Structure of Share Capital

1）Change in share capital structure of the Company (Unit: share, as at 31 December 2004)

Balance, beginning of the year		(+,-) Converted from convertible bonds (note 1)	Bonus share (note 2)	Transferred from capital reserve (note 3)	Balance, end of the period
1. Unlisted Shares					
a) State-owned Shares	105,500,636		10,550,064	42,200,254	158,250,954
b) Legal Person Shares	115,509,220		11,550,922	46,203,688	173,263,830
Total Number of Unlisted Shares	**221,009,856**		**22,100,986**	**88,403,942**	**331,514,784**
2. Listed Shares					
a) A Shares	931,329,316	119,902,470	105,123,179	420,492,714	1,576,847,679
b) B Shares	243,510,272		24,351,028	97,404,108	365,265,408
Total Number of Listed Shares	**1,174,839,588**	**119,902,470**	**129,474,207**	**517,896,822**	**1,942,113,087**
Total Number of Shares	**1,395,849,444**	**119,902,470**	**151,575,193**	**606,300,764**	**2,273,627,871**

Note: The changes in the Company's share capital were as follows:

(1) The amount of new shares resulted from the conversion of "Vanke convertible bonds" were 119,902,470 shares which were converted between 1 January 2004 and 20 April 2004 and were subject to the entitlement of one bonus share and transfer of four shares from capital surplus reserve for every 10 shares held in the year of 2003, and transfer of capital surplus reserve to share capital; during the period, the Company's share capital increased to a total

of 179,859,705 shares as a result of the conversion of "Vanke convertible bonds". During the year of 2004, the Company's share capital increased by 8.59 per cent as a result of the conversion of "Vanke convertible bonds" and transfer of shares from capital surplus reserve, and distribution of bonus shares to the converted shares . All "Vanke convertible bonds" were converted to the Company's shares in 2004.

(2) During the period under review, the Company proceeded with a dividend distribution. Based on the Company's total share capital of 1,515,751,914 shares (of which 119,902,470 shares were converted from the Company's convertible bonds) as at the close of the market on 25 May, one bonus share was issued for every 10 shares held by shareholders, which resulted in an increase of 151,575,193 shares. At the same time, the Company proceeded with the transfer of capital surplus reserve to share capital, four shares were issued for every 10 shares held by shareholders, which resulted in an increase of 606,300,764 shares.

2) Issue and listing of "Vanke Convertible Bonds Tranche 2"

The proposal of issuing convertible bonds of the Company was implemented on 24 September 2004, with the issue of 19.9 million convertible bonds to the public at a face value of RMB100 each. The total issue amount was RMB1.99 billion. The term of the convertible bonds was five years, with a nominal rate of 1.0 per cent for the first year, 1.375 per cent for the second year, 1.75 per cent for the third year, 2.125 per cent for the fourth year, and 2.5 per cent for the fifth year. Dividend will be paid once a year. The conversion price at the beginning was RMB5.48 per share and the conversion period started from the first trading day (24 March 2005 inclusive) after a lapse of six months from the issue date (24 September 2004) to the one trading day (inclusive) prior to the expiry date of Vanke Convertible Bonds Tranche 2 (24 September 2009). The Company will redeem its convertible bonds at the price of 107 per cent (including the interest for the period) of the nominal value of the convertible bonds which have not been converted after the expiry date. All the convertible bonds issued this time were placed to the existing holders of the Company's A share, and the remaining portion of the convertible bonds abstained for subscription by existing holders of A share were issued to institutional investors and the public through the online trading system of Shenzhen Stock Exchange. The amount of proceeds raised from the issue of the Company's convertible bonds was RMB1.99 billion. Trading of the Company's convertible bonds on the Shenzhen Stock Exchange commenced on 8 October 2004. Abbreviation and code of the convertible bonds are "Vanke Convertible Bonds Tranche 2" and "126002", respectively.

2. Description of shareholders

1) As at the end of the year under review, the Company had 175,766 shareholders, including 163,463 A share holders and 12,303 B share holders.

2) As at 31 December 2004, the top 10 shareholders of the Company were as follows:

Shareholders	Change in number of shares during the reported period	Number of shares held at the end of the reported period	Share Types	Percentage held as at 31 Dec 2004 (%)
China Resources Co., Limited	+136,932,671	293,084,169	State-owned Shares/ Legal Person shares/ Transferable A shares	12.89%
CREDIT LYONNAIS SECURITIES (ASIA) LTD	+17,073,528	51,220,584	Transferable B shares	2.25%
Huaxia Return Securities Investment Fund	+43,892,517	45,911,580	Transferable A shares	2.02%
CITIC Classic Allocation Securities Investment Fund	+45,867,792	45,867,792	Transferable A shares	2.02%
Huaxia Development Securities Investment Fund	+30,000,959	42, 000,959	Transferable A shares	1.85%
TOYO SECURITIES ASIA LITMITED-A/C CLIENT	+23,417,969	38,144,600	Transferable B shares	1.68%
Liu Yuansheng	+13,363,198	37,679,452	A shares (of which 34,314,381shares are non-transferable)	1.66%
Boshi Value Increase Securities Investment Fund	+19,144,044	31,200,000	Transferable A shares	1.37%
Xinghua Securities Investment Fund	+26,597,841	31,120,441	Transferable A shares	1.37%
Naito Securities Co., Ltd.	+14,030,826	24,170,313	Transferable B shares	1.06%

Notes:

a) The number of Company's shares held by China Resources Co., Limited ("CRC"), the Company's shareholder holding more than 5 per cent equity interest of the Company, increased by 136,932,671 shares as a result of distribution of bonus share, the transfer of capital surplus reserve to share capital and conversion of convertible bonds into shares during the period under review.

b) The B shares,of the Company held by CREDIT LYONNAIS SECURITIES (ASIA) LTD, the Company's second largest shareholder, are beneficially owned by China Resources Land Limited, which is a connected company of China Resources (Holdings) Co., Ltd. China Resources (Holdings) Co., Ltd. and CRC are connected companies.

c) Huaxia Return Securities Investment Fund, Huaxia Development Securities Investment Fund, and Xinghua Securities Investment Fund are affiliated funds.

3) Largest shareholder:

China Resources Co., Limited ("CRC") is the largest shareholder of the Company. CRC was promoted and established by China Resources National Corporation ("CRNC") in June 2003.

Mr Chen Xinhua is the legal person representative. CRC's major asset is its 100 per cent equity interest in China Resources (Holdings) Co., Ltd. ("CRH") and other assets in the PRC. Its core businesses include manufacturing and distribution of consumer goods, property and related industries, infrastructure facilities and public utilities. The registered address of CRC is China Resources Building, No. 8 Jianguomenwai North Street, Dongcheng District of Beijing. CRC has a registered capital of RMB16,467 million. 16,464,463,526 state-owned shares of CRC are held by CRNC, representing 99.984211 per cent of CRC's total share capital. The other four promoters, namely China National Cereals, Oils & Foodstuffs Corporation, China Minmetals Corporation, Sinochem Corporation and China Huaneng Group, own 650,000 state-owned shares in CRC respectively, each representing 0.003947 per cent of CRC's total share capital.

CRNC is a state-owned enterprise with a registered capital of RMB9,662 million, its major asset is its equity interest in CRC. It's managed by the State-owned Assets Supervision and Administration Commission of the State Council. Mr Chen Xinhua is the legal person representative.

As at the end of the period under review, CRC and its related companies owned a total of 344,304,753 shares in the Company, representing 15.14 per cent of the Company's total share capital.

4) As at 31 December 2004, the top 10 shareholders of the Company's listed shares were as follows:

Shareholders	**Change in number of shares during the reported period**	**Number of shares held at the end of the reported period**	**Share Types**	**Percentage held as at Dec. 31 2004 (%)**
China Resources Co., Limited	+58,856,922	58,856,922A	A shares	2.59%
CREDIT LYONNAIS SECURITIES （ASIA） LTD	+17,073,528	51,220,584B	B shares	2.25%
Huaxia Return Securities Investment Fund	+43,892,517	45,911,580A	A shares	2.02%
CITIC Classic Allocation Securities Investment Fund	+45,867,792	45,867,792A	A shares	2.02%
Huaxia Development Securities Investment Fund	+30,000,959	42, 000,959A	A shares	1.85%
TOYO SECURITIES ASIA LITMITED-A/C CLIENT	+23,417,969	38,144,600B	B shares	1.68%
Boshi Value Increase Securities Investment Fund	+19,144,044	31,200,000A	A shares	1.37%
Xinghua Securities Investment Fund	+26,597,841	31,120,441A	A shares	1.37%

Naito Securities Co., Ltd.	+14,030,826	24,170,313B	B shares	1.06%
Changsheng Active Selected Securities Investment Fund	+24,070,686	24,070,686A	A shares	1.06%

3. As at 31 December 2004, the top 10 holders of the Company's convertible bonds (Vanke's Convertible Bonds Tranche 2) were as follows:

Bond holders	Number of bonds held at the end of the reported period (No. of bonds)	Face value of bonds (RMB)
China Resources Co., Limited	3,048,075	304,807,500
Shenyinwanguo-CITY BANK-UBS LIMITED	794,879	79,487,900
National Social Insurance Fund 103	753,012	75,301,200
Huaxia Securities Investment Fund	620,006	62,000,600
CITIC Classic Allocation Securities Investment Fund	615,439	61,543,900
Yifangda Steady Growth Securities Investment Fund	584,190	58,419,000
Ping An Insurance (Group) Company Of China, Limited	461,765	46,176,500
Yin Hua Superior Enterprises (Balance Type) Securities Investment Fund	425,380	42,538,000
Nanfang Risk-avoidance and Value Increase Securities Investment Fund	397,733	39,773,300
Tianyuan Securities Investment Fund	334,366	33,436,600

Notes:

a) National Social Insurance Fund 103 and Huaxia Securities Investment Fund are affiliated funds.

b) Nanfang Risk-avoidance and Value Increase Securities Investment Fund and Tianyuan Securities Investment Fund are affiliated funds.

E. Management and Employees

1. Directors, members of the supervisory committee and senior management

Brief introductions to Directors:

Wang Shi, male, born in 1951. He joined the military force in 1968. Wang Shi changed his career in 1973 and worked in the Water and Electrical supply department of Zhengzhou Railway. Wang Shi graduated from Lanzhou Railway College in 1978 majoring in water supply studies. He had been working in Guangzhou Railway Bureau, Guangzhou Foreign Trade and Economic Cooperation Committee and Shenzhen Special Region Development Company. He organised "Shenzhen Exhibition Center of Modern Science and Education Equipment", the predecessor of China Vanke, in 1984, and acted as General Manager. The company was reorganised into China Vanke Co. Ltd., a shareholding company, in 1988, at which time Mr

Wang became Chairman and General Manager. Mr Wang no longer acted as the General Manager with effect from 1999. At present, he is the Chairman of the Company.

Ning Gaoning, male, born in 1958. He graduated from the Department of Economics at Shandong University in 1983 with a bachelor degree in economics studies. Mr Ning was awarded Master of Business Administration by The University of Pittsburgh in the US in 1985. He joined China Resources (Holdings) Co., Ltd. ("CRH") in 1986 and became the Director and General Manager of China Resources Ent. Ltd. in 1990. From 1999 to 2004, he acted as the Deputy Chairman and General Manager of CRH and China Resources National Corporation ("CRNC"), as well as the Chairman of China Resources Ent. Ltd., the Chairman of China Resources Land Limited and the Director of a number of companies. He became the Director of the Company in 2000. He was reappointed as the Director of the Company and also acted as Deputy Chairman in 2002. On 20 January 2005, Mr Ning submitted his resignation as the Director and Deputy Chairman of the Company. At present, he is the Chairman of China National Cereals, Oils & Foodstuffs Corporation.

Song Lin, male, born in 1963. He graduated from Tongji University with bachelor of science degree in engineering mechanics in 1985. Mr Song joined China Resources (Holdings) Co., Ltd. ("CRH") in 1986. In 1998, Mr Song became the Director of CRH In 2000, he became the Executive Director and the General Manager of CRH, the Director and General Manager of China Resources Ent. Ltd., as well as the Chairman of China Resources Logic Limited, China Resources Power Holdings Co. Ltd. and China Resources Vanguard Co., Ltd. He has been the Director of the Company since 2001. At present, he is also the General Manager of CRH and the Chairman of China Resources Ent. Ltd.

Yu Liang, male, born in 1965. He graduated from the Peking University with a bachelor degree in international economics studies in 1988. Mr Yu obtained a master degree from the Economics Studies Department of the Beijing University in 1997. He joined the Company in 1990. He became the General Manager of Shenzhen Vanke Financial Consultancy Company Limited In 1993 and the Deputy General Manager of the Company in 1996, and the Executive Deputy General Manager and in charge of finance of the Company in 1999. He became the General Manager since 2001 and the Director of the Company since 1994. At present, Mr Yu is the General Manager of the Company.

Chen Zhiyu, male, born in 1954. He graduated from Chuangxing College and obtained a diploma in Accounting from The London Chamber of Commerce and Industry and a diploma in corporate management from the Hong Kong Management Association. Mr Chen is an affiliate member (AMIA) of The Association of International Accountants and has embarked on the career of accounting, financial and executive management for over twenty years. He has acted as the Director of Jenston International (HK) Limited since 1983. At present, he is also the Managing Director of Beijing Renda International Information Technology Co., Limited and Shanghai Renda Yunzhen Information Technology Co., Limited. He has acted as the Director of the Company since 1997.

Wang Yin, male, born in 1956. He graduated from Shandong University with a bachelor degree in economics studies. He also obtained a master degree in Business Administration from the University of San Francisco. Mr Wang had worked in the Foreign Economic and Trade Cooperation Department. He became the Deputy Officer of the China Resources National Corporation ("CRNC") in 1984, Deputy General Manager of the Human Resources Department of China Resources (Holdings) Co., Ltd. ("CRH") in 1988, and the General Manager of Max Share Limited, a subsidiary of CRH, in 1995. Mr Wang has been the Director and Assistant General Manager of CRH since 2000. He has been the Managing Director of China Resources Land Limited since 2001 and the Chairman of the same company since 2004. He has been the Director of the Company since 2002.

Sun Jianyi, male, born in 1953. He graduated from Zhongnan University of Finance and Economics, majoring in finance studies. He is a senior economist. He worked at the Qiu Chang Road Office, Wuhan branch, the People's Bank of China in 1971 and became vice division head of the credit division of Jiang An District, Wuhan Branch, the People's Bank of China in 1978. In 1982, Mr Sun became the Division Head of 27 Road Office, Wuhan Branch, the People's Bank of China as well as the Secretary of the branch of the Communist Party Committee. He became Deputy General Manager of Wuhan Branch, the People's Insurance Company of China, Limited and the committee member of the Communist Party Committee in 1985. He has been the Deputy Secretary of the Communist Party Committee and Executive Deputy General Manager of Ping An Insurance Company of China, Limited from 1990 onwards. He has been the Director of the Company since 1995. He became the Executive Director in 1997 and Deputy Chairman in 1998. He has been an Independent Director since 2001.

Eric Li Ka Cheung, male, born in 1953. He graduated from School of Economics, the University of Manchester in the UK. He obtained a BA (Hons) in Economics and Doctor of Laws (Hons) from the University of Manchester, and Doctor of Social Science (Hons) from Hong Kong Baptist University. Mr Li was also the council member of the International Federation of Accountants, member of the Tenth National Committee of the Chinese People's

Political Consultative Conference, President of the Process Review Panel of the Hong Kong Monetary Authority, Chartered Senior Accountant. In 1975, Mr Li worked as an accountant trainee in Coopers Lybrand Co., Certified Public Accountants in London, the UK. He became the Chief Accountant of Li, Tang, Chen & Co. Certified Public Accountants in Hong Kong in 1978 and is now the Chief Partner. From 1991 to 2004, Mr Li was the member of the Legislative Council in Hong Kong Special Administrative Region. At present, he is the guest professor of a number of universities including The Chinese University of Hong Kong, Independent Director of a number of companies including Hang Seng Bank Limited. He has been the Independent Director of the Company since 2002.

Li Chi Wing, male, born in 1959. He graduated from the Hong Kong Polytechnic University, majoring in real estate management. Mr Li is a registered professional surveyor in Hong Kong, a registered professional housing manager in Hong Kong and a registered real estate valuer in the PRC. He worked in the agency department of Jones Lang LaSalle in 1985 and became the Director of the Industrial Department before leaving Jones Lang LaSalle. He has been Executive Director of DTZ Debenham Tie Leung and Managing Director of DTZ Debenham Tie Leung Property Management Company Limited since 1993 and 1996 respectively. He has been an Independent Director of the Company since 2002.

Feng Jia, male, born in 1956. He graduated from Department of Industrial Economics at the South Western University of Finance and Economics. He was an instructor of the Department of Industrial Economics at the South Western University of Finance and Economics as well as the Deputy Officer of the President's Office. Mr Feng became the Manager of the Development Department of the Company in 1988 and the General Manager of Shenzhen Honghua Shiye Co., Limited in 1992. Mr Feng became the Deputy General Manager of the Company in 1995 as well as the General Manager of the Shenzhen International Corporate Service Co., Ltd. since 1996. He resigned from the position as the Deputy General Manager of the Company in 1998. Since then, he became the Chairman as well as the General Manager of Shenzhen International Corporate Service Co., Ltd. Mr Feng became the Director of the Company in 1998 and his term expired in 2001. He has been the Independent Director of the Company since 2002.

Shirley L. Xiao, female, born in 1964. She graduated from Wuhan University, majoring in English Literature in 1984. She obtained a master degree in Business Administration from China Europe International Business School in 2000. She had worked in Central South University of Technology, China Technology Data Import & Export Co. and Mitsubishi Corporation Shenzhen Office. She joined China Vanke in 1994 as the Deputy Chief of the

General Manager's Office. She was the Chief of the General Manager's Office in 1996 and the Chief of the Board's office in 2004. She has also been the Secretary to the Board since 1995. She has been the Director of the Company since 2004.

Brief introductions to Members of the Supervisory Committee

Ding Fuyuan, male, born in 1950. He holds a tertiary qualification. He had worked in Guangdong Tour Department, South China Sea Oil Joint Service Corporation, South China Petroleum Shenzhen Development Service Corporation and Nanhai Huaxin Group. He joined China Vanke in 1990 and became the Deputy Chief of the General Manger's Office in February 1991. In October 1991, He became the Manager of the Human Resources Department of the Company. He has been the Secretary of the Communist Party Committee of the Company since 1995. He became a member of the first Supervisory Committee of the Company in 1993 and has been the Convenor of the Supervisory Committee of the Company since 1995.

Jiang Wei, male, born in 1963. He graduated from Foreign Economy and Trade University and obtained a master degree in international business and finance. He joined China Resources (Holdings) Co., Ltd. ("CRH") in 1988. He was the Director of China Resources Ent. Ltd. in 1995. He became the Director and the General Manager of the Financial Department of CRH in 2000. He became the Director and the Supervisor of Financial Department of CRH in 2002. Since 2001, he has become the Supervisor of the Company.

Zhang Li, male, born in 1959. He graduated from Jiangxi University majoring in political economics in 1985. He had worked in Jiangxi No. 2 Chemical Fertilizer Factory], Jiangxi University and Jiangxi Labour Bureau. He joined China Vanke in November 1992. He used to be the Manager of Shanghai Vanke Property Management Company Limited in 1995, Deputy General Manager of Shanghai Vanke Real Estate Company Limited, Manager of the Company's Corporate Planning Department in November 1998, Chairman and General Manager of Shenzhen Vanke Gift Manufacturing Co., Ltd in 1999. He resigned from China Vanke in 2000 and became the General Manager of Yuanda Real Estate Co., Ltd.. In 2001, he joined China Vanke again as the General Manager of Beijing Vanke. He became the Property Director of the Company since July 2002 and the representative of the Staff Union in the Supervisory Committee of the Company in 2004.

Brief introductions to Senior Management

Yu Liang: for biography regarding Yu Liang, please refer to the "Brief introductions to Directors".

Ding Changfeng, male, born in 1970. He graduated from Peking University with bachelor degree in international politics in July 1991. He obtained a master degree in global economics from Peking University in 1998. He had worked Jiangsu Yancheng Party School. He joined China Vanke in 1992 and became Deputy Manager to the General Manager's Office of the Company in August 1994. He was the Chief Editor of "Vanke Periodical" in 1995 and the Assistant General Manager of Northeastern Operation and .Management Department of the Company in January 1996. He used to be the Deputy General Manager of Northeastern Department of the Company and the Deputy General Manager Shanghai Vanke in 1997 and 1998 respectively. He became the Manager of the Company's Corporate Planning Department in 1999, and the General Manager of Shanghai Vanke Real Estate Co., Ltd in 2000. He has been the Deputy General Manager of the Company since 2001.

