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

2003 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 Ning Gaoning, Song Lin, Eric Li Ka Cheung, Feng Jia and Mo Jun were not able to attend the board meeting in person due to their business engagements. Among these directors, the first two have authorised Director Wangyin to represent them and vote on their behalf at the board meeting. Director Eric Li Ka Cheung has authorised director Li Chi Wing to vote on his behalf at the board meeting. Director Mo Jun has authorised Chairman Wang Shi to vote on his 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.

1 Chairman's Statement

Review

2003 marked a year of growth and buoyancy in China's property market. The promulgation of the 'Notice regarding the promotion of continuous healthy development of the property market' (Issue No. 18) by the State Council of People's Republic of China has provided a solid foundation for continuous robust development of the industry. Given the acceleration of urbanisation progress in China, the regulation and consolidation of the industry, the moving towards market equilibrium, the property sector being the pillar industry of China's economy, the outlook of the property industry is promising.

In 2003, the property business of the Group entered a stage of rapid growth and reported satisfactory return. Turnover and net profit of the Group for the year amounted to RMB5,973 million and RMB521 million, representing increases of 36.6% and 36.4% respectively from those of the previous year. Basic earnings per share were RMB0.39. Major investments in Shenzhen and Shanghai as well as initiatives to expand in second-tier cities were the main reasons for the rapid growth in the Company's results.

In the past year, operations in Shenzhen and Shanghai kept on providing satisfactory returns to the Group. While the Shenzhen market continued to provide a revenue source with steady growth, the Shanghai market's profit contribution to the Group increased substantially and matched up with Shenzhen market's. Shenzhen and Shanghai operations accounted for 37.3% and 38.4% of the Group's net profit respectively. The change was mainly due to the Group's successful investment strategy in Shanghai during the past three years. Not to be overlooked is the fact that the Group, being a property developer with an established national brand name, has invested in second-tier cities, including Nanjing, Chengdu, Shenyang, Nanchang, Wuhan and Changchun, which have now become important profit providers of the Group.

During the year, the Group actively explored the Yangtze River delta market, with Shenzhen as the nexus, the Pearl River delta market, with Shanghai as the nexus, the Northeast market, with Shenyang as the nexus, and established three regional management centres, namely Shenzhen, Shanghai and Shenyang. In the Shenzhen Regional Management Centre, the Group tapped into Zhongshan and Guangzhou markets; in the Shenyang region, the Group tapped into Dalian and Anshan markets; in the Shanghai region, the Group proactively looked for cooperation opportunity in southern Jiangsu Province. As at the end of the year, the Group had obtained project resources in 15 cities, and possessed 7.44 million square metres construction area of land to be developed, which provided a solid foundation for stable development for the next three years.

Fine-tuning of industry policies had been continued in 2003. ‘Regulation regarding the transfer of state-owned land use rights through competitive bidding, public auction and public trading’ promulgated by the Ministry of Land and Resources on 1 July 2002 was implemented in various regions since 2003. Implementation of this policy has led to more transparent land transfer transaction and tightened the management of land premium payment method and period. In relation to this policy, ‘Notice regarding further tightening of property lending’ issued by the People’s Bank of China prohibits commercial banks from granting loans to property developers for land acquisition. Such restriction has set a higher requirement for property developers in terms of financial position. But in the long run, the restriction will provide property developers with capability, financial strengths, credibility and strong brand name larger room for development. In view of this, the Board of Directors is confident about the future prospects of the Group.

2003 was again a year of intense competition within the industry. As the industry became more regulated, market demand remained robust and the market displayed a positive sentiment towards long term growth, we noticed a large amount of new capital flowed into the industry through open land transfer transaction. At the same time, a group of relatively mature local property developers started to tap into markets nationwide. The Group is in a competitive environment with competition for land, capital and customers and human resources for the Group. As such, the Group continued to explore product innovation, enhancement of customers’ value, realisation of brand name value, optimal utilisation of capital and cost control management, the development of human resources and retain of talented staff in the past year. Moreover, the Group also actively promoted and cultivated cooperation culture, and tried to adopt new business model. During the year, the management of the Group remained stable. Given business expansion, the executives of the Company faced more challenges and had more opportunities for development. The staff satisfaction level had risen. To realise continued growth in the Company’s results and better reward to shareholders, the board proposed a resolution regarding the issue of RMB1.99 billion convertible bonds after taking into account the market situation and interests of all parties. The resolution was approved at the shareholders’ meeting and recognized by the small shareholders, and the relationship between the Company and investors became more mature. We believe such an arrangement will provide a foundation for the Company’s long-term development and enable the Group to maintain a leading position and continued rapid growth amid intense competition.