Liu Aiming, male, born in 1969. He was graduated from Tsinghua University with a master degree in architecture materials faculty. He had worked in China Overseas Construction (Shenzhen) Co., Ltd as the Director, Assistant General Manager as well as the Manager of the Property Department. He used to be the Managing Director of China Overseas Construction (Shenzhen) Co., Ltd in 2001 and the Deputy General Manager of Zhonghai Real Estates Co., Ltd.in 2002. He has joined China Vanke since 2002 as the Deputy General Manager.

Xie Dong, male, born in 1965. He was graduated from Nanjing Engineering Institution in 1987 with wireless electricity as his major. He received a master degree in business administration from Shanghai Jiao Tong University in 1997. He had worked in Shenzhen RGB Electronic Co., Ltd., the Headquarter of China Shenzhen TV Company. He joined China Vanke in 1992. He used to be Manager of the Personnel Management Department in 1996, the General Manager and Director of Human Resources Department of the Company in 2000 and 2001 respectively. He has been the Deputy General Manager of the Company since 2004.

Zhang Jiwen, male, born in 1967. He graduated from Tsinghua University in 1994 with a master degree in engineering. He had worked in Guizhou Architecture and Design Institute, Shenzhen Jin Xiu Zhong Hua Development Co., Ltd., Shenzhen Window of the World Co., Ltd., Guangzhou Hua Heng Design Company and Ho & Partners Architects Engineers & Development Consultants Ltd. in Hong Kong. He joined Shanghai Vanke Real Estate Co., Ltd. in 2001 as the Deputy General Manager and became the Art Director of the Company in 2003. He has been the Deputy General Manager of the Company since 2004.

Mo Jun, male, born in 1967. He graduated from the Faculty of Architecture of Tsinghua

University in 1991 with a bachelor degree. He obtained an MBA degree from the China Europe International Business School in 2004. He joined China Vanke in 1991. He had been the Manager of Shenzhen Wanchuang Construction and Design Consultants Co., Ltd. in 1996, General Manager of Shenzhen Vanke Real Estate Co., Ltd. in 1999, the General Manager of Beijing Vanke in 2000, the Deputy General Manager of the Company in March 2000, and the Executive Deputy General Manager of the Company in 2001. He resigned from the Company and became the Executive Deputy General Manager of Beijing Rongke Zhidi Real Estate Co., Ltd. in April 2003. He joined the Company again as the Deputy General Manager in October 2004.

Shirley L.Xiao: for biography regarding Shirley L.Xiao, please refer to the "Brief introductions to Directors".

Wang Wenjin, male, born in 1966. He graduated from Zhongnan University of Economics and Law with a master degree. He is a registered accountant in the PRC. He had worked for a plastic factory in Hefei and Anhui Optical Sophisticated Mechanic Research Centre of China Academy of Sciences. He joined China Vanke in 1993 and became the Deputy Manager of the Company's Finance Department in 1998. He was the General Manager of the Company's Finance Department in 1999 and has been the Supervisor of Finance since 2004.

Change in Shareholding of Existing Directors, Members of Supervisory Committee and Senior Management (Unit: shares)

Name	No. of shares held at start of 2004	No. of shares held at the end of 2004
Wang Shi	279,118	418,677
Yu Liang	77,828	116,742
Ding Fuyuan	82,410	123,615
Sun Jianyi	128,192	192,288
Feng Jia	0	100,000

Note: During the year under review, the shareholding of the senior management increased accordingly as a result of the distribution of bonus shares and the transfer of capital surplus reserve to share capital. During the year, Feng Jia, an independent director, purchased the Company's shares. The purchased shares cannot be traded during his term of office.

The Remuneration of Directors, Members of Supervisory Committee and Senior Management

In 2004, the Company continued to follow the principle of its remuneration policy, which is "to offer competitive salaries according to market principles to retain and attract high-calibre professionals" and made adjustment to the Company's overall remuneration system. The remuneration of each of the Company's senior management was determined in accordance with the growth in the overall operating results of the Company. In 2004, the business development of the Company entered the stage of rapid growth, which brought satisfactory returns to shareholders. The remuneration of the Company's senior management had also increased to a relatively high degree.

Remuneration of the Company's Directors, members of Supervisory Committee and senior management for the year amounted to RMB14.6 million, of which one person received between RMB2 million and RMB2.25 million; two persons between RMB1.75 million and RMB2 million; four persons between RMB1.25 million and RMB1.5 million; two persons between RMB1 million and RMB1.25 million; one person between RMB750,000 and RMB1 million; and one person between RMB250,000 and RMB500,000. The three Directors with the highest remuneration received RMB5.35 million in total, while the three senior management with the highest remuneration received RMB5.15 million in total. Ning Gaoning, Song Lin, Chen Zhiyu, Wang Yin and Jiang Wei, the five directors and members of the Supervisory Committee, received from the Company the director's remuneration of RMB 30,000 (including tax) during their term of office, while Sun Jianyi, Eric Li Ka Cheung, Li Chi Wing and Feng Jia, the four independent directors, received from the Company the director's remuneration of RMB 60,000 (including tax) during their term of office, without other types of remuneration or allowance.

Change and Reasons for the Change in Directors, Members of the Supervisory Committee and Senior Management During the Year Under Review

Due to personal reasons, Mo Jun resigned from the position of Director of the Company at the 10th meeting of the 13th Board of the Company held on 5 March 2004. The Board had accepted his resignation and nominated Shirley L. Xiao as the candidate for the post of director.

Shirley L. Xiao was by-elected to be the director at the Sixteenth Annual General Meeting of the Company held on 15 April 2004.

On 5 March 2004, Xie Dong was appointed as the Deputy General Manager of the Company; at the same time he submitted resignation from the position of the Supervisor of the Company. Pursuant to the democratic election by the representatives of the Staff Union of the Company, Mr Zhang Li, a representative of the Staff Union, took over as a member of the Supervisory Committee of the Company starting from 5 March 2004.

Appointment of General Manger, Deputy General Manager, Supervisor of Finance and

Secretary of the Board of Directors of the Company

Xie Dong was appointed as the Deputy General Manager of the Company at the 10th Meeting of the 13th Board held on 5 March 2004.

Zhang Jiwen was appointed as the Deputy General Manager of the Company at the 12th Meeting of the 13th Board held on 4 August 2004.

Mo Jun was appointed as the Deputy General Manager of the Company at the 13th Meeting of the 13th Board held on 26 October 2004.

2. Number and Breakdown of Staff

As at 31 December 2004, there were 9,627 employees under the Company's payroll, representing an increase of 37.04 per cent from that of the previous year. The average age of the employees was 29.

Of all the employees, there were 1,676 staffs in property development sector, representing an increase of 14.92 per cent from the previous year, with an average age of 31 and an average of three years working for the Company. The education level of the staff in this sector is as follows: 0.4 per cent with doctoral degree, 9.4 per cent with master degree, 62.9 per cent with a real estate major, 22.2 per cent with tertiary education and 5.1 per cent with education below tertiary level. 72.7 per cent of the staff in this sector possessed university or above education level.

The breakdown of staff in the property development sector by job nature is as follows: 319 marketing and sales staffs, accounting for 19 per cent, up by 16.42 per cent from the previous year; 805 professional technicians, accounting for 48 per cent, up by 9.3 per cent from the previous year; of the professional technicians, 414 were construction staffs, accounting for 24 per cent , 193 were designers, accounting for 12 per cent and 110 were cost management staffs, accounting for 7 per cent,;88 project development staffs, accounting for 5 per cent; 552 management staffs, including finance, audit, IT, legal, human resources, customer relations and data analysis and accounting for 32.94 per cent of the total staff in the property development department, up by 25.17 per cent from the previous year.

7,951 property management staffs, up by 49.57 per cent from the previous year, had an average age of 26 and an average of 1.5 years working for the Company. The education level of the staff in the property development department is as follows: 0.1 per cent with master degree, 5.5 per cent with a real estate major, 11.7 per cent with tertiary education and 82.7 per cent with education below tertiary level. 16.6 per cent of the staff in the property development department possessed tertiary or above education level.

F. Structure of Corporate Governance

1. Elaboration on documents relating to regulation on corporate governance of listed companies

According to the Company's Articles of Association and the annual business plan confirmed by the Board of Directors and the resolution made by the Board of Directors, the Board of Directors authorised the management to take charge of the Company's overall day-to-day operation. The Board of Directors paid special attention to matters that would affect the Company's finance, shareholders and business decision. Such significant matters included the Company's financial statements, dividend policy, changes in accounting policies, material financing arrangement, project decision, establishment of new companies, risk management, remuneration policy, etc. The Company's management ensured that they had performed their duties with the acknowledgement of the Board of Directors through board meetings, background information, monthly reports on business management, reports on significant market and policy changes, site visiting etc.

Insisting on meeting the requirements of the Company Law, the Securities Law and other laws and regulations in relation to the corporate governance of listed companies, the Company continued to fine-tune the Company's corporate governance structure and standardize its operation procedures, leading to effective operation of the Company's shareholders' meetings, board meetings, regulation on the operation of the Supervisory Committee and thereby safeguarding the interests of investors and those of the Company. Details of the Company's corporate governance during the period under review are as follows:

1) To ensure all shareholders could exercise their voting right in accordance with the law, the Company had strictly complied with the relevant regulations on the convention of shareholders' meeting.

2) The single largest shareholder of the Company had performed its duties of good faith in due diligence, by exercising its right to make decision in accordance with the requirements for the operation of the Board of Directors and had not performed their duties beyond the requirements of the regulation. The election of directors and members of the Supervisory Committee, the appointment of senior management were in conformity with the requirements of the law, regulations and the Company's Articles of Association.

3) The Board of Directors of the Company performed their duties in strict compliance with the law, regulations and the Company's Articles of Association. As such, the Board of Directors' regular board meetings, special meetings and voting by communication means had been conducted in accordance with legal procedures. The directors had faithfully performed their duties and safeguarded the interests of the Company and those of all of the shareholders.

4) The Supervisory Committee of the Company, committed to be accountable to shareholders, performed their duties in strict compliance with the law, regulations and the Company's Articles of Association. By attending board meetings, making inspection tours to the Company's operations in different regions and supervising the Company's finance and Board of Directors, the Supervisory Committee of the Company performed their duties and safeguarded the legal interests of the Company and the shareholders.

5) In 2004, the Company was voted the No. 1 PRC company in corporate governance and the third best managed company in the PRC, according to Asiamoney's 2004 Best Corporate Governance in Asia and Best Managed Company in Asia polls.

6) In the past four years, the Company continued to disclose in detail the competition with the Company's single largest shareholder, China Resources Co., Limited and its connected companies ("CRC Group") in similar businesses. The competition originated from the transfer of the Company's legal person shares to CRNC Group in 2000. Despite the fact that CRC Group currently owns 15.14 per cent of the Company's equity interests, CRC Group chose to implement the expansion strategies of one of its core businesses – property business through China Resources Land Limited, which is owned as to 50.43 per cent by CRC Group. From an objective point of view, competition between the Company and CRNC Group exists in similar businesses. As such, CRC Group had made an undertaking to the Company that it will provide support to China Vanke that is beneficial to China Vanke's development, and that it will remain impartial in the event of any competition between the investment projects of China Vanke and those of CRC and its subsidiaries, and in the event of any disagreements or disputes arising from such competition.

Until now, the Company's normal business development has not been affected by China Resources Land Limited's business expansion and CRC Group's being the Company's single largest shareholder.

2. Performance of the Independent Directors

Sun Jianyi, Eric Li Ka Cheung, Li Chi Wing and Feng Jia, the four Independent Directors of the Company, actively participated in the management of the board in 2004. Having taken into account the interest of the Company's shareholders, particularly that of the minority shareholders, and being an expertise in their own field, they gave independent and constructive advice in the course of discussion about the various resolutions considered at the board meetings, thereby having performed their duties as independent directors.

3. The Independence of Business Operation, Employees, Assets, Organisation and Finance from the Company's Controlling Shareholder

The Company's business operation, employees, assets, organisation and finance are completely independent from those of its single largest shareholder, CRC, and connected companies (which together held 15.14 per cent of the shareholding of the Company at the end of the year). This allows the Company to maintain independence with regard to business integrity and autonomy in operation.

4. The establishment and implementation of appraisal and incentive systems for senior management

The Company implemented a balanced scorecard as the performance management system. In each of the management year, performance review on senior management is conducted through the Group's work report meeting. The major factors to be considered in reviewing the Group's senior management include the Group's overall performance, the value of the senior management's positions to the Group and their achievement as required by their positions. With regard to all those in charge of core companies' operation, the review is based on the performance of core companies for which they are held accountable, the value of their positions and their achievement as required by their positions.

In accordance with the concept of a balanced scorecard, senior management's performance is evaluated using the benchmark of achievements of business objectives in each operating year, which in turn are governed by the objectives of the Company's medium to long-term development strategies. The review will cover different categories including the Company's performance, finance, customers, internal logistics, staff training and development and the ability to maintain sustainable growth. The Company has established objective benchmark to measure performance in each category. In order to obtain objective statistics on staff and customers' satisfaction, the Company had appointed an independent third party to conduct survey. At the end of each year, the Company's General Manager will determine the remuneration of the senior management in accordance with the objective operating results of the Group and its various companies for that particular year, overall achievements against the benchmark set by the management, the assessment and evaluation, and the salary level in the industry. The performance of the Company's General Manager will be reviewed by the Chairman.

To attract and retain high-calibre people and to encourage them to work for the Company on a long-term basis, the Company continued to implement the preferential house purchasing policy, pursuant to which the Group's medium to high-level management and excellent employees with significant contribution will be given preferential terms to buy housing developed by China Vanke as medium- to long-term welfare.

The operation of the above-mentioned performance review and incentive scheme in recent years has provided good motivation and direction. With regard to medium to long-term incentive plans for senior management, we are taking further steps to explore ongoing improvement.

G. General Meetings

1. The Sixteenth Annual General Meeting

The Sixteenth AGM was held at the Vanke Architecture Research Centre, Meilin Road of Shenzhen, on 15 April 2004. The notice of AGM was published in China Securities Journal, Securities Times and The Standard of Hong Kong on 9 March 2004. The last day for verifying the qualification of shareholders was 1 April 2004. A total of 39 proxies and/or shareholders, representing 494,896,839 shares in the Company or 32.96 per cent of the Company's total share capital, attended the AGM. The following resolutions were approved at the meeting: (1) the Report of the Board of Directors for the year 2003; (2) the Audited Financial Report and Auditors' Report for the year 2003; (3) the proposals on profit appropriation for the year 2003, bonus and dividend distribution and the transfer of capital surplus reserve to share capital; (4) the appointment of KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants as the Company's auditors for the year 2004, with auditors' remuneration of RMB800,000 and HK$1,100,000 respectively; (5) the Work Report of the Supervisory Committee for the year 2003, (6) by-election of Shirley L. Xiao as the director of the Company, (7) election of Ding Fuyuan/ Jiang Wei as the supervisory committee members of the Fifth Supervisory Committee and (8) amendments of the Company's Articles of Association, under which "property development" was added to the scope of business of the Company. The above resolutions were published in China Securities Journal, Securities Times and The Standard of Hong Kong on 16 April 2004.

2. Election and Change in Directors and Members of Supervisory Committee

Relevant details were given in the sections headed "Change and Reasons for the Change in Directors, Members of the Supervisory Committee and Senior Management During the Year Under Review".

H. Directors' Report

1. Management's Discussion and Analysis

1) Business Environment

In 2004, there were a number of factors affecting the PRC property industry. Among these factors, some posed challenges to the existing structure of the industry, which induced the industry to undertake reforms. Yet, the major factors reflected that there would be more room for development in the industry and a more rational future was lying ahead.

Macroeconomy and demography

In 2004, the GDP of PRC rose by 9.5 per cent from that of the previous year, which made the country one of the world's fastest growing economy. The actual growth rate of disposable income per capita of urban residents was 7.7 per cent. At the end of the year, savings in RMB of urban and rural residents rose by 15.4 per cent from that of the previous year. The level of resident's consumption power and economic growth basically rose in tandem.

During the year, the PRC continued to see accelerated urbanisation. The trend for Yangtze River Delta to be the centre to which people across the country relocate became more obvious. The number of graduates from all the high schools in the PRC for the year reached 2.8 million, representing an increase of 680,000 from that of the previous year. Most of the high-school graduates chose to look for a career in the Yangtze River Delta, Pearl River Delta and Beijing-Tianjin region. The annual increase in young people with high education level in cities is integral to the creation of demand for commodity housing in the future.

In 2004, aged population was over 130 million and accounted for 10 per cent of the total population for the first time. With the baby boomers, born after the 50's, entering their old age, the PRC population is in the fast aging process. At present, residential housing in the PRC is yet to accommodate the needs of the aged population. The aging process will have great implications for the product mix of commodity housing in the future.

Growth in income per capita in the rural areas of various provinces exceeded that of urban areas in general, and for years this had been the trend. As the opportunity cost of working in the rural areas and choice of work available for rural residents increase, the manufacturing sector of certain areas in the Pearl River Delta finds it difficult to employ labourers, while wages for various jobs in the construction industry in general also rise. As a result of upsurges in labour cost, mass production approach to building residential housing not only begins to emerge as a possibility, but also begins to emerge as a necessity.

Demand ahead of supply, leading to a rise in housing prices

In 2004, area of development completed by property developers amounted to 232 million square metres, representing a decrease of 11.4 per cent from that of 2003. In 2004, new construction area for commodity housing in the PRC amounted to 479 million square metres, representing a rise of 9.3 per cent, and area of completed construction amounted to 348 million square metres, representing a 2.3 per cent increase. The increases in new construction area for commodity housing and area of completed construction were significantly smaller when compared with the increases of 29.6 per cent and 21 per cent respectively in 2003.

Driven by urbanisation and economic growth, market demand sustained a relatively fast growth rate. In 2004, sales area and sales revenue of commodity housing amounted to 338 million square metres and RMB861.937 billion respectively, representing increases of 13.9 per cent and 31.2 per cent respectively.

Housing prices rose at a relatively fast pace, as demand increased more than supply. In 2004, land transaction prices in the PRC went up by 10.1 per cent. The average selling price of commodity housing rose by 15.8 per cent when compared with that of the previous year.

However, special attention has to be paid to the fact that from 1998 till 2003, growth in the average price of China's residential housing had been smaller than that of disposable income and savings of residents for six consecutive years. Taking account of what had happened in the past few years, growth in people's consumption power in general exceeded much that of the price of residential housing.

Macroeconomic austerity measures and increase in interest rate

During the year, the State started the fifth round of macroeconomic austerity measures. The focus was on the prevention of overheated investment and safeguarding of the stability of currency and the financial environment. There had been high demand for funds in the fast growing property industry. Changes in land policy further drove demand for funds of property developers. To overcome these challenges and seize opportunities, the Company, during the year, continued to explore in the diversified fund-raising spectrum and succeeded in implementing various collaborative projects. The Company currently possesses the most comprehensive and widest range of fund-raising channels within the industry.

At the end of October, the central government raised interest rate for the first time in nine years. While increase in interest rate put a relatively effective curb on home purchase for investment, it had minimal impact on home purchase for self-use. Although increase in interest rate slightly raised the cost of the Company and its clients, it could facilitate market consolidation, enhance rationality of home purchases, and would be beneficial to the market's healthy development in the long run.

Commencement of industry consolidation

As regulation on the land market was further strengthened, barrier to land acquisition was lifted and property financing was further tightened. As a result, many companies in the industry faced financial pressure. Merging to become a powerful one had generally become a necessary step. Yet, enterprises with high transparency, investors' confidence and advantages in management, workforce, products and financing face opportunities arising from industry consolidation.

During the year, property developers, investment banks, fund management companies outside Mainland China accelerated their entry to the PRC market, thereby escalating internationalisation.

2) Business Review

2004 was a year of rapid growth in the Group's business as well as the third 10-year medium to long-term development plan since the Group's preparation and confirmation of the establishment of the Company. This year, the Company fully seized the opportunities arising from the market's rapid growth, which led to a rise in the Company's shareholders returns. Meanwhile, the Company also faced the change brought forth by the macroeconomic austerity measures imposed on the financial environment of the industry. The Company was timely alert to the financial difficulty faced by certain subsidiaries as a result of the change and began to actively push forward with its strategies on collaboration. Through collaboration, the Company acquired relatively superb project resources, which enabled the Company to maintain industry leadership in sustainable development.

In 2004, the Group's sales sustained rapid growth. During the year, 38 property projects realised a sales area of 1,638,000 square metres, with a sales revenue of RMB9.16 billion, representing increases of 24.0 per cent and 49.2 per cent respectively from those of 2003. At the end of the year, the booked area amounted to 1,433,800 square metres, representing a 5.1 per cent increase from that of the previous year. The Group realised a turnover of RMB7,257 million and net profit of RMB874 million for the whole year, representing increases of 21.5 per cent and 67.8 per cent from those of the previous year respectively. Earnings per share were RMB0.39.

The proportion of Pearl River Delta region's profit contribution to the Company also rose to 39.8 per cent as Guangzhou Vanke projects began to generate returns. This region provided the largest profit contribution to the Group. Major projects included Shenzhen East Coast, Shenzhen Paradiso, [Shenzhen Vanke City] and Guangzhou Four Seasons Flower City.

Yangtze River Delta region accounted for 37.8 per cent of the Group's profit and remained as the most important source of profit of the Company. This contribution proportion included 27.8 per cent from the Shanghai market, 6.1 per cent from the Nanjing market and 3.9 per cent from the Nanchang market. Major projects included Shanghai Blue Mountain, Shanghai Four Seasons Flower City and Shanghai Rancho Santa Fe, Nanjing Metropolitan Apartments and Nanchang Four Seasons Flower City.

Cities and areas of other regional economic centres also continued to provide stable returns. Proportion of profit contribution from these areas and cities is as follows: 10.7 per cent from Beijing-Tianjin and Northeastern region, 6.1 per cent from Wuhan, 5.6 per cent from Chengdu. Projects that provided major profit contribution included Wuhan Vanke City Garden and Vanke Four Seasons Flower City, Chengdu Vanke City Garden and Vanke Metropolitan Apartments, Shenyang Vanke Metropolitan Apartments and Vanke Four Seasons Flower City, Dalian Vanke City Garden, Tianjin Vanke Crystal City, Beijing Vanke Star Garden and Vanke Green Garden and Vanke Xishan Garden.

The Group intensified its concentration on urban economic clusters development strategies, and continued to push ahead with the planning for Pearl River Delta and Yangtze River Delta regions. During the year, the Company made its debut entry to three new markets, namely Dongguan, Kunshan and Wuxi. The Group also acquired project resources in the Pearl River Delta region, including Shenzhen, Dongguan, Guangzhou. The newly added project resources in this region, which amounted to 826,000 square metres, together with project resources acquired in existing markets such as Foshan, Zhongshan, etc, further reinforced the Company's market competitiveness in the Pearl River Delta region. With the acquisition of project resources in Kunshan and Wuxi in the Yangtze River Delta region, and the replenishment of new project resources in Shanghai, the planning for Yangtze River Delta began to take shape. During the year, the Group's newly added project resources in this region amounted to 1,766,000 square metres. In addition, the Group also acquired new project resources in Tianjin, Chengdu, etc.

At the end of 2004, the total reserves of project resources of which development was controlled by the Group increased from 7.44 million square metres of GFA as at the end of 2003 to 8.44 million square metres of GFA, of which 3.97 million square metres were project resources newly acquired during the year. Of the aforesaid total area, the Group's project resources, in terms of interest owned by the Group, amounted to 7.52 million square metres.

3) Management and Innovation

Facing with changes in government policies and market environment and in accordance with the Group's strategic requirements for future development, the Group during the year hired a professional consultancy company to formulate a medium to long-term development plan. The Company established three major development strategies, namely "customer segmentation and focus on urban economic clusters and product innovation" and began to push ahead with the relevant organisation structure and adjustment to the procedures for development.

During the year under review, the Group focused on carrying out "accelerate the speed of the development while keeping the good performance in every aspect", in order to achieve quality growth and to enhance return on assets, productivity per capita, customer loyalty and ability to innovate. As such, the Company made adjustment to project development procedures by arranging the project decision process in an earlier stage and shortening the project development cycle, in order to augment operational efficiency, increase market responsiveness, generate greater returns and reduce risks.

During the year, the Company continued to push forward with research and application of residential product standardization. Through establishing long-term cooperative relationship with the supervisory division, the Company strengthened management of process control and suppliers, thereby enhancing product design and project quality.

In 2004, Shenzhen 17 Miles project was awarded the grand prize of "China's Art of Architecture"; Vanke Xishan Garden project received recognition of 3As with respect to the functions of residential housing from the Ministry of Construction; in the election of national model of superb residential housing during the "Innovation Trend: 2004 China's Superb Residential Housing Presentation", 11 projects under nine companies of the Group received awards.

In 2004, in the light of changes in financial policy and environment and in order to meet the requirements for the Company's fast growing business and expanding scale, the Company actively adjusted its financing structure, explored new financing channels to reduce management risks. In the financial market, the Company acquired continued support from shareholders and investors and succeeded in completing the issue of RMB1.99 billion convertible bonds. Taking advantage of its good reputation, the Company succeeded in issuing RMB199 million Shenzhen 17 Miles project trust and RMB150 million Vanke Yunding project trust. In addition, the Company also entered into collaborative agreements with a number of international investment companies in 2004, which will provide access to international financing channels.

As at the end of 2004, the Company's long-term borrowings accounted for 71 per cent of the total borrowings, up from 33 per cent in the previous year. Non-bank borrowings accounted for 60 per cent of the total borrowings, up from 33 per cent in the previous year. The Company's liabilities structure and financing channel were in a more healthy position.

4) Investor Relations

In the past year, the Company had been dedicated to promoting domestic and overseas investor relations. The Company continued to increase its transparency, while further strengthening its good corporate governance and corporate image among investors. In 2004, the Company was voted the No. 1 PRC company in corporate governance and the third best managed company in the PRC, according to Asiamoney's 2004 Best Corporate Governance in Asia and Best Managed Company in Asia polls. The rankings reflected investors' high recognition of the Company.

During the year, the Company organised eight large-scale results presentations for institutional investors in Shenzhen, Shanghai, Beijing and Hong Kong. For retail investors, the Company organised and participated in three online presentations. In addition, the Company also actively participated in large-scale promotion activities arranged in the PRC and overseas by institutional investors, small group meetings and one-on-one meetings with institutional investors. The Company attended 17 large-scale presentations for the whole year, and organised over 200 one-on-one meetings with domestic and overseas investment companies. Professional investors could therefore conduct in-depth research on the

Company, while investors at large made positive comment on the Company's transparency. In 2004, the Company's disclosure of information continued to receive good ratings from the Shenzhen Stock Exchange for the fourth consecutive years.

At the close of the market on 31 December 2004, the closing price of the Company's A shares was 21.5 per cent higher than that at the start of the year, while the closing price of B shares rose by 36.4 per cent from that at the start of the year. The market capitalisation of the Company's transferable A shares was RMB8.29 billion and ranked ninth in market capitalisation of A-share listed companies in Shanghai and Shenzhen stock exchanges. The market capitalisation of the Company's transferable B shares was RMB1.61 billion and ranked ninth in market capitalisation of B-share listed companies in Shanghai and Shenzhen stock exchanges. The market capitalisation values of the Company's transferable A and B shares rose by 36.3 per cent and 34.7 per cent from those at the start of the year respectively.

5) Customer Relations

In 2004, the Company clearly divided customer relations management into five special areas: planning design, project management, sales management, after-sales service. The Company's customer service department introduced a principle of "Unravelling the truth of living; create customer value". The department will formulate the first benchmark for work relating to customer relations in the PRC property industry within the next three to five years.

Starting from this year, customer relations department will be completely involved in the project development process in order to provide supervision on the process of product production and provision of services from the perspective of a customer. In particular, the department will conduct an extensive evaluation on projected customer experience before the launch of a project. To increase work efficiency, the Company developed and implemented the first customer information management system exclusively for property business in the PRC.

To understand customer perception and to improve products and services, the Company conducted surveys of customers' satisfaction for the third year. The surveys were conducted by The Gallup Organization, an independent survey company. Results showed that customers' satisfaction level in 2004 reached 81 per cent, up by 7 percentage points when compared to that of 2003.

Corporate Citizenship and Social Responsibility

Rebuilding market ethics has become an imperative issue in today's society. From the perspective of an enterprise, clear values and management philosophy are the keys to achieve continued success in a company. China Vanke believes the most important aspect of enterprise social responsibility is that an enterprise, in taking each action, respects and protects the right of interest-related entities.

During the year, the Company followed the above principles and strived to establish a more regulated and transparent governance structure. The Company was also the first to disclose unfavourable factors in the surrounding area of its residential property project during a sales event. The Company also increased communication channels between senior management and ordinary staff, participated in the reform of industry production and business models and made an appeal for establishing industry order. All these were aimed at realising the Company's original objectives: respect shareholders, customers, staff and society.

The Company's dedicated efforts gained recognition from society. In 2004, the Company was elected again and ranked second in the "The Most Respected Enterprise in the PRC" survey organised by the Management Case Research Centre of the Peking University and The Economic Observer. The Company was also voted as the No. 1 company in the "Best Corporate Citizenship in the PRC" poll organised by 21st Century Business Herald.

2. The Company's Operations

1) The scope and operations of the Company's core business

The Company's core business is property development and has preliminarily established investment zones with Yangtze River Delta and Pearl River Delta as the core, and cover areas including Beijing-Tianjin district, North-eastern Region based in Shenyang, and regional economic hubs in Wuhan and Chengdu. China Vanke has residential properties development projects in 19 large cities in 2004.

Turnover and Net Profit from Core Business by Sectors (Unit: RMB '000)

	Turnover	Cost of sales	Gross profit	Gross Margin	Net Profit
Property	7,068,444	5,153,965	1,914,479	27.1%	891,477
Others	188,739	176,617	12,122	6.4%	(17,118)
Total	7,257,183	5,330,582	1,926,601	26.5%	874,360

Note: Tax of core business and additional expenses are deducted.

Revenue, Net Profit, and Book Area from the Property Development by Regions (unit: '000)

	Revenue (RMB '000)	%	**Net Profit (RMB '000)**	%	**Booked area ('000 sq. m)**	%
Pearl River Delta Region						
Shenzhen	1,328,657	18.80	269,353	30.21	186.1	12.98
Guangzhou	469,055	6.64	65,811	7.38	111.1	7.75
Dongguan	111,016	1.57	22,112	2.48	28.6	1.99
Sub-total	**1,908,728**	**27.01**	**357,276**	**40.07**	**325.8**	**22.72**
Yangtze River Delta Region						
Shanghai	1,131,124	16.00	250,990	28.15	138.2	9.64
Nanjing	323,540	4.58	54,821	6.15	47.0	3.28
Nanchang	277,440	3.92	35,513	3.98	101.8	7.10
Sub-total	**1,732,104**	**24.50**	**341,325**	**38.29**	**287.0**	**20.02**
Beijing-Tianjin and North-Eastern district						
Shenyang	519,628	7.35	32,195	3.61	144.3	10.06
Anshan	138,740	1.96	17,740	1.99	53.5	3.73
Changchun	221,012	3.13	17,060	1.91	73.2	5.11
Beijing	1,012,590	14.33	6,491	0.73	168.5	11.75
Tianjin	620,241	8.77	9,084	1.02	124.9	8.71
Dalian	168,415	2.38	5,509	0.62	42.4	2.96
Sub-total	**2,680,626**	**37.92**	**88,080**	**9.88**	**606.8**	**42.32**
Others						
Wuhan	349,879	4.95	54,501	6.11	109.0	7.60
Chengdu	395,277	5.59	50,348	5.65	105.2	7.34
Sub-total	**745,156**	**10.54**	**104,848**	**11.76**	**214.2**	**14.94**
others	1,830	0.03	(52)	(0.01)		
Total	**7,068,444**	**100.00**	**891,477**	**100.00**	**1,433.8**	**100.00**

Turnover, Cost, Gross Profit Margin and Market Share of Major Products

The Group specializes in property development business with commodity residential properties as its major products. In 2004, the Company's sales floor area and sales revenue of commodity residential properties were 1,638,000 and RMB 9.16 billion respectively, representing increases of 24.0 per cent and 49.2 per cent respectively compared with those of last year. As as the end of the year, the booked area, turnover and booked cost was 1,433,800 sq.m, RMB 7,068 billion and RMB 5.154 billion respectively, representing increases of 5.1 per cent, 21.8 per cent and 12.8 per cent respectively when compared to that of last year. The gross profit margin for the year was 27.1 per cent, up by 5.5 percentage points when compared to last year. In 2004, The total sales of commodity residential properties of the domestic market amounted to RMB861.937 billion. The Company's market share in the domestic market was 1.06per cen in terms of sales revenue of commodity residential properties (source of information: National Bureau of Statistics of China, www.realestate.cei.gov.cn).

Operating Results of the Wholly-owned Subsidiaries and Holding Companies

(unit: '000)

Company Name (including subsidiary companies)	Percentage of equity held	Commercial sales in 2004	Net profit in 2004	Total Asset at the end of 2004	Major operating project in 2004
Shanghai Vanke City Garden Development Company Limited	100	1,161,502	252,144	396,012	Blue Mountain City, Holiday Town, City Garden New Area (south part), Four Seasons Flower City, Rancho Santa Fe
Shenzhen Vanke Real Estate Company Limited	100	1,420,801	272,023	358,023	Metropolitan Apartments, Paradiso, East Coast, Vanke City, 17 miles
Guangzhou Vanke Real Estate Co., Ltd	100	472,212	65,822	78,960	Four Seasons Flower City、City Garden
Nanjing Vanke Real Estate Company Limited	100	323,540	54,821	77,944	Metropolitan Apartments, Bright City
Wuhan Vanke Real Estate Company Limited	100	352,930	55,361	57,079	Four Seasons Flower City, City Garden
Chengdu Vanke Real Estate Company Limited	100	400,057	50,850	68,666	City Garden, Metropolitan Apartments
Shenyang Vanke Real Estate Development Company Limited	100	529,863	30,273	54,796	Metropolitan Apartments, Four Seasons Flower City
Jiangxi Vanke Yida Real Estate Development Company Limited	50	277,346	35,093	27,609	Four Seasons Flower City
Tianjin Vanke Real Estate Company Limited	100	633,210	19,231	130,382	New Town, People Tree, Crystal City, Dongli Lake
Dongguan Vanke Real Estate Co., Ltd	100	111,016	22,112	22,594	City Golf
Beijing Vanke Enterprise Shareholding Company Limited	100	1,032,971	7,249	157,727	Star Garden, Beijing Green Garden, Xishan Garden

Changchun Vanke Real Estate Development Company Limited	100	223,941	17,050	22,835	City Garden, Shangdong Court
Anshan Vanke Real Estate Development Co., Ltd	100	142,753	17,741	17,393	City Garden
Dalian Vanke Real Estate Development Co., Ltd	100	171,029	5,513	53,985	Vanke City Garden

Note: Please refer to the notes to the financial statement for the registered capital of the abovementioned companies.

The Group's Major Property Projects in 2004 (Unit: sq. m)

Project Name	Location	Equity Interest	Site Area	Total Planned Area	Area under construction in 2004	Completed area in 2004	Accumulated completed area
Pearl River Delta Region							
Shenzhen East Coast	Futian	100%	268,484	203,400	-	67,000	144,000
Shenzhen Paradiso	Futian	100%	40,234	243,000	-	-	166,000
Shenzhen 17 miles	Yantian	100%	67,571	50,678	25,678	-	-
Shenzhen Fifth Garden	Longgang	49%	220,101	250,143	-	-	-
Shenzhen Vanke City	Longgang	100%	398,000	428,000	131,400	131,400	131,400
Guangzhou Four Seasons Flower City	Nanhai	100%	438,000	505,300	187,800	176,300	176,300
Guangzhou Nanhu project	Baiyun	100%	82,000	148,000	83,000	-	-
Guangzhou City Garden	Huangpu	100%	136,000	193,000	99,000	-	-
Dongguan Golf Project	Liaobu town	100%	123,000	185,300	57,772	32,263	32,263
Zhongshan City Landscape	Nanqu	100%	324,000	569,600	62,900	-	-
Sub-total			**2,097,390**	**2,776,421**	**647,550**	**406,963**	
Yangtze River Delta Region							
Shanghai Rancho Santa Fe	Minhang	100%	317,485	90,380	30,000	30,000	30,000
Shanghai Blue Mountain City	Pudong	100%	430,530	239,955	-	32,300	32,300
Shanghai Four Seasons Flower City	Baoshan	100%	214,344	216,656	-	72,000	184,923
Shanghai Holiday Town	Minhang	100%	599,647	576,000	119,100	66,011	351,511
Shanghai Langrun Court	Minhang	100%	110,000	120,000	120,000	-	-
Nanjing Metropolitan	Jianye	100%	51,568	155,000	-	49,000	155,000

Apartments							
Nanjing Bright City	Hexi	100%	134,000	276,150	147,700	-	-
Nanchang Four Seasons Flower City (South district)	Gaoxin	50%	224,668	251,386	-	29,086	251,386
Nanchang Four Seasons Flower City (North district)	Gaoxin	50%	347,300	391,700	94,600	47,244	47,244
Wuxi Charming City	Binhu	100%	960,000	1,347,000	291,130	-	-
Sub-total			**3,389,542**	**3,664,227**	**802,530**	**325,641**	
Beijing-Tianjin and North-Eastern district							
Shenyang Four Seasons Flower City	Yuhong	100%	446,900	553,870	58,668	83,396	270,967
Shenyang Metropolitan Apartments	Dadong	100%	83,300	175,007	29,397	17,586	146,652
Changchun Shangdong Court	Erdao	100%	153,000	204,000	82,389	46,032	46,032
Dalian City Garden	Shahekou	100%	161,890	248,486	135,358	73,049	73,049
Anshan City Garden	Tiedong	100%	154,000	163,000	110,136	62,500	62,500
Tianjin Crystal City	Hexi	100%	350,175	384,100	134,828	66,123	185,250
Tianjin Dongli Lake	Dongli	100%	2,730,014	1,421,000	63,927	29,127	29,127
Tianjin Garden New Town	Beichen	100%	550,896	408,916	5,200	5,200	369,070
Beijing Xishan Garden	Haidian	100%	98,811	126,500	19,490	103,000	103,000
Beijing Green Garden	Chaoyang	100%	251,639	290,400	16,757	57,800	240,200
Beijing Star Garden	Chaoyang	100%	112,348	285,200	-	63,600	262,400
Sub-total			**5,092,973**	**4,260,479**	**656,151**	**607,413**	
Others							
Chengdu City Garden	Jinjiang	100%	407,000	465,398	138,400	14,500	329,300
Chengdu Metropolitan Apartments	Chenghua	100%	45,000	108,900	-	108,900	108,900
Wuhan Four Seasons Flower City (East part)	Dongxi Lake	100%	263,618	287,668	-	17,000	287,668
Wuhan Four Seasons Flower City (West part)	Dongxi Lake	100%	201,800	222,000	-	-	
Wuhan City Garden	Hongshan	100%	170,700	400,500	111,300	96,000	96,000
Wuhan Vanke Times Square	Jiangan	100%	6,943	48,300	48,300	-	-
Sub-total			**1,095,061**	**1,532,766**	**298,000**	**236,400**	
Total			**	**	**2,404,231**	**1,576,417**	**

2) Major Suppliers and Customers

The Company's five largest suppliers and aggregate purchase amount from these

suppliers as a percentage of the total purchase for the year

Property development is the Company's core business. Development projects are contracted out to construction companies by means of tendering. As such, most of the building materials are supplied by construction companies. The products the Company directly procured from suppliers included mechanical and electrical equipment and external or internal decoration materials, such as electrical supply and heating equipment, elevators, glass facades, doors and windows etc. Such equipment and materials are purchased through centralized procurement on the Internet. For this procurement method, the Company has formed a strategic network of suppliers. In 2004, the purchase amount from the five largest suppliers was about RMB149 million, accounting for 26.46 per cent of the total direct purchase amount of the Company.

The Company's major customers and sales to the five largest customers as a percentage of the total sales for the year

The Company's property development mainly focuses on commodity housing. Most of its customers are individual consumers, buying properties from the Company' projects across different cities. Only a few of them are institutional buyers or bulk purchasers. As a result, sales to major customers only account for a small proportion of the year's turnover. Sales to the five largest customers amounted to RMB27 million, representing 0.38 per cent of the total revenue of the year.

3) Issues and challenges encountered in operation and solutions to the issues

From the promulgation of "Notice regarding further tightening management of property-related lending" by the People's Bank of China in 2003 to the State's introduction of further austerity measures to the macroeconomy and property industry in the first half of 2004, where on 28 April, the State Council promulgated "Notice regarding increase in the capital requirement ratio of fixed asset investment projects in certain industries", the capital requirement ratio of property development projects had increased to 35 per cent and above according to the notice. Such changes in policies resulted in the tightening of regulation on the total amount of funds obtained and the requirement for obtaining funds by property developers, and in further strengthening of bank's credit control on property developers. On 29 October 2004, the State adjusted deposit and loan interest rates and thus increased the capital cost of property developers.

Due to historical reasons, the structural problems of having bank financing as a major single fund-raising channel and a debt structure comprising mainly of short-term borrowings have existed in the property industry. In the light of new changes in government policies and a tightened credit environment, the property industry generally faced the pressure of tightened capital, over-reliance on bank facilities and the risk of uncertainties due to a loan portfolio comprising mainly of short-term borrowings. The new challenge to the property industry is how to effectively expand fund-raising channels and improve debt structure.