Prospects

The Board of Directors believes the residential property market will remain buoyant and expects the market to experience stable growth. We remain optimistic about the growth potential of the Yangtze River delta region, and are confident that the markets in the Pearl River delta will experience steady growth. As to other cities, the Group believes they will achieve encouraging growth. Given that the Group has completed its market planning in Pearl River delta, the Group will in 2004 focus on expanding its business in the peripheral cities of the Shanghai region. These cities will include, but not exclusive to, southern Jiangsu Province. Simultaneously, the Group will continue to proceed with investment in the Pearl River delta and Beijing and Tianjin regions. In addition, the Group will conduct serious study on the prospects of second-tier cities, where there is great potential for development in the property market is fairly large.

In view of the Group's existing advantages and qualities to maintain sustainable growth for three years, the Group will, in the new year, begin to formulate its five-year to ten-year middle and long-term strategic development plan in accordance with anticipated changes in the future competitive market, to explore the Company's core competitiveness.

In the future, the Group will strive to establish a "blue-chip" image that represents sustainable growth and steady profitability for shareholders in accordance with shareholders' interest and the aim to enhance the Company's profitability. The Group will regard the customers as our partners and enhance customers' value, augment the level of customers' satisfaction and loyalty. Last but not least, we will help our staff to work on enhancing our shareholders' and investors' value through continued improvement of our staff's satisfaction level and their professionalism and work quality.

I would like to take this opportunity to express my sincere gratitude to investors for their support and encouragement, to customers for their loyalty and faith, and to our staff for their aggressiveness and dedication to us.

Wang Shi
Chairman
Shenzhen, 9 March 2004

2 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: Xue Mantian
   E-mail Address: xuemt@vanke.com

4. Contact Address: The Company Office Address

5. Telephone Number: 0755-25606666
   Fax Number: 0755-83152041

6. Registered Company Address and Office Address:
   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 Security Journal", "Securities Times"
   and one Hong Kong English newspaper
   Website for Annual Report Posting: www.cninfo.com.cn

9. Place for Annual Report Collection:
   The Company's Secretarial Office of 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: 17 Dec 2003, 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

3 *Accounts and Financial Highlights*

3.1 Three-year financial information summary

(Unit: RMB)

	2003	2002	2001
Revenue	5,973,268,303	4,374,017,880	4,226,113,439
Operating profit	815,198,517	525,852,261	499,068,815
Share of losses less profits of associated companies	(4,069,917)	(1,609,252)	(64,850)
Profit before tax	811,128,600	524,243,009	499,003,965
Taxation	(266,360,947)	(126,591,097)	(114,936,333)
Profit after tax	544,767,653	397,651,912	384,067,632
Minority interest	(23,619,957)	(15,627,034)	(8,268,501)
Net profit for the year	521,147,696	382,024,878	375,799,131
Basic earnings per share	0.39	0.30	0.30
Diluted earnings per share (note)	0.37	0.27	N/A
Dividend	0.05	0.10	0.10

Note:(1) The annual results were audited in accordance with International Financial Reporting Standard.

(2) From 1 January to 4 March 2004, a total of 4,789,732 convertible bonds have been converted into a total amount of 81,875,538 A shares of the Company. Earnings per share was adjusted according to the new share capital.

(3) Earning and dividend per share in 2002 and 2001 were adjusted upon additional issue share of ordinary shares premium and ratio 10:10.