To cope with the changes in policies, the Company increased the capital of subsidiaries in major markets and established a financing platform. At the same time, the Company began to make appropriate adjustments to its debt structure through reasonably increasing long-term borrowings. As at the end of 2004, long-term loans accounted for 71 per cent of the total borrowings of the Company, up from 33 per cent in the previous year. The Company had also actively explored a variety of non-bank fund-raising channels since the second half of 2003 and had achieved some results. As at the end of 2004, the proportion of the Company's non-bank borrowings to total borrowings increased from 33 per cent in 2003 to 60 per cent.

The aforesaid changes in policies, to a certain extent, tied up a portion of the Company's capital, and led to increases in the capital cost and financing expenses and affected the efficiency in capital utilisation. As at the end of 2004, the Company's borrowings from banks and non-banking financial institutions reached RMB2.01 billion, while monetary capital amounted to RMB3.13 billion (including a special fund of RMB900 million for convertible bonds). The management believed the rise in financing cost would become a trend in the industry's development. Yet, to the Company, the financing cost would still be manageable and would not have material impact on the Company's return on projects. In 2004, the Company succeeded in issuing RMB1.99 billion convertible bonds, while the Company's borrowings from banks and non-banking financial institutions reduced significantly from RMB4.448 billion as of the interim period.

Following the adjustment to the interest rate for Renminbi, the industry faced new pressure. Increase in interest rate not only raised the capital cost of property developers, but also increased the burden of home purchasers. Up till now, the impact of higher interest rate on consumer's home purchase is yet to be significant.

Nevertheless, the Company paid close attention to the aforesaid changes in the macroeconomic environment and policies. In addition to strengthening collaboration with financial institutions to broaden new financing channels, the Company simultaneously pushed forward with the strategy of "[growth] acceleration amid balanced [performance]", in order to speed up project development cycle, increase cash flow to mitigate the adverse impact of the changes in macroeconomic environment and policies.

4) Elaboration on implementation of the business plan for the year

The Company's business development had been stable in 2004. The area under construction and the area of completed construction amounted to 2,404,000 square metres and 1,576,000 square metres respectively, which represented some increases when compared to the plan disclosed in the [previous] annual report. The reason for such adjustments is as follows: to cope with the changes in policies, the Company speeded up project development momentum, shortened the time from project listing to construction commencement in order to increase the area under construction and the area of completed construction. The management believed the adjustments had a positive impact on reducing market risk and enhancing the Company's operational efficiency.

3. Investment of the Company

During the year under review, the Group's net long-term investment amount increased by RMB37.33 million, representing an increase of 62.1 per cent from that of the previous year. Please refer to notes for name of investments, principal operating activities and percentage of equity investment held by the Group.

1) Use of proceeds

Having obtained the approval from the relevant authority, the Group issued convertible bonds with the amount of RMB1.99 billion to the public on 24 September 2004. The proceeds were received on 30 September 2004. Ended the reported period, the Investment amount, returns and development progress of the projects were as follows: (Unit: RMB million)

Investment Projects	Statement made on the issue of convertible bonds			Use of proceed as of present			
	Amount of promised investment	Amount of completed investment	Booked net sales profit rate	Booked investment return rate	Project develop ment progress	Booked invest ment return rate	Project develop ment progress
Shenzhen Vanke City Project (formerly"Shenzhen Banxuegang Project ")	400.00	11.4%	14.0%	219.24	11.6%	14.3%	29.0%
Guangzhou Four Seasons Flower City Project	400.00	11.1%	14.4%	323.00	16.4%	23.7%	38.6%
Shanghai Langrun Court Project	400.00	14.9%	20.6%	118.72			40.0%
Shanghai Qibao 53#	200.00	19.6%	30.7%	62.74			0.0%
Nanjing Bright City	300.00	10.3%	13.0%	110.60			10.5%
Wuhan City Garden	252.89	14.9%	20.8%	223.14	10.9%	13.93%	33.1%
Total	**1,952.89**			**1,057.44**			

Notes: Investment amount, development progress and estimated income of projects:

(1) The Company strictly applied the proceeds from the issue of convertible bonds in accordance with the use of proceeds stipulated in the "Convertible Bonds' Offering Circular". As at the [end of 2004, RMB1,057.44 million were applied to all the projects as planned.

(2) As Wuhan City Garden has been launched to the market for sales in 2004 with a relatively lower selling price of Phase one as planned in accord with the selling strategy, the booked investment return reported was slightly lower than that disclosed in the "Convertible Bonds' Offering Circular".

(3) The construction of Shanghai Qibao 53# project was delayed due to the construction of subway. And the whole plan of the project will be delayed according to the plan of the subway. But the construction of the subway can increase the value of the land at the same time.

(4) As a result of satisfactory turnover and cash flow of the Company's fund-raising exercises, the Company has abundant cash on hand with excellent sales performance. The Company has further explored financing channels as the business scale continues to expand. The Company has full confidence in fulfilling the obligation of interest and principal repayment for the convertible bonds in the future.

2) Use of capital not from the capital market

(1) Equity investment

A. During the year, the Group established companies with registered capital exceeding RMB30 million as follows:

a) During the period, the Company established a new wholly-owned subsidiary – Wuxi Vanke Real Estate Co., Ltd., with a registered capital of RMB300 million. It is principally engaged in the development and operation of the Wuxi Charming City project.

b) Shanghai Vanke City Garden Development Co., Ltd., a wholly-owned subsidiary of the Company, acquired an 85 per cent equity interest in Kunshan Jiahua Investment Co., Ltd. ("Jiahua") on 31 January 2004 for a consideration of RMB42.5 million which was calculated according to Jiahua's net assets value. Jiahua was established on 26 October 2003 with a registered capital of RMB50 million. Jiahua is principally engaged in the development and operation of Kunshan Big Shanghai Golf project.

c) The Company established, during the period under review, a new wholly-owned subsidiary – Shenyang Vanke Yongda Real Estate Development Co., Ltd. with a registered capital of US$12.1 million. It is principally engaged in the development and operation of the properties.

d) During the period, the Company established Chengdu Vanke Property Co., Ltd. with a registered capital of US$8 million, of which 55per cent equity interest was held by Chengdu Vanke Real Estates Co., Ltd, a subsidiary of the Company, 5per cent equity interest was held by Shenzhen Vanke Financial Consultancy Company Limited and 40 per cent equity interest was held by Singapore Reco Ziyang Pte Ltd. It is principally engaged in the development and operation of [Chengdu Vanke New Town] project.

B. Apart from the newly established companies listed above, the Company also established 13 companies with registered capital below RMB30 million. The total investment amount was RMB66.55 million.

C. During the period, the Company increased the registered capitals of seven subsidiaries below with an aggregate amount of RMB778 million with the aim to support the business development of the subsidiaries of the Group, the details were as follows:

(Unit: RMB million)

Company name	Original registered capital	Registered capital after increment	Equity Interest held by the Company
Shenzhen Vanke Real Estate Co., Ltd.	100	300	100%
Shanghai Vanke City Garden Property Development Co., Ltd.	100	300	100%
Nanjing Vanke Property Co., Ltd.	50	150	100%
Wuhan Vanke Real Estate Co., Ltd	50	150	100%
Foshan Vanke Real Estate Co., Ltd.	50	80	100%
Dalian Vanke Jinxiu Flower City Development Co., Ltd.	10	70	100%
Shanghai Vanke Pudong Property Co., Ltd. *	15	100.067	100%
Chengdu Vanke Property Management Co., Ltd.	2	3	100%
Beijing Vanke Property Management Co., Ltd.	1	3	100%

*During the period, Shanghai Vanke Pudong Property Co., Ltd. Has been transformed to be a sino-joint venture. As at 31 December 2004, the actual registered capital of Shanghai Vanke Pudong Property Co., Ltd. Was RMB27.76 million.

(2) Other investments

During the period under review, the Company added 14 new projects to its property development business portfolio. The total site area and planned GFA were approximately 3.477 million square metres and approximately 3.97 million square metres.

Region	New project	Location	Site area ('000 sq.m)	GFA ('000 sq.m)	Progress status
Shenzhen	Fifth Garden Project	Longgang	108	108	Pre-construction
	Yunding Project(a tentative name)	Yantian	74	61	Pre-construction
	Vanke Chengbei Town	Longgang	71	93	Pre-construction
	International Convention Centre	Yantian	62	80	Pre-construction
Dongguan	Golf	Laobu Town	124	185	Under construction
	Nancheng Project	Nancheng	83	241	Pre-construction
Guangzhou	Four Seasons Flower City peripheral land	Nanhai	78	58	Under construction
Shanghai	Rancho Santa Fe Outer Garden	Minhang	61	55	Pre-construction
	Blue Mountain City Phase 2	Pudong	174	93	Pre-construction
Wuxi	Charming City	Binhu New City	960	1,347	Under construction
Kunshan	Kunshan Project (a tentative name)	Zhengyi Town	560	271	Pre-construction
Tianjin	Xiqing #1 Project(a tentative name)	Xiqing	229	297	Pre-construction
Chengdu	Oriental New Town	Chenghua	444	677	Pre-construction
	Xindu Project	Xindu	449	405	Pre-construction
	Total		3,477	3,970	

Note: The total land premium of the above projects was RMB4.47 billion. As at the 31 December 2004, the Company has paid RMB2.11 billion as land premium for the above projects.

4. Financial Status of the Company

During the reported period, the Company maintained steady growth in its operation with improved asset quality. The Company's financial position remained healthy, and the land resources acquired in the year laid a solid foundation for the continued development of the Company. (unit: '000)

Financial data	31 Dec 2004	31 Dec 2003	+/- (%)	Reasons for changes
Total Assets	15,500,262	10,541,354	47.0	Steady expansion of operations
Accounts Receivables	385,615	277,847	38.8	Mortgage driven by increase in sales
Inventory	10,403,277	8,504,983	22.3	Increase in project resources and area under construction
Long-term investment	97,427	60,098	62.1	Increased investment in associates

Fixed Assets	369,543	433,716	-14.8	Disposal and Write-off after verification of a portion of fixed assets
Long-term Liabilities	2,777,529	909,382	205.4	Issue of the Company's convertible bonds
Shareholders' Equity	6,286,041	4,739,949	32.6	Increase in net profit and conversion of the Company's convertible bonds during the year under review
Profit from core operations	1,926,601	1,291,241	49.2	Growth in the property business
Net profit	874,360	521,148	67.8	Growth in profits from core operations
Increase in cash and cash equivalents	2,163,216	-218,621		Quick cash flow from sales and cash from part of the issued convertible bonds
Other financial indicators				
Gearing ratio	58.79	54.47	4.32	Conversion of the Company's convertible bonds
Current ratio	1.73	1.22	0.51	Quick cash flow from sales
Quick ratio	0.73	0.32	0.41	Satisfactory sales performance
Shareholders' equity ratio	40.55	44.97	-4.42	Issue of the Company's convertible bonds
Accounts Receivables Turnover (Day)	16.46	17.77	-1.32	Increase in the speed of cash collection from sales
Inventory Turnover (Day)	638.48	545.92	92.56	Faster growth in inventory

5. The Impacts of Changes in Operating Environment, Policies and Regulations

On 14 November 2004, the Supreme Court of the People's Republic of China promulgated "Regulations regarding civil execution of seizure, sequestration and asset freeze by the courts of the People's Republic of China". As such, the property market was affected to a certain extent as banks became more cautious in granting residential mortgage loans and consideration of mortgage became more stringent. Competition between property developers will become more fierce as they compete for customers to whom tightened loans have little impact. The Company will respond actively to these challenges by implementing market segmentation based on improved customer value research and sophisticated classification of customer segments. The Company will enhance its competitiveness by upgrading its products and services continuously.

6. Business Development Plan for the Year 2005

In 2005, the Group will push forward its strategic plan of customer segmentation with a customer-driven and product-based approach. The Company will continue to implement its strategy focusing on urban clusters, increase project resources in Yangtze River delta, Pearl

River delta and Bohai regions, as well as fine-tune the structure of project resources in Yangtze River delta. The Company will also forge ahead with product innovation and industrialisation.

The Group has 43 projects under development in 2005. It is estimated that areas under construction and area completed will amount to 2.743 million square metres and 2.303 million square metres respectively.

As at the end of 2004, there were 8.44 million square metres of project resources under the control of the Group. In terms of interest owned, the Group's project resources amounted to 7.52 million square metres.

Project	Location	Equity interest	Site area	Planned GFA	Planned construction area in 2005	Planned area completed in 2005	Project resources as at the end of 2004 ('000 sq. m)
Pearl River Delta Region							
Shenzhen Vanke East Coast	Futian	100%	268,484	203,400	59,400	59,400	59
Shenzhen Vanke –17 Miles	Yantian	100%	67,571	50,678	-	24,700	-
Shenzhen Fifth Garden	Longgang	49%	220,101	250,143	96,469	85,122	250
Shenzhen Vanke City	Longgang	100%	398,000	428,000	110,000	99,500	297
Shenzhen Vanke Chengbei Town	Longgang	100%	71,210	92,500	92,500	-	93
Shenzhen Yunding Project (a tentative name)	Yantian	100%	74,500	60,600	-	-	61
Shenzhen Vanke International Convention Centre	Yantian	100%	61,730	80,200	80,200	-	80
Guangzhou Four Seasons Flower City	Nanhai	100%	438,000	505,300	48,700	83,500	246
Guangzhou Nanhu Project	Baiyun	100%	82,000	148,000	65,000	83,000	65
Guangzhou City Garden	Huangpu	100%	136,000	193,000	94,000	99,000	94
Dongguan City Golf Garden	Laobu	100%	123,000	185,300	132,200	118,000	128
Dongguan Nancheng Project	Nancheng	44%	83,157	241,154	110,000	-	241
Zhongshan City Landscape	Nanqu	100%	324,000	569,600	110,000	134,900	507
Sub-total			**2,347,753**	**3,007,875**	**998,469**	**787,122**	**2,120**
Yangtze River Delta Region							
Shanghai Rancho Santa Fe	Minhang	100%	317,485	90,380	30,380	30,000	30

Shanghai Blue Mountain City	Pudong	100%	430,530	239,955	33,000	73,700	134
Shanghai Rancho Santa Fe (Outer Garden)	Minghang						
Shanghai Four Seasons Flower City	Baoshan	100%	214,344	216,656	31,733	-	32
Shanghai Holiday Town	Minhang	100%	599,647	576,000	-	101,936	07
Shanghai Jinghongxincun	Minhang	50%	192,000	122,000	-	-	122
Shanghai Qibao 53#	Minhang	100%	57,900	145,000	-	-	145
Nanjing Bright City	Hexi	100%	134,000	276,150	79,900	70,900	128
Nanchang Four Seasons Flower City (North part)	Gaoxin	50%	347,300	391,700	144,000	71,900	297
Wuxi Charming City	Binhu	100%	960,000	1,347,000	65,992	83,818	1,056
Kunshan Project	Bacheng Town	85%	560,000	270,692	40,000	-	271
Sub-total			**3,874,086**	**3,730,333**	**425,005**	**432,253**	**2,280**
Beijing-Tianjin and North-Eastern district							
Beijing Xishan Garden	Haidian	100%	98,811	126,500	-	23,500	-
Beijing Green Garden	Chaoyang	100%	251,639	290,400	-	50,200	-
Beijing Star Garden	Chaoyang	100%	112,348	285,200	-	22,800	-
Tianjin Crystal City	Hexi	100%	350,175	384,100	78,600	131,078	146
Tianjin Dongli Lake	Dongli	100%	2,730,014	1,421,000	150,000	34,800	1,357
Tianjin Garden New Town	Beichen	100%	550,896	408,916	-	-	40
Tianjin Xiqing Project	Xiqing	55%	228,534.48	297,094.82	169,065	76,668	297
Shenyang Four Seasons Flower City	Yuhong	100%	446,900	553,870.33	118,795	90,486	242
Shenyang Metropolitan Apartments	Dadong	100%	83,300	175,007	-	32,559	-
Shenyang Arboretum Project	Dongling	100%	411,600	142,500	-	-	143
Changchun Shangdong Garden	Erdao	100%	153,000	204,000	57,800	94,157	122
Dalian City Garden	Shahekou	100%	161,890	248,486	70,300	132,609	113
Anshan City Garden	Tiedong	100%	154,000	163,000	53,500	78,615	53
Sub-total			**5,733,107.48**	**4,700,074.15**	**698,060**	**767,472**	**2,510**
Other cities							
Chengdu City Garden	Jinjiang	100%	407,000	465,398	15,800	120,298	16
Chengdu Xindu Project	Xindu	100%	449,002.25	405,000	90,000	-	405
Chengdu Oriental New Town	Chenghua	60%	444,176	677,000	102,000	102,000	677
Wuhan Four Seasons Flower City (West part)	Dongxi Lake	100%	201,800	222,000	218,200	-	222
Wuhan Vanke·Times	Jiangan	100%	6,943	48,300	-	-	-

Square							
Wuhan City Garden	Hongshan	100%	170,700	400,500	195,400	93,800	209
Sub-total			**1,679,621.25**	**2,218,198**	**621,400**	**316,098**	**1,530**
Total			**	**	**2,742,934**	**2,302,945**	**8,438**

Special Remark:

（1） The above project schedule may be adjusted due to the following factors:

a) changes in macro-economy and real estate market and the sales progress of the relevant projects;

b) further specification and change of the policy on transfer of land use right may present uncertainties to the Company's projects held for development;

c) approval requirements may be tightened by new rules and regulations such that the application progress for permits will be slowed down, and thereby affect the schedule of projects development; and

d) unfavourable weather conditions may delay the progress of projects and affect the booked value of completed floor area

（2） Among the project resources achieved, the Group has received land use right permits or completed land transfer agreements for a construction area of 8.29 million square metres. The Group has received notices of successful tendering for the rest of project resources.

6. Work Report of the Board of Directors

(1) During 2004, the Board of Directors held 4 board meetings.

a) On 5 March 2004, the Tenth Meeting of the Thirteenth Board of Directors was held to consider and approve the following resolutions: 2003 Auditors' Report; the disclosure of the 2003 Annual Report and Summary of 2003 Annual Report; the 2004 working plan of the General Manager; the resolution regarding the appropriation and write-off of the provision for diminution in asset value for 2003; the resolutions regarding profit allocation and bonus and dividend distribution, and transfer of capital surplus reserve to share capital for the year 2003; the resolution regarding the appointment of auditors of the Company for the year 2004; the resolution regarding the by-election of a director; the resolution regarding the appointment of Xie Dong as Deputy General Manager; the resolution regarding the redemption of China Vanke's convertible bonds; resolution regarding the convention of the Sixteenth AGM; and resolution regarding the amendment of the Company's Articles of Association.

The above resolutions were published in China Securities Journal, Securities Times and The Standard on 9 March 2004.

b) On 15 April 2004, the Eleventh Meeting of the Thirteenth Board of Directors was held to consider and approve the following resolutions: resolution regarding authorising the Chairman to represent the Board of Directors for bank borrowings and providing surety; the 2004 First Quarterly Report and financial statements; and the resolution regarding increase in the registered capital of certain wholly-owned subsidiaries.

   The above resolutions were published in China Securities Journal, Securities Times and The Standard on 19 April 2004.

c) On 4 August 2004, the Twelfth Meeting of the Thirteenth Board of Directors was held to consider and approve the following resolutions: 2004 Interim Report, unaudited financial statements and Summary of 2004 Interim Report; the resolution regarding the proposals of no profit appropriation and transfer of surplus reserve to share capital for the 2004 interim period; the resolution regarding the appropriation of the provision for diminution in asset value and the treatment of loss for the 2004 interim period; the resolution regarding the amendment of “Rules on meeting of the Board”; the resolution regarding the internal adjustment of shareholding in Shenzhen Vanke Property Co., Ltd.; the resolution regarding the increase in registered capital and internal adjustment of shareholding in Shanghai Vanke Pudong Property Co., Ltd.; and the resolution regarding the appointment of Zhang Jiwen as Deputy General Manager.

   The above resolutions were published in China Securities Journal, Securities Times and The Standard on 6 August 2004.

d) On 26 October 2004, the Thirteenth Meeting of the Thirteenth Board of Directors was held to consider and approve the following resolutions: the 2004 Third Quarterly Report and unaudited financial statements for A share and B share for the third quarter; the resolution regarding the establishment of a project company for Shanghai Regional Centre Office Building; the resolution regarding the establishment of Guangzhou Vanke Property Management Co., Ltd.; the resolution regarding the appointment of Mo Jun as the Deputy General Manager.

   The above resolutions were published in China Securities Journal, Securities Times, Shanghai Securities News and The Standard on 28 October 2004.

(2) In 2004, the Board of Directors considered and approved the following resolutions through 13 votings by communication means:

a) On 5 February 2004, the resolution regarding the acquisition of equity interest in Kunshan Jiahua Investment Co., Ltd. for the co-development of Yangcheng Lake Project in Suzhou was submitted for the Board of Directors’ approval through voting by communication means.

b) On 20 February 2004, the resolutions regarding the participation in bidding for a land lot in Songjiang Daxuecheng in Shanghai and the listing of Binhu New City Project in Wuxi were submitted for the Board of Directors' approval through voting by communication means.

c) On 18 March 2004, the resolutions regarding the establishment of Shenyang Vanke Yongda Real Estate Development Co., Ltd., the establishment of Chengdu Vanke New Town Real Estate Development Co., Ltd. and the establishment of Wuxi Vanke Real Estate Co., Ltd. were submitted for the Board of Directors' approval through voting by communication means.

d) On 5 April 2004, the resolutions regarding the participation in initiating Society Entrepreneur Ecology Fund and participation in tendering for the land lot of Oriental New Town in Chengdu were submitted for the Board of Directors' approval through voting by communication means.

e) On 24 May 2004, the resolutions regarding the revocation of Shanghai Vanke Minhang Property Co., Ltd., the donation to ["help the poor"] office of Minhang district in Shanghai, the listing of Dalajiadao Project and the establishment of Huizhou Vanke Real Estate Co., Ltd. were submitted for the Board of Directors' approval through voting by communication means.

f) On 2 June 2004, the resolutions regarding the increase in the share capital of certain wholly-owned subsidiaries and the consolidation of the two wholly-owned subsidiaries in Tianjin were submitted for the Board of Directors' approval through voting by communication means.

g) On 23 June 2004, the resolutions regarding the listing of Dameisha "Yunding" Project in Shenzhen and the establishment of a project company in Shenzhen for Dameisha "Yunding" Project were submitted for the Board of Directors' approval through voting by communication means.

h) On 1 July 2004, the resolution regarding the amendment of the Company's Articles of Association due to the increase in registered capital caused by the conversion of convertible bonds, issue of bonus shares, transfer of capital surplus reserve to share capital was submitted for the Board of Directors' approval through voting by communication means.

i) On 31 August 2004, the resolution regarding the establishment of "The Shenzhen Fifth Garden Real Estate Co., Ltd." was submitted for the Board of Directors' approval through voting by communication means.

j) On 28 September 2004, the resolution regarding the establishment of a new company in Hong Kong for the execution of Dongguan 831 Project was submitted for the Board of Directors' approval through voting by communication means.

k) On 13 October 2004, the resolutions regarding the application for authorising the management team of the Company to participate in the public auction for Nanhai Guicheng Project, the establishment of Shenzhen Vanke Nancheng Real Estate Co., Ltd. and the increase in the registered capital of Beijing Vanke Property Management Co., Ltd. were submitted for the Board of Directors' approval through voting by communication means.

l) On 3 December 2004, the resolutions regarding the authorisation of the Group's General Manager to approve the establishment of a foreign holding company, the establishment of a sino-foreign joint venture for Vanke Chengbei Project, the adjustment of shareholding structure of Shenzhen Vanke East Coast Real Estate Development Co., Ltd. and the transfer of equity interest in Wuxi Vanke Real Estate Co., Ltd. were submitted for the Board of Directors' approval through voting by communication means.

m) On 17 December 2004, the resolution regarding the project of establishing Shanghai Regional Centre Office Building was submitted for the Board of Directors' approval through voting by communication means.

The progress of the relevant issues was disclosed in China Securities Journal, Securities Times and The Standard on 30 March, 5 July, 2 September, 12 October and 29 December 2004.

(3) The directors' implementation of the resolutions approved at general meetings

In accordance with the authorisation by the Sixteenth AGM, the Board had proceeded with the work of dividend distribution and transfer of capital surplus reserve to share capital for 2003. The distribution plan for 2003 was as follows: one bonus share and a cash dividend of RMB0.5 (including tax) was paid respectively for every 10 existing shares held. The dividend distribution record date for A share was 25 May 2004. The last trading date for B share was 25 May 2004, while the ex-rights and ex-dividend date for A share and B share was 26 May 2004. The exchange rate for B share cash dividend was HK$1.0 = RMB1.0610, being the benchmark exchange rate of Renminbi for Hong Kong dollars published by the People's Bank of China on the first working day after the approval of profit and dividend distribution proposal at the Company's general meeting (16 April 2004). The transfer of capital surplus reserve to share capital proposal was as follows: four shares were transferred from the capital surplus reserve to share capital for every 10 existing shares held. The record date for A share was 25 May 2004, while the last trading date for B share was 25 May 2004. The listing day of newly issued transferable A shares was 26 May 2004 and the listing day of newly issued transferable B shares was 31 May 2004.

7. Profit, Dividend Distribution and Transfer of Capital Surplus Reserve to Share Capital Proposal

Details on the profit available for appropriation of the Company in 2004 prepared in accordance with PRC accounting standards and International Accounting Standards ("IAS") are as follows:

(Unit: RMB)

	PRC accounting standards	IAS
Profit available for appropriation after tax	897,749,852.46	903,120,011
Include: Net profit for 2004	878,006,255.08	874,359,855
Transferred profit available for appropriation at the beginning of the year	247,106,386.08	256,122,945
Allocation of dividend for 2003	(227,362,788.70)	(227,362,789)

The upper limit of profit available for distribution was based on the lower of the unappropriated profit calculated in accordance with PRC accounting standards and that calculated in accordance with IAS. Therefore, the Company's profit available for distribution in 2004 was RMB897,749,852.46.

According to the relevant rules and regulations, and considering shareholders' interest and the Company's development requirements in the long run, the Company's management proposed the following profit allocation proposal to the Board of Directors for consideration:

1、to appropriate 10% of the 2004 net profit calculated in accordance with the PRC accounting standards to statutory surplus reserve;

2、to appropriate 5% of the 2004 net profit calculated in accordance with the PRC accounting standards to statutory public welfare fund;

3、to appropriate 40% of the 2004 net profit calculated in accordance with the PRC accounting standards to discretionary surplus reserve;

4、to appropriate for dividend distribution from the net profit for the year, basing on the Company's total share capital and a dividend of RMB0.15 per share;

5、the balance of the unappropriated profit will be brought forward to the following financial year and reserved for dividend distribution.

The allocation of the profit available for appropriation of RMB897,749,852.46 for 2004 is as follows:

	Amount（RMB）	% share of profit available for appropriation
Statutory surplus reserve	87,800,625.51	9.78%
Statutory public welfare fund	43,900,312.75	4.89%
Discretionary surplus reserve	351,202,502.03	39.12%
The unappropriated profit prepared in accordance with PRC accounting standards and brought forward to the following financial year	414,846,412.17	46.21%
Include: Dividend distribution for 2004	341,044,180.65	37.99%
Profit available for appropriation for the following financial year	73,802,231.52	8.22%

The unappropriated profit prepared in accordance with IAS and brought forward to the following financial year	420,216,571	
Include: Dividend distribution for 2004	341,044,181	
Profit available for appropriation for the following financial year	79,172,390	

Dividend distribution proposal: A cash dividend of RMB1.5 (including tax) will be distributed for every 10 shares held. Based on the total share capital of 2,273,627,871 shares as at 31 December 2004, total dividend distribution amounted to RMB341,044,181, which will be paid in cash.

Transfer of capital surplus reserve to share capital proposal: The Board of directors proposed to transfer capital surplus reserve to share capital by transferring five shares from the capital surplus reserve for every 10 shares held by all shareholders after considering shareholders' proposal, the Company's profitability prospects, assets condition and market environment. Based on the total share capital of 2,273,627,871shares as of 31 December 2004, the total share capital after the transfer of capital surplus reserve will consist of 1,136,813,935 shares. The total amount involved in the transfer of capital surplus reserve to share capital will be RMB1,136,813,935. Prior to the transfer, the total amount of capital surplus reserve is RMB1,431,150,859.63. After the transfer, the balance of capital surplus reserve will be RMB294,336,924.63.

Special remarks: Given that the Company's "Vanke convertible bonds tranche 2" became convertible starting 24 March 2005, by the time when the proposals on dividend distribution and transfer of capital surplus reserve to share capital are approved at the general meeting and when they are implemented, the Company's share capital may increase. As such, the Board of Directors proposed to set the total share capital as at the close of the market on the registration trading day for entitlement to bonus and dividend distribution as the basis for the implementation of the dividend distribution and transfer of capital surplus reserve to share capital.

If on the registration day for entitlement to bonus and dividend distribution, the Company's total share capital increases due to the conversion of the Company's convertible bonds to Company's shares, five shares are to be transferred from capital surplus reserve for every 10 shares held, and the proportion of dividend amount in cash for each share will not change. As such, the amount of shares to be transferred from capital surplus reserve to share capital and the total amount of dividend payment in cash will increase correspondingly, which profit available for appropriation and capital surplus reserve will decrease correspondingly.

The dividend distribution and transfer of capital surplus reserve to share capital proposals mentioned above are subject to shareholders' approval at the general meeting.

8. Media for Disclosure of Information

The Company has chosen China Securities Journal, Securities Times, Shanghai Securities News and The Standard for placing notices and announcements of the Company.

9. Special Note regarding Capital Usage by the Company's Controlling Shareholder and Other Connected Parties

A special note regarding capital usage by the Company's controlling shareholder and other connected parties was made by the Certified Public Accountants, who acted as the auditor of the Company. Please refer to the appendix for details.

10. During the period under review, the Company does not provide surety to external parties

(I) Report of Supervisory Committee

On behalf of the Supervisory Committee, I hereby present the activity report of the committee for the year 2004 as follows:

A total of four meetings were held by the Supervisory Committee during the period under review:

a) The Seventeenth Meeting of the Fourth Supervisory Committee was held on 5 March 2004. The meeting informed and confirmed China Vanke Staff Union regarding the acknowledgement of the re-election of the representative of the Staff Union; reviewed and approved the 2003 Supervisory Committee Report; reviewed and confirmed the Company's audit report for the year 2003; considered and confirmed the Company's appropriation and write-off of the provision for diminution in asset value of the Company for 2003; considered and confirmed the resolutions regarding profit allocation and bonus and dividend distribution for the year 2003 and transfer of surplus reserve to share capital; considered and confirmed the disclosure of the 2003 Annual Report and Summary of 2003 Annual Report; considered and confirmed the resolution regarding the redemption of the convertible bonds of China Vanke; considered and confirmed the resolution regarding the appointment of Xie Dong as the Deputy General Manager; in accordance with the recommendation and nomination by the shareholders of the Company, resolved to nominate Ding Fuyuan and Jiang Wei as the candidates to the Fifth Supervisory Committee and proposed the nomination to be considered at the Sixteenth Annual General Meeting.
b) The First Meeting of the Fifth Supervisory Committee was held on 15 April 2004. The meeting considered and nominated Ding Fuyuan as the convenor of the Supervisory Committee; reviewed and confirmed 2004 first Quarterly Report and financial statements; considered and

confirmed the resolution regarding the increase in the registered capital of certain wholly-owned subsidiaries.

c) The Second Meeting of the Fifth Supervisory Committee was held on 4 August 2004. The meeting reviewed and confirmed the 2004 Interim Report, unaudited financial statements and Summary of the 2004 Interim Report; considered and confirmed the resolutions of no profit appropriation and transfer of surplus reserve to share capital for the 2004 interim period; considered and confirmed the resolutions regarding the appropriation of the provision for diminution in asset value and the treatment of loss for the 2004 interim period; considered and confirmed the resolution regarding the amendments of “Rules on meeting of the Board”; considered and confirmed the appointment of Zhang Jiwen as the Deputy General Manager of the Company.
d) The Third Meeting of the Fifth Supervisory Committee was held on 26 October 2004. The meeting reviewed and confirmed the 2004 Third Quarterly Report; reviewed and confirmed the unaudited financial statements for A share and B share for the third quarter of 2004; considered and confirmed the resolution regarding the appointment of Mo Jun as the Company’s Deputy General Manager.

Independent opinions of the Supervisory Committee on the following events:

a) Regulatory compliance: Members of the Supervisory Committee were present at all of the meetings of the Board of Directors during the year and made inspection tours to the Company’s subsidiaries. In the opinion of the Supervisory Committee, all the decisions made by the Company during the year were in compliance with applicable laws, and the internal control system was comprehensive. In addition, the directors and management team of the Company were in compliance with the law, rules and the Company’s Articles of Association. They did not exercise their duties against the interest of the Company, nor did they abuse their power in any way to endanger the interest of the shareholders and employees.
b) Financial monitoring: In the opinion of the Supervisory Committee, the audit opinions from KPMG Huazhen CPA and KPMG CPA are non-biased and their reports reflect a true picture of the Company’s financial position and operating results.
c) Use of proceeds from the latest fund raising exercise: The proceeds from the Company’s issuance of RMB1.99 billion convertible bonds were received on 30 September 2004. The Supervisory Committee monitored the applications of proceeds through reviewing financial statements, inspecting investment projects, etc. The actual investments in various projects were in line with the amount promised for use in investment projects, and returns from the investment projects were satisfactory.
d) Business operation of the Company: In 2004, the Company achieved healthy and rapid growth in its core business and profit. Moreover, the impact of the Company’s integration and

regional development strategy became significant. The operational management of Tianjin Company was improved in a healthy and steady manner with good sales performance of Dongli Lake and Crystal City projects. The Supervisory Committee acknowledged the operation of the Board of Directors and the efforts made by the management. However, the Supervisory Committee also noticed that although the operation of Beijing Company in 2004 was considerably improved, its scale of development and level of profitability were far from the impact of China Vanke. The Supervisory Committee expected the Company to continue to push forward the adjustment in operational management of Beijing Company with an aim to realise healthy and rapid growth of Beijing Company's effectiveness.

Ding Fuyuan
Convenor of the Supervisory Committee
22 March 2005

J. Significant Events

1. Material Litigation or Arbitration

(1) The Company continued to disclose the proceedings commenced on 21 April 2001 by Singaporean citizens Chen Mengzhe and Chen Jinfeng against Tianjin Vanke Shine (Group) Co., Ltd., Tianjin Vanke Shine Development Co., Ltd. and Tianjin Vanke Property Management Co., Ltd. regarding the dispute over the pre-sale and consign leasing of commodity housing. The proceedings lasted for three years . The retrial of the second trial was hosted by the Supreme Court of the People's Republic of China ("the Supreme Court"). A civil mediation agreement was attained by the plaintiffs and defendant on 7 June 2004. Tianjin Vanke Real Estate Co., Ltd. ("Tianjin Vanke"), Tianjin Vanke Shine Development Co., Ltd., Tianjin Vanke Property Management Co., Ltd., Tianjin Vanke Centre Building Co., Ltd. and [Tianjin Hede Shiye Co., Ltd.] would pay a sum of US$3.7 million (including the price of the property and interest) to Chen Mengzhe and Chen Jinfeng, equivalent to RMB31,069,670 (including the arbitration fee of RMB400,000 for the first instance and on appeal). The aforementioned interest and loss were incurred in the profit and loss accounts of the past years and this year.

The Company had settled the payment in August 2004 and the case was settled after two trials.

(2) Tianjin Heping Jiangong (Group) Co., Ltd. ("Tianjin Heping") lodged a lawsuit on 2 April 2002 against Tianjin Vanke with Tianjin No 1 Intermediate People's Court regarding the dispute over the balance of construction fee for Vanke New Town Project owed by Tianjin

Vanke to Tianjin Heping. Tianjin Heping claimed Tianjin Vanke for the balance of construction fee of RMB29,719,204 and any financial loss generated by the deferred payment. The case was tried by Tianjin No 1 Intermediate People's Court which passed a first trial judgement on 24 December 2004 according to which Tianjin Vanke would pay construction fee of RMB24,506,180 one-off to plaintiff, other compensation fee of RMB30,000 ,and RMB538,000 of arbitration fee, insurance fee and evaluation fee.

The Company believed the evidence of the first trial was unclear with inappropriate application of law. The Company lodged an appeal to the Tianjin People's High Court on 6 January 2005. In accordance with the precautionary principle, the Company has made a related provision of RMB19 million.

2. **During the period under review, the Company was not involved in any significant acquisition and disposal of assets.** The Company entered into an agreement regarding acquisition of partial equity interests in Shanghai Nandu, Suzhou Nandu and Zhejiang Nandu with Zhongqiao on 4 March 2005. The summary of the transaction is as follows:

(1) **Names of the parties involved in the Transaction:** Shanghai Zhongqiao Infrastructure (Group) Co., Ltd. ("Zhongqiao"), Shanghai Vanke City Garden Development Co., Ltd. ("Shanghai Vanke"), Shanghai Vanke Pudong Property Co., Ltd. ("Vanke Pudong") and Shenzhen Vanke Real Estate Co., Ltd. ("Shenzhen Vanke").

(2) **Offeree companies:** Shanghai Nandu Zhidi Co., Ltd. ("Shanghai Nandu"), Suzhou Nandu Jianwu Co., Ltd. ("Suzhou Nandu") and Zhejiang Nandu Property Group Co., Ltd. ("Zhejiang Nandu").

(3) **Equity interests in the offeree companies:** 70% equity interests in Shanghai Nandu, 49% equity interests in Suzhou Nandu, 20% equity interests in Zhejiang Nandu and the corresponding shareholders' equity of the abovementioned equity interests held by Zhongqiao.

(4) **Transaction:** Zhongqiao transferred its 70% equity interests in Shanghai Nandu to Vanke Pudong and Shenzhen Vanke, the wholly-owned subsidiaries of China Vanke Co., Ltd. ("China Vanke" or the "Company"), such that Vanke Pudong and Shenzhen Vanke acquired 5% and 65% of the equity interests in Shanghai Nandu respectively. Zhongqiao also transferred its 49% equity interests in Suzhou Nandu and 20% equity interests in Zhejiang Nandu to Shanghai Vanke.

(5) The Transaction does not constitute a connected transaction.

(6) **Signing date of the agreement:** 3 March 2005

(7) **Effective date of the agreement:** 4 March 2005, that is the same date on which the agreement was considered and approved by the Board of Directors

(8) **Consideration of the transfer of the equity interests:** RMB1,857.85 million

(9) **Determination of consideration:** The consideration of the Transaction has been determined in accordance with the net assets value and valuation of all the projects. The value of the brand name, management team and staffs of the offeree companies are also considered.

(10) **Payment method:** Payment by cash

(11) **Source of funding:** Internal resources

(12) **Payment terms:**

a) Within 10 working days from the effective date of the relevant agreement, China Vanke makes the first instalment payment of RMB743.14 million for the equity transfer, which is 40% of the total consideration;

b) Within five working days from Zhongqiao's completion of transfer procedures of 70% equity interests in Shanghai Nandu and 20% equity interests in Zhejiang Nandu to China Vanke, China Vanke makes the second instalment payment of RMB185.785 million for the equity transfer, which is 10% of the total consideration;

c) Within one year from the effective date of the relevant agreement, China Vanke makes the third instalment payment of RMB557.355 million for the equity transfer, which is 30% of the total consideration;

d) Within two years from the effective date of the relevant agreement, China Vanke makes the fourth instalment payment of RMB371.57 million, which is 20% of the total consideration.

(13) **Development plans for 2005**

The offeree companies mainly have six development projects in Shanghai and Jiangsu with estimated area under construction and estimated area completed amounting to 558,000 square metres and 305,000 square metres respectively for 2005. Details are as follows:

(Unit: sq. m)

Project	Location	Equity interest	Site area	Planned GFA	Area completed in 2004	Planned construction area in 2005	Planned area completed in 2005	Project resources as at the end of 2004

								('000 sq. m)
Shanghai Tixiang Villa	Nanhui	70%	219,422	65,004	34,750	-	30,254	-
Shanghai Xinlicheng	Pudong	63%	238,920	326,300	-	231,600	-	326
Shanghai White Horse Garden	Songjiang	70%	123,711	110,449	-	82,362	28,087	82
Shanghai Ludao Lake Villa	Qingpu	35.7%	143,485	13,100	-	-	-	13
Zhenjiang Nanxu New Town	Tanshanlu	70%	849,998	872,500	-	153,000	-	873
Suzhou Linglong Gulf	Industrial Garden	49%	384,044	833,358	-	91,340	246,859	586
Sub-total				2,220,711	34,750	558,302	305,200	1,880

For details of the transaction, please refer to the announcement published on 5 March 2005 in China Securities Journal, Securities Times, Shanghai Securities News and The Standard.

3. During the period under review, the Company was not involved in any significant connected transaction.

4. Major contracts and their implementation

(1) During the period under review, the Company did not put any material assets under custodial management nor sub-contract nor lease any assets from other companies, nor had the Company's any material assets been put under custodial management nor sub-contracted nor leased by other companies.

(2) During the period under review, the Company provided a balance of RMB1003.484 million to its subsidiaries as surety for bank loans.

(3) During the period under review, the Company did not make any trust arrangement for its financial assets.

(4) During the period under review, the Company entered into a cooperative agreement with Hypo Real Estate Bank International ("HI") for the arrangement of overseas financing for the Zhongshan Project. For details, please refer to the announcement published on 5 July 2004 in China Securities Journal, Securities Times and The Standard.