3.2 Impact of IFRS Adjustments on Net Profit

for the year ended 31 December 2003
(Expressed in Renminbi Yuan)

	Net profit for the year *2003.Jan-Dec*
As determined persuant to PRC accounting regulation:	542,270,658
Adjustments to align with IFRS:	
Recognition and amortisation of negative goodwill	1,445,975
Recognition and amortisation of goodwill	2,281,313

Deferred tax assets	(1,884,817)
Capitalised borrowing costs released to cost of sales	(22,965,433)
As restated in conformity with IFRS	521,147,696

4 Change in Share Capital and Shareholders

4.1 Structure of Share Capital

(1) Change in Share Capital Structure of the Company

	Balance, beginning of the year	(+, -)		Balance, end of the period
		Converted from convertible bonds (note 1)	Transferred from capital reserve (note 2)	
1. Unlisted Shares				
a) State-owned Shares	52,750,318		52,750,318	105,500,636
b) Legal Person Shares	57,754,610		57,754,610	115,509,220
Total Number of Unlisted Shares	110,504,928		110,504,928	221,009,856
2. Listed Shares				
a) A Shares	398,714,649	87,974,761	444,639,906	931,329,316
b) B Shares	121,755,136		121,755,136	243,510,272
Total Number of Listed Shares	520,469,785	87,974,761	566,395,042	1,174,839,588
Total Number of Shares	630,974,713	87,974,761	676,899,970	1,395,849,444

Note: The changes in the Company's total share capital and shareholding structure during the year, were due to the following reason:

1) The amount of new shares resulted from the conversion of convertible bonds included 45,925,257 shares converted between 1 January 2003 and 22 May 2003 and 42,049,504 shares converted between 23 May 2003 and 31 December 2003, among which, 45,925,257 shares converted between 1 January 2003 and 22 May 2003 were subject to the entitlement of the transfer of 10 shares from capital surplus reserve for every 10 shares held; during the period, the Company's share capital increased by a total of 133,900,018 shares as a result of the conversion of convertible bonds.

2) During the period under review, the Company proceeded with the transfer of capital surplus reserve to share capital. Based on the Company's total share capital of 676,899,970 shares (of which 45,928,029 shares were converted from convertible bonds) as at the close of the market on 22 May, 10 shares were issued for every 10 shares held

by shareholders, which resulted in an increase of 444,639,906 transferable A shares.
3) Up to 31 December 2003, conversion of the Company's convertible bonds has resulted in the increase of 133,905,562 shares, representing 9.59% of the Company's total share capital.
Subsequent Event:
1) From 1 January to 4 March 2004, 4,789,732 convertible bonds have been converted into a total amount of 81,875,538 A shares of the Company. The Company's total share capital became 1,477,724,982 shares.
2) The Company published "The announcement on the redemption of Vanke Bonds" on 9 March 2004, in which the Company declares to redeem all the Vanke Bonds that haven't been converted into shares by 23 April 2004 at a unit price of RMB101.5. When the redemption has been completed, the total share capital of the Company will increase to 1,516,782,212 shares at the most

(2) Issue and Listing of Shares in the Last 3 Years

The 2001 proposal of issuing convertible bonds of the Company was implemented in June 2002, with the issue of 15 million convertible bonds to the public at a face value of RMB100 each. The total issue amount was RMB1.5 billion. The term of the convertible bonds was five years, with a nominal rate of 1.5%. The registration day of shareholding was 11 June 2002, while the payment period ran from 11 June to 13 June. Application for purchase of the bonds commenced on 13 June. The issue ended on 19 June. Dealings in the Company's convertible bonds on the Shenzhen Stock Exchange commenced on 28 June 2002. Abbreviation and code of the convertible bonds are "Vanke bonds" and "125002", respectively. The conversion of the convertible bonds into the Company's A shares began on 13 December 2002.

4.2 Description of Shareholders

(1) As at 31 December 2003, the Company had 221,274 shareholders, including 208,741 A share holders (including 6 members of the Company's senior management) and 12,533 B share holders.

(2) As at 31 December 2003, 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 Dec. 31 2003 (%)**
China Resources Co., Limited	+78,075,749	156,151,498	A shares	State-owned shares, Legal Person shares	11.19
Credit Lyonnais Securities	+17,073,528	34,147,056	B shares	Foreign	2.45

(Asia) Ltd					
Liu Yuansheng	+12,158,127	24,316,254	A shares	22,876,254 of which not yet transferable	1.74
Toyo Securities Asia Limited-a/c Client	+12,981,566	14,726,631	B shares	Foreign	1.06
Holy Time Group Limited	+7,321,242	14,528,800	B shares	Foreign	1.04
Boshi Value Increase Securities Investment Fund	+12,055,956	12,055,956	A shares		0.86
Huaxia Development Securities Investment Fund	+12,000,000	12,000,000	A shares		0.86
Staff Union Committee of China Vanke Co., Ltd.	+5,895,078	11,790,156	A shares	Legal Person shares	0.84
Naito Securities Co., Ltd.	+8,031,439	10,139,487	B shares	Foreign	0.73
Tongsheng Securities Investment Fund	+8,123,499	9,520,317	A shares		0.68

Notes:

a) The number of Company's shares held by China Resources National Corporation ("CRNC"), the Company's shareholder holding more than 5% equity interest of the Company, increased by 78,075,749 shares as a result of the transfer of capital surplus reserve to share capital during the period under review. On 27 June 2003, China Resources National Corporation ("CRNC") entered into a share transfer agreement and a convertible bond transfer agreement with China Resources Co., Limited ("CRC"), a company promoted and established by CRNC, regarding the transfer of Vanke's State-owned shares and Legal Person shares of 156,151,498 shares and 2,295,420 convertible bonds originally held by CRNC to CRC. The procedure for the transfer of shareholding has been completed. For details, please refer to the announcement published by CRC and Vanke on 30 June 2003 and 11 July 2003 in China Securities Journal, Securities Times and the Standard.

b) The 34,147,056 B shares, representing 2.45% of the Company's total share capital, in 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., CRNC and CRC are connected companies.

(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"). It is principally engaged in distribution, property development, high technology and strategic investments. 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 Import & Export Corporation, China National Metals and Minerals Import and Export 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 RMB16,467 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 190,298,554 shares in the Company, representing 13.64 per cent of the Company's total share capital. Please refer to the above-mentioned appendix regarding the top 10 shareholders of the Company for information on the transfer of the Company's shares and convertible bonds originally held by CRNC.

(4) As at 31 December 2003, 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 2003 (%)**
Credit Lyonnais Securities (Asia) Ltd	+17,073,528	34,147,056	B shares	Foreign	2.45
Toyo Securities Asia Limited-a/c Client	+12,981,566	14,726,631	B shares	Foreign	1.06
Holy Time Group Limited	+7,321,242	14,528,800	B shares	Foreign	1.04
Boshi Value Increase Securities Investment Fund	+12,055,956	12,055,956	A shares		0.86
Huaxia Development Securities Investment Fund	+12,000,000	12,000,000	A shares		0.86
Naito Securities Co., Ltd.	+8,031,439	10,139,487	B shares	Foreign	0.73
Tongsheng Securities Investment Fund	+8,123,499	9,520,317	A shares		0.68
Bony a/c Mif-Matthews Dragon Century China Fund	+8,472,349	9,314,082	B shares	Foreign	0.67
Yuyuan Securities Investment Fund	+7,446,370	9,000,056	A shares		0.64

Yufu Securities Investment Fund	+8,751,221	8,751,221	A shares	0.63

Notes: Boshi Value Increase Securities Investment Fund, Yuyuan Securities Investment Fund and Yufu Securities Investment Fund are connected funds.

4.3 Major Convertible Bonds Holders (as at 31 December, 2003)

Bond holders	**No. of bonds held as at the end of reported period**	**Face value of bonds (RMB)**
China Resources (Holdings) Co., Ltd.	2,295,420	229,542,000
Yifangda Steady Growth Securities Investment Fund	754,810	75,481,000
Nanfang Risk-avoidance and Value Increase Securities Investment Fund	354,170	35,417,000
Baokang Bond Investment Fund	316,700	31,670,000
Shenyinwanguo-CITY BANK-UBS LIMITED	266,600	26,660,000
Guangfa Jufu Open Securities Investment Fund	234,086	23,408,600
Dacheng Bond Investment Fund	190,570	19,057,000
National Social Insurance Fund Compages 104 Yuyang Securities Investment Fund	188,550	18,855,000
Jinyuan Securities Investment Fund	185,222	18,522,200
Zhongrong Ronghua Bond Investment Fund	151,680	15,168,000

Notes:

(1) The initial conversion price of the Company's convertible bonds was RMB12.10 per share. After the Company implemented on July 2002 and May 2003 the dividend distribution proposal for the year 2001, under which a cash dividend of RMB0.2 per share was paid, and The Company's 2002 profit allocation policy of a cash dividend of RMB0.2 per share and the transfer of one share from the capital surplus reserve to share capital for 1 share held, the conversion price of the convertible bonds was adjusted to RMB5.85 per share.