(5) On 8 November 2003, the Company and Agriculture Bank of China entered into a "Bank-Enterprise Cooperation Agreement" for an integrated credit line of RMB4.69 billion.

(6) During the period under review, the Company had entered into agreements on projects such

as Wuxi, Kunshan and Dongguan projects. For details, please refer to “Project investments” under the section “Use of capital not from the capital market”.

5. Implementation of Undertaking made by the Company or shareholders holding 5% or above equity interest in the Company

The profit distribution policy for the year 2003 was announced in the 2003 annual report. For details, please refer to “The directors’ implementation of the resolutions approved at general meetings” of this report.

CRNC, the Company’s former largest shareholder as well as the present largest shareholder CRC’s controlling shareholder, made a significant undertaking to the Company in 2001: CRNC would provide as much support to the Company as it did in the past, as long as such support was beneficial to the Company’s development, and that it would remain impartial n the event of any competition between the investment projects of the Company and that of CRNC and its subsidiaries, and in the event of any disagreements or disputes arising from such competition. CRNC has fulfilled its undertaking.

6. Appointment of the service of Certified Public Accountants

At 2003 Annual General Meeting, the Group resolved to appoint KPMG Huazhen CPA and KPMG CPA as the auditors of the Company to audit the Company’s 2004 accounts. The appointment of accounting firms for the Company and its subsidiaries are as follows:

Audited item	2004			2003	
	Auditors	Audit fee	Year of Service	Auditors	Audit fee
The Group’s consolidated financial report and annual financial reports of its subsidiaries in Beijing, Tianjin, Shanghai, Shenzhen, Shenyang, Guangzhou in accordance with the PRC accounting standards	KPMG Huazhen CPA	RMB800,000	4	KPMG Huazhen CPA	RMB700,000
The Group’s consolidated financial report in accordance with the IAS	KPMG CPA	HK$1,100,000	12	KPMG CPA	HK$1,000,000
The annual financial reports of the Group’s regional subsidiaries in Dalian, Changchun, Anshan	Dalian Hualian CPA	RMB100,000	3	Dalian Hualian CPA	RMB75,000
The annual financial reports of the Group’s regional subsidiaries in Wuhan, Chengdu, Manjing, Nanchang	Deloitte Touche Tohmatsu Shanghai CPA	RMB250,000	4	Deloitte Touche Tohmatsu Shanghai CPA	RMB180,000
The annual financial report of the Group’s regional subsidiary in Hong Kong	Fan, Chan & Co. CPA	HK$24,000 （estimated amount）	12	Fan, Chan & Co. CPA	HK$24,000

Note: The above-mentioned audit fee included the travel expenditure incurred during the auditing period.

7. No disciplinary action was taken against the Company and the Company's Directors, members of Supervisory Committee and senior management during the reported period.

8. Other Significant Events

（1）Change in the registered capital of the Company

As at 27 December 2004, the registered capital of the Company was changed to RMB2,273,627,871 after the transfer of capital surplus reserve to share capital and the conversion of the Company's convertible bonds.

K) A Chronology of 2004

In April, the Sixteenth AGM was held at Vanke Architecture Research Centre. The meeting considered and approved resolutions regarding the Report of the Board of Directors, the Work Report of the Supervisory Committee, 2003 audited financial report and auditors' report, the proposals regarding the profit appropriation and transfer of capital surplus reserve to share capital and the appointment of auditors.

In April, delisting of Vanke bonds (125002) followed by the conversion of RMB1.5 billion convertible bonds into the Company's shares.

In September, China Vanke's 20^{th} anniversary celebration and China Enterprise in 20 Years Forum were held in Beijing. As the representative of the Company, General Manager Yu Liang presented the Group's future 10-year development plan.

In September, the Company successfully issued RMB1.99 billion convertible bonds. China Vanke's convertible bonds tranche 2 (126002) became listed on 18 October.

In November, the Company and Agriculture Bank of China ("ABOC") entered into a "Bank-Enterprise Cooperation Agreement" for an integrated credit line of RMB4.69 billion, which is the largest amount of credit line provided by ABOC to property companies to date.

In November, the Company entered into an agreement with GIC Real Estate Pte Ltd. ("GICRE") regarding the co-development of "Vanke New Town" Project (a tentative name) in Chengdu.

During the year, the Company entered new markets in Kunshan, Wuxi, and Dongguan, etc and continued to enlarge its land reserves in Shenzhen, Shanghai, Wuxi, Chengdu, Tianjin, etc.

Consolidated income statement
for the year ended 31 December 2004
(Expressed in Renminbi Yuan)

	Note	*2004* RMB	*2003* RMB
Revenue	2	7,257,182,725	5,973,268,303
Cost of sales		(5,330,581,746)	(4,682,027,742)
Gross profit		1,926,600,979	1,291,240,561
Other operating income	4	46,570,944	61,472,312
Distribution costs		(328,757,939)	(210,754,591)
Administrative expenses		(365,944,951)	(315,722,566)
Other operating expenses	5	(29,352,565)	(15,828,833)
Profit from operations		1,249,116,468	810,406,883
Financing income	7	15,909,625	9,479,320
Financing costs	7	(11,332,859)	(4,687,686)
Operating profit		1,253,693,234	815,198,517
Share of losses of associates		(475,042)	(4,069,917)
Share of losses of jointly controlled entities		(3,365,944)	-
Profit before tax		1,249,852,248	811,128,600
Taxation	8(a)	(340,844,929)	(266,360,947)
Profit after tax		909,007,319	544,767,653
Minority interests		(34,647,464)	(23,619,957)
Net profit for the year	21	874,359,855	521,147,696
Basic earnings per share	9	0.39	0.26
Diluted earnings per share	9	0.38	0.25

The notes on pages 8 to 47 form part of these financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2004
(Expressed in Renminbi Yuan)

		2004		*2003*
	RMB	RMB	RMB	RMB
Shareholders' equity at 1 January		4,739,948,767		3,619,884,031
Adjustment on translation of foreign subsidiaries	(396,670)		(264,474)	
Net loss not recognised in the consolidated income statement		(396,670)		(264,474)
Net profit for the year		874,359,855		521,147,696
Dividend paid		(75,787,596)		(135,379,994)
Movement in convertible bonds issued:				
Equity portion of convertible bonds issued	82,585,582		-	
Shares issued upon conversion of convertible bonds	638,089,216		720,935,763	
Shares issuing cost	(8,812,881)		(12,441,898)	
Interest forfeited upon conversion of convertible bonds	7,288,562		8,900,000	
Discount transferred to share premium upon conversion of convertible bonds	26,158,286		13,903,405	
Deferred tax released upon conversion of convertible bonds	2,894,701		3,264,238	
Redemption of convertible bonds	(287,215)		-	
Net increase in shareholders' equity relating to convertible bonds		747,916,251		734,561,508
Shareholders' equity at 31 December		6,286,040,607		4,739,948,767
		===========		===========

Consolidated balance sheet at 31 December 2004

(Expressed in Renminbi Yuan)

	Note	*2004* RMB	*2003* RMB
ASSETS			
Non-current assets			
Fixed assets	11	369,542,624	433,716,405
Interests in associates	13	4,668,253	5,143,168
Interests in jointly controlled entities	14	53,351,735	-
Other investments	15	39,407,447	54,954,947
Deferred tax assets	16	7,882,030	1,051,433
Properties held for development		4,044,272,068	4,171,969,101
		4,519,124,157	4,666,835,054
Current assets			
Inventories	17	42,254,949	5,921,723
Completed properties for sale		1,729,922,956	1,865,990,141
Properties under development		4,586,827,311	2,461,102,280
Trade and other receivables	18	1,490,132,492	572,721,566
Cash and cash equivalents	19	3,131,999,522	968,783,074
		10,981,137,230	5,874,518,784
Total assets		15,500,261,387	10,541,353,838
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	2,273,627,871	1,395,849,444
Reserves	21	4,012,412,736	3,344,099,323
		6,286,040,607	4,739,948,767
Minority interests		102,248,755	59,101,291

Consolidated balance sheet at 31 December 2004 (continued)

(Expressed in Renminbi Yuan)

	Note	*2004* RMB	*2003* RMB
Non-current liabilities			
Interest-bearing loans and borrowings	22	899,693,475	248,523,200
Convertible bonds	23	1,877,835,439	657,964,178
Deferred tax liabilities	16	-	2,894,701
		2,777,528,914	909,382,079
Current liabilities			
Interest-bearing loans and borrowings	22	1,109,361,599	1,840,000,000
Trade and other payables	24	5,041,255,878	2,829,025,439
Provisions	25	19,141,566	18,513,132
Taxation	8(b)	164,684,068	145,383,130
		6,334,443,111	4,832,921,701
Total equity and liabilities		15,500,261,387	10,541,353,838

Approved and authorised for issue by the Board of Directors on

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The notes on pages 8 to 47 form part of these financial statements.

Consolidated cash flow statementfor the year ended 31 December 2004
(Expressed in Renminbi Yuan)

	Note	*2004* RMB	*2003* RMB
OPERATING ACTIVITIES			
Net cash inflow/(outflow) from operating activities	29	797,903,947	(1,620,228,717)
INVESTING ACTIVITIES			
Proceed of capital injection from minority interest		1,000,000	-
Acquisition of a subsidiary, net of cash acquired		(42,500,000)	(4,500,000)
Acquisition of interests in associates		(127)	-
Acquisition of interests in jointly controlled entities		(56,717,679)	-
Deposits paid for acquisition of equity interests in certain unrelated entities		(350,000,000)	-
Proceeds from disposal of fixed assets		39,010,610	134,186,963
Acquisition of fixed assets		(44,434,966)	(87,521,043)
Proceeds from disposal of properties held for development		-	17,084,000
Proceeds from disposal of other Investments		6,000,000	-
Interest received		15,377,063	8,564,946
Dividend received		532,562	914,374
Net cash (outflow)/inflow from investing activities		(431,732,537)	68,729,240
FINANCING ACTIVITIES			
Net proceeds from issuance of convertible bonds		1,952,887,579	-
(Net repayment of)/net proceeds from loans and borrowings		(73,629,725)	1,468,523,200
Cash refund for conversion of convertible bonds		(4,650)	-
Redemption of convertible bonds		(6,023,900)	-
Dividend paid		(75,787,596)	(135,379,994)
Net cash inflow from financing Activities		1,797,441,708	1,333,143,206

Consolidated cash flow statement for the year ended 31 December 2004 (continued)

(Expressed in Renminbi Yuan)

	Note	*2004* RMB	*2003* RMB
Net increase/(decrease) in cash and cash equivalents		2,163,613,118	(218,356,271)
Effect of foreign exchange rates		(396,670)	(264,474)
Cash and cash equivalents at 1 January	19	968,783,074	1,187,403,819
Cash and cash equivalents at 31 December	19	3,131,999,522	968,783,074
		===========	===========

The notes on pages 8 to 47 form part of these financial statements.

Notes on the financial statements

(Expressed in Renminbi Yuan)

1. Significant accounting policies

China Vanke Co., Ltd is a company domiciled in the People's Republic of China ("PRC"). The consolidated financial statements of the Company for the year ended 31 December 2004 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities. The consolidated financial statements of the Group were authorised for issue by the Directors on 18 March 2005.

(a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards and Interpretations.

Basis of preparation

The financial statements are presented in Renminbi Yuan.

The measurement basis used is historical cost.

The accounting policies have been consistently applied by the Group and are consistent with those of the previous year.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control effectively commences until the date that control effectively ceases. A list of the Group's principal subsidiaries is set out in note 12.

(ii) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements of the Group include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the carrying amount of the associates, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associates. A list of the Group's principal associates is set out in note 13.

1. Significant accounting policies (continued)

(c) Basis of consolidation (continued)

(iii) Jointly controlled entities

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements of the Group include the Group's share of total recognised gains and losses of jointly controlled entities on an equity accounted basis, from the date that joint control effectively commences until the date that joint control effectively ceases. A list of the Group's jointly controlled entities is set out in note 14.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements of the Group. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprise against the interests in associates and jointly controlled entities. Unrealised losses are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(d) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi Yuan at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated into Renminbi Yuan at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the consolidated income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Renminbi Yuan at the foreign exchange rates ruling at the dates of transaction.

The assets and liabilities of foreign subsidiaries are translated into Renminbi Yuan at the foreign exchange rates ruling at the balance sheet date while items of income and expense are translated at rates approximating the foreign exchange rates at the dates of the transaction. Foreign exchange differences arising on translation are dealt with in reserves.

(e) Fixed assets and depreciation

(i) Fixed assets are stated at purchase price or production cost less accumulated depreciation and impairment losses (note 1(u)). The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs.

Where an item of fixed assets comprises major components having different useful lives, they are accounted for as separate items of fixed assets.

1. Significant accounting policies (continued)

(e)Fixed assets and depreciation (continued)

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of fixed assets, including inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of fixed assets. All other expenditure is recognised in the consolidated income statement as an expense as incurred.

(iii) Depreciation is charged to the consolidated income statement on a straight-line basis, after taking into account the estimated residual value, over the estimated useful lives of items of fixed assets, and major components that are accounted for separately. The estimated useful lives of fixed assets together with their respective estimated residual value are as follows:

	Year	*Estimated residual value as a percentage of costs*
Buildings	12.5 - 25	4%
Investment properties	25	4%
Improvements to premises	5 years or over terms of leases	-
Plant and machinery	5 - 10	4%
Furniture, fixtures and equipment	5 - 10	4%
Motor vehicles	5	4%

Investment properties are interests in properties in respect of which construction work and development have been completed and which are held for their investment potential.

(f) Intangible assets

(i) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses (note 1(u)). In respect of associates and jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interests in associates and jointly controlled entities.

Goodwill is amortised from the date of initial recognition on a straight-line basis to the consolidated income statement over its estimated useful life not exceeding five years.

The unamortised balance of goodwill is reviewed at least annually. Where the balance exceeds the value of expected future benefits, the difference is charged to the consolidated income statement immediately.

1. Significant accounting policies (continued)

(f) Intangible assets (continued)

(ii) Negative goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

(g) Investments in equity securities

Investments in equity securities represent investments in unquoted shares of various companies in which the Group neither holds, directly or indirectly, 20% or more of the voting powers nor exercises significant influence. The investments are carried at cost less any impairment losses (note 1(u)). On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the consolidated income statement.

(h) Taxation

Taxation in the consolidated income statement comprises current tax net of tax refunds from government authorities and the change in deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1. Significant accounting policies (continued)

(i) Properties held for development

Properties held for development are stated at cost less provision for anticipated losses, where appropriate.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Work in progress and manufactured finished goods are valued at production cost including direct production costs (cost of materials and labour) and an appropriate proportion of production overheads.

The cost of raw materials is computed using the weighted average cost method.

(k) Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to unsold properties, and an appropriate proportion of production overheads and borrowing costs. Net realisable value represents the estimated selling price less the estimated costs necessary to make the sale.

(l) Properties under development

Properties under development held for sale are stated at the lower of cost and net realisable value. Cost includes cost of land use rights acquired, construction costs and an appropriate proportion of production overheads and borrowing costs during the period of construction. Net realisable value represents the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Trade and other receivables

Trade and other receivables are stated at their cost less allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of those accounts at the balance sheet date.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents, for the purpose of the consolidated cash flow statement.

1. Significant accounting policies (continued)

(o) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated income statement over the period of the borrowings on an effective interest basis.

(p) Trade and other payables

Trade and other payables are stated at their cost.

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(r) Revenue

(i) Revenue from the sale of completed properties is recognised upon signing of the sale and purchase agreement when the significant risks and rewards of ownership have been transferred to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognised are included in the consolidated balance sheet under deposits received in advance.

(ii) Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to customers.

(iii) Revenue from services is recognised when services are rendered.

(iv) Rental income from investment properties is recognised on a straight-line basis over the terms of the respective leases.

(v) The above revenue is net of the relevant taxes and tax refunds from government authorities. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

1. Significant accounting policies (continued)

(s) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the consolidated income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the consolidated income statement as an integral part of the total lease payments made.

(ii) Net financing costs

Net financing costs comprise interest payable on borrowings, interest receivable on funds invested, dividend income and foreign exchange gains and losses that are recognised in the consolidated income statement (note 1(d)).

Interest income is recognised in the consolidated income statement as it accrues, taking into account the effective yield on the asset. Dividend income is recognised in the consolidated income statement on the date that the dividend is declared.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs, except amounts capitalised as stipulated in note 1(t).

(t) Borrowing costs

Borrowing costs are expensed in the consolidated income statement for the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(u) Impairment

The carrying amounts of the Group's assets, other than inventories (note 1(j)), trade and other receivables (note 1(m)) and deferred tax assets (note 1(h)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the consolidated income statement.

1. Significant accounting policies (continued)

(u) Impairment (continued)

(i) Reversals of impairment

An impairment loss in respect of the Group's assets is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

(ii) Calculation of recoverable amount

The recoverable amount of the Group's asset is the greater of their selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(v) Provisions

A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(w) Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

1. Significant accounting policies (continued)

(x) Convertible bonds

Convertible bonds that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments, net of attributable transaction costs. The equity component of the convertible bonds is calculated as the excess of the issue proceeds over the present value of the future interest and principal payment, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the consolidated income statement is calculated using the effective interest rate method.

Transaction costs incurred on issuance of the convertible bonds are allocated to the component parts in proportion to the allocation of proceeds.

The discounts on the convertible bonds, being the amount classified as equity as referred to above, are set off against the liability component and are amortised as an interest expense on an effective interest rate method until conversion or maturity.

The transaction costs allocated to the liability component are amortised as interest expenses on an effective interest rate method until conversion or maturity.

On conversion, the liability component, the accrued interest forfeited together with the relevant portion of the equity component constitute the consideration for the shares being issued.

(y) Retirement benefits

The Group participates in retirement schemes operated by local authorities and the annual cost of providing retirement benefits is charged to the consolidated income statement according to the contribution determined by the relevant schemes. The Group has no further liability to the retirement schemes operated by the local authorities.

2. Segment reporting

The Group’s results for the year ended 31 December 2004 were almost entirely attributable to the property development in the PRC. Accordingly, no segmental analysis is provided.

The revenue, assets and capital expenditure of the Group analysed according to the geographical location of business within the PRC are as follows:

The property development division mainly operates in Shenzhen, Tianjin, Beijing, Shanghai, Shenyang, Changchun, Dalian, Anshan and Nanjing.

	Shenzhen		*Tianjin*		*Beijing*		*Shanghai and Nanjing*		*Northeast region (Note)*		*Guangzhou and Foshan*		*Others*		*Consolidated*	
	2004 RMB	*2003* RMB	*2004* RMB	*2003* RMB	*2004* RMB	*2003* RMB	*2004* RMB	*2003* RMB	*2004* RMB	*2003* RMB	*2004* RMB	*2003* RMB	*2004* RMB	*2003* RMB	*2004* RMB	*2003* RMB
Revenue																
Property sales	1,323,624,364	1,455,645,636	617,459,987	559,548,698	1,009,000,692	462,573,859	1,446,351,634	1,835,661,426	1,044,493,228	659,889,785	469,054,639	-	1,132,763,312	831,479,194	7,042,747,856	5,804,798,598
Property management	96,460,689	73,536,649	12,968,155	12,160,681	20,381,272	18,867,553	30,378,138	21,321,060	19,790,549	13,956,646	3,157,716	-	5,602,354	5,534,317	188,738,873	145,376,906
Rental	5,308,208	8,228,717	2,935,633	1,583,299	3,710,224	3,364,690	8,784,920	7,578,943	3,706,205	2,204,704	-	-	1,250,806	132,446	25,695,996	23,092,799
Total revenue	1,425,393,261	1,537,411,002	633,363,775	573,292,678	1,033,092,188	484,806,102	1,485,514,692	1,864,561,429	1,067,989,982	676,051,135	472,212,355	-	1,139,616,472	837,145,957	7,257,182,725	5,973,268,303
Segment assets	3,851,107,189	3,314,876,938	1,422,931,994	1,259,506,338	1,557,028,285	1,291,965,473	4,846,003,807	2,459,665,282	1,449,007,392	1,191,646,850	845,478,017	361,593,300	1,528,704,705	662,099,657	15,500,261,389	10,541,353,838
Capital expenditure	4,215,536	9,702,868	1,775,858	4,333,987	2,873,638	1,718,314	5,085,315	18,351,655	11,343,729	42,325,188	3,442,528	2,521,813	15,698,362	8,567,218	44,434,966	87,521,043

Segment revenue is based on the geographical location of the property development projects. Segment assets and capital expenditures are disclosed by the geographical location of the assets.

Capital expenditure is the total cost incurred during the year to acquire assets that are expected to be used for more than one year.

Note: Northeast region represents Shenyeng, Changchun, Dalian and Anshan.

3. Effect of acquisition of a subsidiary

During the year, the Group acquired 85% equity interest in Kunshan Jiahua Investment Company Limited. The acquisition was accounted for using the purchase method of consolidation. The result of the subsidiary is not material for the year.

	2004
	RMB
Net assets acquired	
Properties held for development	81,110,038
Trade and other payables	(31,110,038)
Net identifiable assets and liabilities	50,000,000
Less: Minority interest	(7,500,000)
Consideration paid, satisfied in cash	42,500,000
Less: Cash of the subsidiary acquired	-
Net cash outflow in respect of the acquisition of a subsidiary	42,500,000
	==========

4.Other operating income

	2004	*2003*
	RMB	RMB
Amortisation of negative goodwill	-	2,224,658
Consultancy fee income	22,581,447	6,547,046
Commission income	2,541,926	4,363,286
Forfeited deposits from customers and compensation from customers	5,108,836	2,436,366
Gain on disposal of fixed assets	437,238	30,354,402
Other sundry income	15,901,497	15,546,554
	46,570,944	61,472,312
	=========	=========

5. Other operating expenses

	2004 RMB	*2003* RMB
Amortisation of goodwill	-	2,023,469
Penalties to government	915,568	468,999
Compensation to customers	16,809,028	1,220,601
Loss on disposal of other investments	6,747,500	-
Impairment loss of other investments	2,800,000	-
Loss on disposal of properties held for development	-	7,900,958
Other sundry expenses	2,080,469	4,214,806
	29,352,565	15,828,833
	=========	=========

6. Personnel expenses

	2004 RMB	*2003* RMB
Wages, salaries and other staff costs	399,312,213	327,665,366
	=========	=========
Including retirement costs	36,527,684	30,925,279
	=========	=========

The average number of employees during 2004 was 9,015 (2003: 7,025).

7.Financing income and financing costs

	2004 RMB	*2003* RMB
Interest income	15,377,063	8,564,946
Dividend income	532,562	914,374
Total financing income	15,909,625	9,479,320
Interest expense and other borrowing costs	224,812,624	98,121,695
Less: Interest capitalised	(214,880,713)	(92,359,320)
	9,931,911	5,762,375
Foreign exchange loss/(gain)	1,400,948	(1,074,689)
Total financing costs	11,332,859	4,687,686
Net financing income	4,576,766	4,791,634

Interest expense and other borrowing costs have been capitalised at a rate of 4.8% (2003: 4.8%) per annum.

8.Taxation

(a) Taxation in the consolidated income statement comprises:

	2004 RMB	*2003* RMB
PRC income tax for the year	343,536,926	258,351,216
Underprovision in respect of prior years	4,138,600	6,124,914
	347,675,526	264,476,130
Change in deferred taxes (note 16)	(6,830,597)	1,884,817
	340,844,929	266,360,947

The provision for PRC income tax is calculated based on the estimated taxable income at the rates applicable to each company in the Group.

8 Taxation (continued)

(a) Taxation in the consolidated income statement comprises: (continued)

The Group's applicable tax rate represents the weighted average of the PRC income tax rates, which range between 15% and 33%.

The following is a reconciliation of income taxes calculated at the applicable tax rate with income tax expense:

	2004 RMB	*2003* RMB
Accounting profit before tax	1,249,852,248	811,128,600
Income tax computed by applying tax rate of 15%	187,477,837	121,669,290
Effect of tax rates in various PRC locations	139,327,103	113,195,893
Non-taxable income	(204,262)	(137,100)
Non-deductible expenses	5,974,874	13,417,300
Effect of current year's tax losses not recognised	14,120,181	19,864,800
Effect of tax losses utilised	(9,989,404)	(7,774,150)
Underprovision in respect of prior years	4,138,600	6,124,914
Income tax expense	340,844,929	266,360,947

(b) Taxation in the consolidated balance sheet represents:

	2004 RMB	*2003* RMB
Brought forward balance of PRC income tax	79,086,433	34,364,308
Provision for PRC income tax for the year	347,675,526	264,476,130
PRC income tax paid	(282,473,961)	(219,754,005)
	144,287,998	79,086,433
Provision for PRC business tax and city construction tax	17,353,207	64,810,574
PRC value added tax (recoverable) / provision	(363,444)	50,639
PRC land appreciation tax recoverable	(990,041)	(384,046)
Other PRC taxation	4,396,348	1,819,530
	164,684,068	145,383,130

9 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit for the year attributable to shareholders of RMB874,359,855 (2003: RMB521,147,696) and on the weighted average number of ordinary shares outstanding during the year of 2,240,767,785 shares (2003: 2,018,618,561 shares).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit for the year attributable to shareholders of RMB877,378,809 (2003: RMB542,074,381) and on the 2,339,262,936 shares (2003: 2,196,969,317 shares), calculated as follows:

Net profit attributable to ordinary shareholders (diluted):

	2004	*2003*
	RMB	RMB
Net profit attributable to shareholders	874,359,855	521,147,696
After tax effect of borrowing costs on convertible bonds	3,018,954	20,926,685
Net profit attributable to ordinary shareholders (diluted)	877,378,809	542,074,381
	==========	==========

Weighted average number of ordinary shares (diluted):

	2004	*2003*
	RMB	RMB
Weighted average number of ordinary shares at 31 December	2,240,767,785	2,018,618,561
Effect of conversion of convertible bonds	98,495,151	178,350,756
Weighted average number of ordinary shares (diluted) at 31 December	2,339,262,936	2,196,969,317
	==========	==========

(c) During the year, the Company issued additional ordinary shares out of the share premium in the ratio 10:4 and distributed bonus issue of 1 share for every 10 shares to shareholders. Accordingly, the weighted average number of ordinary shares used in the calculation of the basic and diluted earnings per share in 2003 were adjusted to 2,018,618,561 and 2,196,969,317 respectively. As a result, the basic and diluted earnings per share were adjusted to RMB0.26 and RMB0.25 respectively based on the net profit for the year attributable to shareholders of RMB521,147,696 and net profit attributable to ordinary shareholders (diluted) of RMB542,074,381.

10. Dividend

A cash dividend of RMB0.05 per share and a bonus issue of 1 share for every 10 shares to all shareholders during the year, resulting in a total dividend payment of RMB75,787,596 and share issuance of 151,575,193 shares, in respect of the year ended 31 December 2003 was declared and paid out during the year ended 31 December 2004 (note 21).

A cash dividend of RMB0.15 per share, resulting in a total dividend payment of RMB341,044,181, in respect of the year ended 31 December 2004 are to be proposed at the Company's forthcoming annual general meeting. The dividends have not been provided for.

11. Fixed assets

	Buildings RMB	*Investment properties* RMB	*Improvements to premises* RMB	*Plant and machinery* RMB	*Furniture, fixtures and equipment* RMB	*Motor vehicles* RMB	*Total* RMB
Cost:							
At 1 January 2004	237,997,162	224,357,027	59,698,495	6,842,145	77,506,484	47,299,555	653,700,868
Additions	167,093	9,370,247	6,076,735	357,054	15,803,206	12,660,631	44,434,966
Disposal/write off	(35,962,713)	(27,241,014)	(7,186,064)	(1,171,115)	(6,310,476)	(7,649,993)	(85,521,375)
At 31 December 2004	202,201,542	206,486,260	58,589,166	6,028,084	86,999,214	52,310,193	612,614,459
Accumulated depreciation and impairment loss:							
At 1 January 2004	42,086,324	61,691,040	39,335,646	3,672,386	44,559,742	28,639,325	219,984,463
Charge for the year	11,869,740	8,104,802	8,937,263	616,342	11,688,847	7,060,797	48,277,791
Provision for impairment loss	-	2,101,942	-	-	-	-	2,101,942
Written back on disposal / write off	(10,854,707)	(2,401,535)	(4,345,958)	(436,556)	(4,883,494)	(4,370,111)	(27,292,361)
At 31 December 2004	43,101,357	69,496,249	43,926,951	3,852,172	51,365,095	31,330,011	243,071,835
Net book value:							
At 31 December 2004	159,100,185	136,990,011	14,662,215	2,175,912	35,634,119	20,980,182	369,542,624
At 31 December 2003	195,910,838	162,665,987	20,362,849	3,169,759	32,946,742	18,660,230	433,716,405

Investment properties are accounted for as fixed assets. It comprises certain commercial properties that are leased to external parties. The directors valued the investment properties at RMB193,717,000 (2003: RMB212,170,000). The value is determined having regard to recent market transactions for similar properties in the same location as the Group's investment properties.

12. Principal subsidiaries

Details of principal subsidiaries at 31 December 2004 are as follows:

Name of company	*Percentage of equity held by the Group 2004*	*2003*	*Principal activities*
Shenzhen Vanke Real Estate Company Limited	100%	100%	Property development
Shenzhen Vanke Property Company Limited	100%	100%	Property development
Shenzhen Vanke Property Management Company Limited	100%	100%	Property management
Shenzhen Vanke Financial Consultancy Company Limited	100%	100%	Investment trading and consultancy services
Shenzhen Vanke East Coast Company Limited	90%	-	Property development
Shenzhen A-Housing Company Limited	100%	100%	E-business
Shanghai Vanke Real Estate Company Limited	100%	100%	Property development
Shanghai Vanke City Garden Property Development Company Limited	100%	100%	Property development
Shanghai Vanke Xuhui Property Company Limited	100%	100%	Property development
Shanghai Vanke Zhongshi Property Company Limited	50%	50%	Property development
Shanghai Vanke Huaou Property Company Limited	100%	100%	Property development
Shanghai Vanke Pudong Property Company Limited	100%	100%	Property development
Shanghai Vanke Baoshan Property Company Limited	100%	100%	Property development

12. Principal subsidiaries (continued)

Name of company	*Percentage of equity held by the Group* 2004	2003	*Principal activities*
Beijing Vanke Haikai Real Estate Development Company Limited	100%	100%	Property development
Beijing Vanke Enterprises Shareholding Company Limited	100%	100%	Property development
Tianjin Vanke Real Estate Company Limited	100%	100%	Property development
Tianjin Vanke Shine Development Company Limited	100%	100%	Property development
Tianjin Vanke Housing Development Company Limited	100%	100%	Property development
Shenyang Vanke Real Estate Company Limited	100%	100%	Property development
Shenyang Vanke Wonderland Company Limited	100%	100%	Property development
Shenyang Vanke Metropolitan Company Limited	100%	100%	Property development
Dalian Vanlin Properties Development Company Limited	100%	100%	Property development
Dalian Vanke Jinxiu Flower City Development Company Limited	100%	100%	Property development
Changchun Vanke Real Estate Company Limited	100%	100%	Property development
Anshan Vanshan Properties Development Company Limited	100%	100%	Property development
Zhongshan Vanke Real Estate Company Limited	100%	100%	Property development

12. Principal subsidiaries (continued)

Name of company	*Percentage of equity held by the Group* 2004	2003	*Principal activities*
Foshan Vanke Real Estate Company Limited	100%	100%	Property development
Guangzhou Vanke Real Estate Company Limited	100%	100%	Property development
Guangzhou Vanke Property Company Limited	100%	100%	Property development
Dongguan Vanke Real Estate Company Limited	100%	-	Property development
Wuxi Vanke Real Estate Company Limited	100%	-	Property development
Kunshan Jiahua Investment Company Limited	85%	-	Property development

All the above companies' country of establishment and operations is the PRC.

13. Interests in associates

Details of principal associates at 31 December 2004 are as follows:

Name of company	*Percentage of interest held by the Group* 2004	2003	*Principal activities*
Shanghai Vansheng Real Estate Company Limited	50%	50%	Property development
Beihai Vanda Real Estate Company Limited	40%	40%	Property development

All the above companies' country of establishment and operation is the PRC.

14. Interests in jointly controlled entities

Details of the principal jointly controlled entities at 31 December 2004 are as follows:

Name of company	*Percentage of equity held by the Group* 2004	2003	*Principal activities*
Shenzhen Vanke East Coast Real Estate Development Company Limited	39%	-	Property development
Shenzhen Fifth Garden Real Estate Company Limited	49%	-	Property development
Tianjin Xinhai Real Estate Development Company Limited	55%	-	Property development
Chengdu Vanke Property Company Limited	60%	-	Property development

All the above companies' country of establishment and operation is the PRC.

15. Other investments

	2004 RMB	*2003* RMB
Investments, at cost less impairment loss of RMB7,860,000 (2003: RMB5,060,000)	39,407,447	54,954,947
	=========	=========

Investments represent investments in unquoted shares of various companies.

16 Deferred tax assets/(liabilities)

Deferred tax assets and deferred tax liabilities at 31 December 2004 and 2003 are attributable to the items detailed as follows:

	2004	*2003*
	RMB	RMB
Deferred tax assets:		
Tax losses	3,136,516	1,051,433
Accounting depreciation in excess of tax depreciation	794,338	-
Provision for doubtful debts	1,045,241	-
Provision for diminution in value of properties	2,905,935	-
	7,882,030	1,051,433
Deferred tax liabilities:		
Recognition of transaction costs and discount of convertible bonds	-	(2,894,701)
Net deferred tax assets/(liabilities)	7,882,030	(1,843,268)
	========	========

Movement in net deferred tax (liabilities)/assets:

	2004	*2003*
	RMB	RMB
Balance at 1 January	(1,843,268)	(3,222,689)
Transferred to/(from) consolidated income statement (note 8(a))	6,830,597	(1,884,817)
Transferred to reserves (note 21)	2,894,701	3,264,238
Balance at 31 December	7,882,030	(1,843,268)
	========	========

16 Deferred tax assets/(liabilities) (continued)

Deferred tax assets have not been recognised in respect of the following items:

	2004 RMB	*2003* RMB
Deductible temporary differences	92,959,000	100,420,000
Tax losses	214,056,000	205,106,000
	307,015,000	305,526,000
	=========	=========

The tax losses will expire between 2005 and 2009. The deductible temporary differences will not expire under current tax legislation. The above deferred tax assets have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

17 Inventories

	2004 RMB	*2003* RMB
Raw materials	11,581,110	2,652,394
Work in progress	28,850,507	-
Finished goods	1,823,332	3,269,329
	42,254,949	5,921,723
	=========	=========
Inventories recognised as cost of sales for the year	21,024,199	4,963,574
	=========	=========

Included in finished goods are inventories of RMB389,514 (2003: RMB389,514), stated net of a general provision RMB259,687 (2003: RMB259,687), made in order to state these inventories at the lower of their cost and net realisable value.

18 Trade and other receivables

	2004 RMB	*2003* RMB
Debtors, prepayments and other receivables	1,183,318,008	565,925,774
Amounts due from associates	27,418,419	6,794,145
Amounts due from jointly controlled entities	279,396,065	-
Deposit with a security broker firm	-	1,647
	1,490,132,492	572,721,566
	==========	=========

19 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks. The balance includes deposits with banks of RMB31,986,779 (2003: RMB69,771,644) with specific use.

20 Share capital

Registered, issued and fully paid up capital consist of A and B shares of RMB1 each. The holders of A and B shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Company.

	A share		*B share*		*Total*	
	2004 RMB	*2003* RMB	*2004* RMB	*2003* RMB	*2004* RMB	*2003* RMB
At 1 January	1,152,339,172	509,219,577	243,510,272	121,755,136	1,395,849,444	630,974,713
Issued upon conversion of convertible bonds	119,902,470	87,974,761	-	-	119,902,470	87,974,761
Issued out of share premium (note 21(a))	508,896,656	555,144,834	97,404,108	121,755,136	606,300,764	676,899,970
Bonus shares issued (note 10)	127,224,165	-	24,351,028	-	151,575,193	-
At 31 December	1,908,362,463	1,152,339,172	365,265,408	243,510,272	2,273,627,871	1,395,849,444

20 Share capital (continued)

During the year, 119,902,470 (2003: 87,974,761) A shares were issued on the conversion of convertible bonds with total carrying value of RMB701,429,450 (2003: RMB792,500,156) made up as follows:

	2004	*2003*
	RMB	RMB
Liability component	638,093,866	720,944,607
Equity component (note 21)	63,340,234	71,564,393
Cash refund to bondholders	(4,650)	(8,844)
	701,429,450	792,500,156
	=========	=========
Represented by:		
Share capital	119,902,470	87,974,761
Share premium (note 21)	581,526,980	704,525,395
	701,429,450	792,500,156
	=========	=========

On 25 May 2004, a bonus issue of 1 share for every 10 shares, resulting in a total of 151,575,193 shares, were issued to all shareholders.

All the 119,902,470 new A shares were issued from 1 January 2004 to 20 April 2004. On 25 May 2004, these shares were entitled to the additional shares issued upon capitalisation of share premium in a ratio of 10:4 (note 21(a)).

21 Reserves

	Share premium RMB (note (a))	*Foreign exchange reserve* RMB	*Statutory reserves* RMB (note (b))	*Convertible bonds reserve* RMB (note (c))	*Retained profits* RMB (note (d))	*Total* RMB
At 1 January 2003	1,411,584,229	11,290,517	1,271,001,522	126,428,945	168,604,105	2,988,909,318
Profit for the year	-	-	-	-	521,147,696	521,147,696
Shares issued out of the share premium in the ratio 10:10 (note 20)	(676,899,970)	-	-	-	-	(676,899,970)
Adjustment on translation of foreign subsidiaries	-	(264,474)	-	-	-	(264,474)
Proposed transfer from retained profits	-	-	298,248,862	-	(298,248,862)	-
Shares issued upon conversion of convertible bonds (note 20)	704,525,395	-	-	(71,564,393)	-	632,961,002
Share issuing cost	(13,953,355)	-	-	1,511,457	-	(12,441,898)
Interest forfeited upon conversion of convertible bonds	8,900,000	-	-	-	-	8,900,000
Discount transferred to share premium upon conversion of convertible bonds	13,903,405	-	-	-	-	13,903,405
Deferred tax released upon conversion of convertible bonds (note 16)	-	-	-	3,264,238	-	3,264,238
Dividend paid - 2002	-	-	-	-	(135,379,994)	(135,379,994)
At 31 December 2003	1,448,059,704	11,026,043	1,569,250,384	59,640,247	256,122,945	3,344,099,323
At 1 January 2004	1,448,059,704	11,026,043	1,569,250,384	59,640,247	256,122,945	3,344,099,323
Profit for the year	-	-	-	-	874,359,855	874,359,855
Shares issued out of the share premium in the ratio 10:4 (note 20)	(606,300,764)	-	-	-	-	(606,300,764)
Adjustment on translation of foreign subsidiaries	-	(396,670)	-	-	-	(396,670)
Bonus share issued	-	-	-	-	(151,575,193)	(151,575,193)
Issuance of convertible bonds	-	-	-	82,585,582	-	82,585,582
Proposed transfer from retained profits	-	-	482,903,440	-	(482,903,440)	-
Shares issued upon conversion of convertible bonds (note 20)	581,526,980	-	-	(63,340,234)	-	518,186,746
Redemption of convertible bonds	-	-	-	(287,215)		(287,215)
Share issuing cost	(10,162,131)	-	-	1,349,250		(8,812,881)
Interest forfeited upon conversion of convertible bonds	7,288,562	-	-	-	-	7,288,562
Discount transferred to share premium upon conversion of convertible bonds	26,158,286	-	-	-	-	26,158,286
Deferred tax released upon conversion of convertible bonds (note 16)	-	-	-	2,894,701		2,894,701
Dividend paid - 2003 (note 10)	-	-	-	-	(75,787,596)	(75,787,596)
At 31 December 2004	1,446,570,637	10,629,373	2,052,153,824	82,842,331	420,216,571	4,012,412,736

Notes:

(a) Share premium

During the year, the Board of Directors of the Company issued additional shares out of the share premium in the ratio 10:4 to all shareholders. After taking into account of the conversion of convertible bonds upto the date of capitalisation issue, a total of 606,300,764 shares with a par value of RMB1 each were issued in addition to the total share capital of 1,515,751,914 shares as at 25 May 2004.

Subsequent to the year end, the Board of Directors of the Company proposed to issue additional shares out of the share premium in the ratio 10:5 to all shareholders. A total of 1,136,813,935 shares with a par value of RMB1 each will be issued in addition to the total share capital of 2,273,627,871 shares as at 31 December 2004. The proposed issue will be subject to shareholders' approval at a general meeting. A total of RMB1,136,813,935 will be expensed to the share premium.

If the conversion of convertible bonds increases the total number of shares issued by the Company on the date of registration of shares qualifying for the proposed final dividend, the ratio 10:5 for the additional issue out of the share premium and the dividend per ordinary share will remain unchanged while the shares issued out of the share premium and the total amount for the distribution of dividend will be increased accordingly.

21 Reserves (continued)

Notes: (continued)

(b) Statutory reserves

Statutory reserves include the following items:

(i) Statutory surplus reserve

According to the PRC Company Law, the Company is required to transfer 10% of its profit after taxation, as determined under PRC Accounting Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

(ii) Statutory public welfare fund

According to the PRC Company Law, the Company is required to transfer 5% to 10% of its profit after taxation, as determined under PRC Accounting Regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than in liquidation. The transfer to this reserve must be made before distribution of a dividend to shareholders. The Directors have resolved to transfer 5% of the current year's profit after taxation to the fund.