(2) Since the conversion of the Company's convertible bonds into the Company's A shares began on 13 December 2002, a total of 7,925,420 convertible bonds have been converted into a total amount of 133,905,562 A shares of the Company up to 31 December 2003. Up to 4 March 2004, a total of 12,715,152 convertible bonds have been converted into a total amount of 215,781,100 A shares of the Company.

5 The Company's Management and Employees

5.1Directors, members of the Supervisory Committee and senior management

Brief Introduction to Directors

Wang Shi, male, born in 1951, is the founder of the Company. He organized "Shenzhen Exhibition Center of Modern Science and Education Equipment", the predecessor of Vanke, in 1984, and acted as General Manager. The company was reorganized into China Vanke Co. Ltd., a shareholding company, in 1988, at which time Mr. Wang became Chairman and General Manager as well as Legal Person Representative of the Company. Mr. Wang no longer acted as the General Manager with effect from 1999. In 2002, he was re-appointed as the Chairman of the Company for a three-year term.

Ning Gaoning, male, born in 1958. He became a Director of the Company in 2000, and was re-appointed as a Director and became the Deputy Chairman of the Company in 2002 for a three-year term. He joined CRH in 1986. In 1999, he became the Deputy Chairman, General Manager of CRH and General Manager of CRNC, the Chairman of China Resources Ent. Ltd., China Resources Land Limited and Director of various companies.

Song Lin, male, born in 1963. He became a Director of the Company in 2001, and was re-appointed as a Director in 2002 for a three-year term. He joined CRH in 1986. In 2000, he became the Executive Director and Deputy General Manager of CRH and in 2001, the Deputy Chairman and Managing Director of China Resources Ent. Ltd. He is also the Chairman of China Resources Logic Limited, China Resources Power Holdings Co., Ltd. and China Resources Vanguard Co., Ltd.

Yu Liang, male, born in 1965, was appointed as a Director in 1994 and in 2002 he was re-appointed as the Director for a three-year term. He joined China Vanke in 1990 and became the Deputy General Manager in 1996, the Executive Deputy General Manager and in charge of finance of the Company in 1999. He became the General Manager in 2001.

Chen Zhiyu, male, born in 1954. He became a Director of the Company in 1997, and was re-appointed a Director in 2002 for a three-year term. He is the Director of Jenston International (HK) Limited.

Wang Yin, male, born in 1956. In 2002, he was elected as a Director of the Company with a three-year term. He had worked for the Foreign Trade and Economic Cooperation

Department and joined CRH in 1984. He became a Director and Assistant General Manager of CRH in 2000 and the Managing Director of China Resources Land Limited in 2001. He became a Director and Deputy General Manager of CRH in 2003.

Mo Jun, male, born in 1967, joined China Vanke in 1991 and became a Director in 2002 for a three-year term. He became the Deputy General Manager of the Company in 2000. In 2001, he became the Executive Deputy General Manager of the Company when in 2003 he resigned from the position. He has been the Executive Deputy General Manager of Legend Raycom Company Limited.

Brief Introduction to Independent Directors

Sun Jianyi, male, born in 1953. He was appointed as a Director in 1995. In 2002, he was re-appointed as an Independent Director for a three-year term. He is currently the Executive Deputy General Manager of Ping An Insurance Company of China, and Vice CEO since January 2003.

Eric Li Ka Cheung, male, born in 1953, a citizen of Hong Kong Special Administrative Region. In 2002, he was elected as an Independent Director of the Company with a three-year term. He is the Chief Accountant at Li, Tang, Chen & Co., Certified Public Accountants, a member of the Hong Kong Legislative Council as well as a member of the Tenth National Committee of Chinese People's Political Consultative Conference.

Li Chi Wing, male, born in 1959, a citizen of Hong Kong Special Administrative Region. In 2002, he was elected as an Independent Director of the Company with a three-year term. He is Executive Director of DTZ Debenham Tie Leung and Managing Director of DTZ Debenham Tie Leung Property Management Company Limited.

Feng Jia, male, born in 1956, he used to be the Deputy General Manager of the Company and became a Director in 1998, then he expired in 2001 after his three-year term. He was appointed as an Independent Director in 2002 for a three-year term. He is currently the Chairman and General Manager of Shenzhen International Corporate Service Co., Ltd.