(iii) Discretionary surplus reserve

The transfer to this reserve from the consolidated income statement and its usage are subject to the approval of shareholders at general meetings.

(c) Convertible bonds reserve

The reserve for convertible bonds comprises the value of option granted to bondholders to convert their convertible bonds into A shares of the Company (refer to note 23).

(d) Retained profits

According to the PRC Company Law, the reserve available for distribution is the lower of the amount determined under PRC Accounting Regulations and the amount determined under IFRS. As of 31 December 2004 the reserve available for distribution was RMB414,846,412 (2003: RMB247,106,386).

22 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign exchange risk, please refer to note 30.

	2004	*2003*
	RMB	RMB
Non-current		
Secured bank loans	350,743,475	-
Unsecured		
- bank loans	350,000,000	-
- other borrowing	198,950,000	248,523,200
	899,693,475	248,523,200
	==========	==========

	2004	*2003*
	RMB	RMB
Other borrowing represents:		
Proceeds	198,950,000	260,200,000
Transaction costs	-	(11,676,800)
	198,950,000	248,523,200
	==========	==========

At 31 December 2004, bank loans and other borrowing were repayable as follows:

	2004	*2003*
	RMB	RMB
After one year but within two years	268,950,000	260,200,000
After two years but within five years	630,743,475	-
	899,693,475	260,200,000
	===========	===========

Current	*2004*	*2003*
	RMB	RMB
Unsecured		
- bank loans	795,000,000	1,840,000,000
- current portion of long term bank loans	60,000,000	
- current portion of long term other borrowing	254,361,599	-
	1,109,361,599	1,840,000,000
	===========	===========

22 Interest-bearing loans and borrowings (continued)

	2004	*2003*
Other borrowing represents:	RMB	RMB
Proceeds	260,200,000	-
Transaction costs	(5,838,401)	-
	254,361,599	-
	==========	==========

22 Interest-bearing loans and borrowings (continued)

The secured bank loans of RMB350,743,475 as at 31 December 2004 are secured over certain properties held for development and properties under development with aggregate carrying value of RMB520 million and the Group's interests in certain subsidiaries with total net asset value of RMB67 million.

The Group's total bank loans outstanding at the end of 2004 and 2003 are analysed as follows:

Type	*Original amount*		*Effective interest rate*		*Fixed/floating*		*Maturity*	
	2004	*2003*	*2004*	*2003*	*2004*	*2003*	*2004*	*2003*
	RMB	RMB						
RMB denominated bank loans	635,000,000	1,680,000,000	5.04%-5.31%	5.04%	Fixed	Fixed	1 to 6 months	1 to 6 months
RMB denominated bank loans	220,000,000	160,000,000	5.31%-5.58%	5.02%	Fixed	Fixed	7 to 12 months	7 to 12 months
RMB denominated bank loans	70,000,000	-	5.49%	-	Fixed	-	1 to 2 years	-
RMB denominated bank loans	280,000,000	-	5.49%	-	Fixed	-	2 to 5 years	-
HKD denominated bank loan	159,555,000	-	HIBOR+3.15%	-	Floating	-	2 to 5 years	-
USD denominated bank loans	191,188,475	-	LIBOR+4.25%	-	Floating	-	2 to 5 years	-
RMB denominated other borrowing	260,200,000	260,200,000	4.5%	4.5%	Fixed	Fixed	7 to 12 months	1 to 2 years
RMB denominated other borrowing	198,950,000	-	4.0%	-	Fixed	-	1 to 2 years	-
	2,014,893,475	2,100,200,000						

The average nominal interest rate is 4.49% (2003: 5.18%).

Other borrowings represent borrowings from a non-bank financial institution, which are guaranteed by a bank.

23 Convertible bonds

	2004			2003		
	Convertible bonds issued in 2004 RMB	Convertible bonds issued in 2002 RMB	Total RMB	Converible bonds issued in 2004 RMB	Convertible bonds issued in 2002 RMB	Total RMB
Proceeds from issue of 15,000,000 convertible bonds of RMB100 each	-	1,500,000,000	1,500,000,000	-	1,500,000,000	1,500,000,000
Proceeds from issue of 19,900,000 convertible bonds of RMB 100 each	1,990,000,000	-	1,990,000,000	-	-	-
Transaction costs	(37,112,421)	(31,680,353)	(68,792,774)	-	(31,680,353)	(31,680,353)
Net proceeds	1,952,887,579	1,468,319,647	3,421,207,226	-	1,468,319,647	1,468,319,647
Amount classified as equity (Note)	(82,585,582)	(132,590,802)	(215,176,384)	-	(132,590,802)	(132,590,802)
Conversion into A shares	-	(1,359,068,493)	(1,359,068,493)	-	(720,974,627)	(720,974,627)
Redemption of convertible bonds	-	(5,653,822)	(5,653,822)	-	-	-
Discount released to share premium upon conversion	-	(40,061,691)	(40,061,691)	-	(13,903,405)	(13,903,405)
Transaction costs released to share premium upon conversion	-	21,255,333	21,255,333	-	12,442,452	12,442,452
Discount on convertible bonds amortised	5,756,293	40,318,440	46,074,733	-	37,581,944	37,581,944
Transaction costs amortised	1,777,149	7,481,388	9,258,537	-	7,088,969	7,088,969
Carry value of liability at 31 December	1,877,835,439	-	1,877,835,439	-	657,964,178	657,964,178

Note: The amount of the convertible bonds initially recognised in equity is net of attributable transaction costs of RMB2,860,769 (2003: RMB2,860,769) and RMB 1,569,446 (2003: Nil) for convertible bonds issued in 2002 and 2004 respectively.

23 Convertible bonds (continued)

On 13 June 2002, the Company issued convertible bonds (the "2002 Bonds") amounting to RMB1,500,000,000. The 2002 Bonds are listed on the Shenzhen Stock Exchange (the "Stock Exchange") and are guaranteed by the Bank of China Shenzhen branch. Each 2002 Bond will, at the option of the holder, be convertible from 13 December 2002 to 13 June 2007 into A shares with a par value of RMB1 each of the Company ("A Shares") at a conversion price of RMB12.1 per share. The conversion price of the 2002 Bonds will be adjusted accordingly if the Company distribute bonus issues, dividends, right issues and increase the share capital (not including the share issue upon conversion of the 2002 Bonds) which lead to change in equity of the Company.

The 2002 Bonds are interest bearing at a rate of 1.5% per annum payable in arrears on 13 June each year.

The Board of Directors of the Company can lower the conversion price of the 2002 Bonds by not more than 20% if the closing price of the Company's A shares on the Stock Exchange is lower than 80% of the conversion price for 20 consecutive dealing days.

The Company may redeem in whole or in part the 2002 Bonds from 6 months after 13 June 2002 if the closing price of the Company's A shares on the Stock Exchange is at least 130% of the conversion price for 30 consecutive dealing days.

The Bondholders may require the Company to redeem all or part of the 2002 Bonds from 6 months after 13 June 2002 if the closing price of the A shares on the Stock Exchange is lower than 70% of the conversion price for 30 consecutive dealing days.

Up to 22 April 2004, RMB 701,434,000 bonds have been converted into 119,902,470 ordinary shares and remaining of the 2002 Bonds of RMB6,023,900 have been redeemed on the same day.

On 24 September 2004, the Company issued convertible bonds (the "2004 Bonds") amounting to RMB1,990,000,000. The 2004 Bonds are listed on the Shenzhen Stock Exchange (the "Stock Exchange") and are guaranteed by the Agricultural Bank of China Shenzhen branch. Each 2004 Bond will, at the option of the holder, be convertible from 24 March 2005 to 24 September 2009 into A shares with a par value of RMB1 each of the Company ("A Shares") at a conversion price of RMB5.48 per share. The conversion price of the 2004 Bonds will be adjusted accordingly if the Company distribute bonus issues, dividends, right issues and increase the share capital (not including the share issue upon conversion of the 2004 Bonds) which lead to change in equity of the Company.

The 2004 Bonds are interest bearing at a rate of 1%, 1.375%, 1.75%, 2.125% and 2.5% per annum payable in arrears on 24 September 2005, 2006, 2007, 2008 and 2009 respectively.

The Company will redeem all the unconverted 2004 Bonds after 5 working days of the expiry date at a price of 107% of the par value, which includes the accrued interest for the year ending 24 September 2009.

23 Convertible bonds (continued)

The Board of Directors of the Company can lower the conversion price of the 2004 Bonds by not more than 20% if the closing price of the Company's A shares on the Stock Exchange is lower than 70% of the conversion price for 20 consecutive dealing days.

The Company may redeem in whole or in part the 2004 Bonds from 6 months after 24 September 2004 if the closing price of the Company's A shares on the Stock Exchange is at least 130% of the conversion price for 20 consecutive dealing days.

The Bondholders may require the Company to redeem all or part of the 2004 Bonds from 6 months after 24 September 2004 if the closing price of the A shares on the Stock Exchange is lower than 60% of the conversion price for 20 consecutive dealing days. The redemption prices will be 101% of the par value plus the accrued interest for the respective year. Accordingly, the redemption prices will be 102%, 102.375%, 102.75%, 103.125% and 103.5% for the years ending 24 September 2005, 2006, 2007, 2008 and 2009 respectively.

24 Trade and other payables

	2004	*2003*
	RMB	RMB
Accounts payable - trade	2,424,131,909	2,100,180,917
Bills payable	-	3,000,000
Amounts due to associates	8,304,747	8,304,747
Amounts due to jointly controlled entities	87,894,535	-
Deposits received in advance	2,166,856,261	464,745,081
Other payables and accrued expenses	354,068,426	252,794,694
	5,041,255,878	2,829,025,439

25 Provisions

	Claims	*Compensation to customers*	*Total*
	RMB	RMB	RMB
Balance at 1 January 2003	15,351,012	9,172,660	24,523,672
Provisions made during the year	1,000,000	4,500,000	5,500,000
Provisions used during the year	-	(11,510,540)	(11,510,540)
Balance at 31 December 2003	16,351,012	2,162,120	18,513,132
	=========	=========	=========
Balance at 1 January 2004	16,351,012	2,162,120	18,513,132
Provisions made during the year	33,718,658	-	33,718,658
Provisions used during the year	(31,069,670)	(2,020,554)	(33,090,224)
Balance at 31 December 2004	19,000,000	141,566	19,141,566
	=========	=========	=========

Claims

In 1995, the Group sold certain properties in Tianjin Vanke Centre, with a sublease arrangement, to two customers (the "plaintiffs"). The Group also arranged mortgage loan from a bank on behalf of the plaintiffs. When the Group was aware that the bank did not approve the mortgage loan, it offered to repurchase the properties from the plaintiffs. However, the plaintiffs rejected the offer. On 21 April 2001, the plaintiffs sued the Group in Tianjin People's High Court (the "High Court") and requested for a compensation for the income of sublease and the related interest. On 10 July 2002, the High Court made a judgement that the Group was required to pay USD1,087,459 and the related interest to the plaintiffs. However, the plaintiffs have appealed to the High Court for a further compensation. On 7 June 2004, the High Court made a final judgement that the Group was required to pay USD3,700,000 to the plaintiffs. The Group had repaid the plaintiffs in accordance with the final judgement. As the case had been resolved as at 31 December 2004, no provision was required in the financial statements.

In 2002, a subsidiary was sued by a contractor (the "plaintiff") in respect of payment of construction costs of a project in Tianjin No.1 Intermediate People's Court (the "Intermediate Court"). On 24 December 2004, the Intermediate Court made a first judgement that the Group was required to pay RMB28,674,786 to the plaintiff, including RMB24,506,180 for the construction costs, RMB30,000 for compensation, RMB538,606 for legal expenses and related interest expense which was estimated to be RMB3,600,000. However, the Group has appealed to the Tianjin People's High Court on 6 January 2005. As the case has not been resolved as at 31 December 2004, an estimated amount of RMB19,000,000 was provided in the financial statements.

25 Provisions (continued)

Compensation to customers

The balance represented the estimated compensation payable to customers in relation to the quality problems found in properties constructed by the Group in Tianjin.

26 Material related party transactions

(a) Reference should be made to the following notes regarding related parties:

Associates	(notes 13, 18, 24)
Jointly controlled entities	(notes 14, 18, 24)
Other related party	(note 27)

(b) The Group transferred 4 pieces of land at cost of RMB339,749,862 to a jointly controlled entity on 20 December 2004. In addition, the Group paid construction costs and received deposits from customers on behalf of the jointly controlled entity during the year. The amounts due from/to the jointly controlled entity as at 31 December 2004 were RMB5,047,225 (2003: Nil) and RMB31,762,500 (2003: Nil) respectively.

(c) The Group transferred a piece of land at cost RMB93,867,965 to a jointly controlled entity on 20 December 2004. In addition, the Group received advance from the jointly controlled entity for future payment of construction costs on its behalf. The amount due to the jointly controlled entity as at 31 December 2004 is RMB56,132,035 (2003: Nil).

(d) The directors are of the opinion that the above transactions were concluded based on normal commercial terms in the ordinary course of business of the Group and were entered into in accordance with the relevant agreements.

27 Operating leases

(a) Leases as lessee

At 31 December, non-cancellable operating leases are payable as follows:

	2004	*2003*
	RMB	RMB
Not later than one year	1,658,976	5,733,753
Between one and five years	3,281,146	3,083,042
Later than five years	649,130	1,287,743
	5,589,252	10,104,538
	=========	=========

Total rental expenses for all operating leases were RMB16 million for the year (2003: RMB13 million). The operating leases mainly relate to the rental payments for offices. The leases typically run for an initial period of between two to ten years. None of the leases includes contingent rentals.

(b) Leases as lessor

The Group leases out certain properties under non-cancellable operating leases. Rentals are receivable as follows:

	2004	*2003*
	RMB	RMB
Not later than one year	20,125,152	8,429,113
Between one and five years	76,481,532	21,637,288
Later than five years	79,804,871	11,954,272
	176,411,555	42,020,673
	=========	=========

Total rental income for all operating leases was RMB27 million (2003: RMB23 million) which has been included in revenue and expenses of RMB26 million (2003: RMB22 million) were charged to the consolidated income statement relating to investment properties.

The operating leases mainly relate to the rental income for shops. The leases typically run for an initial period of between two to five years. None of the leases includes contingent rentals.

During the year ended 31 December 2003, the Group sold certain properties and lease right to a fellow subsidiary of major shareholder of the Group (the “buyer”), with a total consideration of RMB96 million. This resulted in a gain of RMB25 million. The buyer was the original lessee of the properties sold. The rental income amounted to RMB2.7 million for the year ended 31 December 2003.

28 Capital commitments and contingent liabilities

(a) Capital commitments

Capital commitments outstanding at 31 December not provided for in the financial statements were as follows:

	2004	*2003*
	RMB	RMB
Contracted for	2,994,290,251	3,653,491,808
Authorised but not contracted	1,507,850,000	-
	4,502,140,251	3,653,491,808
	===========	===========

(b) Contingent liabilities

(i) As at 31 December 2004, there were contingent liabilities in respect of guarantees given by the Group to banks to secure the mortgage arrangement of property buyers. The outstanding guarantees to banks amounted to RMB5,100 million (2003: RMB4,657 million), including guarantees of RMB2,030 million (2003: RMB2,480 million) which will be terminated upon the completion of the transfer procedures with the buyers in respect of the legal title of the properties.

(ii) As stated in note 25 on the financial statements, the appeal case of the Group is pending.

29. Note to cash flow statement

Cash flows from operating activities

		2004		*2003*
	RMB	RMB	RMB	RMB
Operating profit		1,253,693,234		815,198,517
Adjustments for:				
Depreciation	48,277,791		72,020,558	
Gain on disposal of fixed assets	(437,238)		(30,354,402)	
Write off of fixed assets	19,655,642		82,706,449	
Loss on disposal of other investments	6,747,500		-	
Impairment loss of other investments	2,800,000		-	
Loss on disposal of properties held for development	-		7,900,958	
Increase/(decrease) in provision for bad and doubtful debts	7,609,176		(2,829,663)	
Impairment loss of fixed assets	2,101,942		9,302,777	
Write back of provision for completed properties for sale	(9,076,466)		(231,307)	
Provision for properties held for development	-		26,000,000	
Amortisation of negative goodwill	-		(2,224,658)	
Amortisation of goodwill	-		2,023,469	
Interest income	(15,377,063)		(8,564,946)	
Interest expense	9,931,911		5,762,375	
Dividend income	(532,562)		(914,374)	
		71,700,633		160,597,236
Operating profit before working capital changes carried forward		1,325,393,867		975,795,753

29 Note to cash flow statement (continued)

Cash flows from operating activities (continued)

		2004		*2003*
	RMB	RMB	RMB	RMB
Operating profit before working capital changes brought forward		1,325,393,867		975,795,753
(Increase)/decrease in amounts due from associates	(20,624,274)		515,781	
Increase in amounts due from jointly controlled entities	(279,396,065)		-	
(Increase)/decrease in trade and other receivables	(274,999,763)		18,203,200	
(Increase)/decrease in inventories	(36,333,226)		486,925	
Increase in properties under development	(1,916,599,856)		(647,975,637)	
Decrease/(increase) in completed properties for sale	145,143,651		(549,635,591)	
Decrease/(increase) in properties held for development	208,807,071		(1,539,138,635)	
Increase in trade and other payables	2,087,828,332		395,081,448	
Increase/(decrease) in Provisions	628,434		(6,010,540)	
Increase in amounts due to Associates	-		2,348,580	
Increase in amounts due to jointly controlled entities	87,894,535		-	
(Decrease)/increase in other tax payable included in taxation	(45,900,627)		20,107,952	
		(43,551,788)		(2,306,016,517)
Cash inflow/(outflow) from operations		1,281,842,079		(1,330,220,764)
Interest paid	(201,464,171)		(70,253,948)	
Net income tax paid	(282,473,961)		(219,754,005)	
		(483,938,132)		(290,007,953)
Net cash inflow/(outflow) from operating activities		797,903,947		(1,620,228,717)
		===========		===========

30 Financial instruments

Financial assets of the Group include cash and cash equivalents, other investments and trade and other receivables. Financial liabilities of the Group include bank loans and other borrowings, trade payables and convertible bonds.

(a) Interest rate risk

The interest rates and terms of repayment of bank loans and other borrowings of the Group are disclosed in note 22 to the financial statements. The interest rates and terms of the convertible bonds are disclosed in note 23 to the financial statements.

(b) Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter-parties failed completely to perform as contracted.

At balance sheet date there were no significant concentrations of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(c) Foreign exchange risk

Foreign exchange risk is defined as transaction risk, i.e. the risk of the Group's commercial cash flows being adversely affected by a change in exchange rates for foreign currencies against RMB, and balance sheet risk, i.e. the risk of net monetary assets in foreign currencies acquiring a lower value when translated into RMB as a result of currency movements.

Substantially all the Group's cash flows are denominated in RMB.

Apart from the US dollar and HK dollar denominated bank loans as disclosed in note 22 to the financial statements, the Group has no material balance sheet exposure in respect of the subsidiaries' net monetary assets denominated in foreign currencies.

(d) Fair value

The fair values of cash and cash equivalents, trade and other receivables, trade and other payables and bank loans and other borrowings are not materially different from their carrying amounts.

The fair value of convertible bonds is estimated at RMB2,109,400,000 (2003: RMB813,823,101) by reference to the market value as at 31 December 2004.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

31 Post balance sheet event

On 3 March 2005, the Company entered into an agreement with an independent third party to acquire 70% equity interests in Shanghai Nandu Land Company Limited, 49% equity interests in Suzhou Nandu Construction Company Limited and 20% equity interests in Zhejiang Nandu Real Estate Holdings Limited at a total consideration of RMB1,857 million. The principal activities of Shanghai Nandu Land Company Limited, Suzhou Nandu Construction Company Limited and Zhejiang Nandu Real Estate Holdings Limited are property development in the PRC.

Net Impact of IFRS Adjustments on the Results and Net Assets for the year ended 31 December 2004
(Expressed in Renminbi Yuan)

	Net profit for the year ended 31 December 2004 RMB	*Net assets as at 31 December 2004* RMB
As determined pursuant to PRC accounting regulations	878,006,255	6,202,198,787
Adjustments to align with IFRS:		
Recognition and amortisation of negative goodwill	(778,684)	3,757,583
Recognition and amortisation of goodwill	108,000	-
Deferred tax assets	6,830,597	7,882,030
Revaluation of properties	157,343	(16,988,785)
Capitalised borrowing costs released to cost of sales	(9,963,656)	(32,929,089)
Transaction costs released to share premium upon conversion of convertible bonds	-	(783,941)
Discount released to share premium upon conversion of convertible bonds	-	40,061,691
Discount on convertible bonds	-	82,842,331
As restated in conformity with IFRS	874,359,855	6,286,040,607
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