Brief Introduction to Members of the Supervisory Committee

Ding Fuyuan, male, born in 1950, joined China Vanke in 1990. He became a member of the first Supervisory Committee of the Company in 1993. He was appointed as the Chief Supervisor in 1995 and acted as a Convenor of the Supervisory Committee of the Company in 2001 for a three-year term. He is the Secretary of Communist Party Committee of the Company.

Jiang Wei, male, born in 1963. He was appointed as a member of the Supervisory Committee in 2001 for a three-year term. He joined CRNC in 1988 and CRH in 1990. In 1999, he became General Manager of Financial Department of CRH. Since 2000, he has been the Director and General Manager of Financial Department of CRH and since 2002, Director and the Supervisor of Finance.

Xie Dong, male, born in 1965, joined China Vanke in 1992. Elected as the representative of the China Vanke staff, he has been a member of the Supervisory Committee from 1997 to March 2004 until he was appointed as the Deputy General Manager of the Company.

Senior Management

For biography regarding Yu Liang and Xie Dong, please refer to the "Brief Introduction to Directors", "Brief Introduction to Members of the Supervisory Committee".

Ding Changfeng, male, born in 1970, joined China Vanke in 1992, has been the Deputy General Manager of the Company since 2001.

Liu Aiming, male, born in 1969, joined China Vanke as Deputy General Manager of the Company in 2002.

Wang Wenjin, male, born in 1966, joined China Vanke in 1993, has been the Supervisor of Finance of the Company since 2002.

Shirley L. Xiao, female, born in 1964, joined China Vanke in 1994 as Deputy Chief of the Company's Office. She became the Secretary of the Board and Chief of the Company's Office in 1995.

Change in Shareholding of Directors, Members of Supervisory Committee and Senior Management

Name	No. of Shares Held at beginning of 2002	No. of Shares Held at the end of 2002
Wang Shi	139,559	279,118
Sun Jianyi	24,096	128,192
Yu Liang	38,914	77,828
Ding Fuyuan	40,255	82,410

Note: The Company implemented the transfer of capital surplus reserve to share capital proposal for the year 2002 in the reported period, which caused change in shareholding of Directors, Members of Supervisory Committee and Senior Management. Besides, Ding Fuyuan, the Convenor of the Supervisory Committee of the Company and Sun Jianyi, an Independent Director of the Company increased their shareholding in the Company respectively by 1,900 and 80,000 transferable A shares of the Company, which has been locked up.

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

The remuneration of each of the Company's senior management is determined in accordance with the market standard and the overall operating results of the Company for the year. The Company follows the principle of its remuneration policy, which is "based on market principles, offer competitive salaries to retain and attract high-calibre professionals". In collaboration with a consultancy firm, the Company conducted a survey of the salary levels in the industry and, based on the survey findings, determined the overall remuneration range for its staff, including the senior management. The actual remuneration (including bonus) of each employee was calculated according to the above-mentioned factors and individual performance. The remuneration of the General Manager (whose performance appraisal was conducted by the Chairman) was also determined in accordance with the aforesaid principles.

Remuneration of the Company's Directors, members of Supervisory Committee and senior management for the year amounted to RMB4.4 million, of which one person received between RMB800,000 and RMB900,000; one person between RMB700,000 and RMB800,000; one person between RMB600,000 and RMB700,000; one person between RMB500,000 and RMB600,000; three persons between RMB400,000 and RMB500,000; and one between RMB300,000 and RMB400,000. The 3 Directors with highest remuneration received RMB1.63 million, while the 3 senior management with highest remuneration received RMB1.77 million. Ning Gaoning, Song Lin, Chen Zhiyu, Wang Yin, Mo Jun and Jiang Wei, the six directors and members of the Supervisory Committee, received a monthly salary of RMB2,500 (including tax) during their tenure, while Sun Jianyi, Eric Li Ka Cheung, Li Chi Wing and Feng Jia, the four independent directors, received a monthly salary of RMB5,000 (including tax) during their tenure, without other types of remuneration or allowance.

Reasons for the resignation of Directors, members of the Supervisory Committee and senior management during the reporting period

Due to health condition, Chen Zuwang resigned from the position of Deputy General Manager of the Company at the 5th meeting of the 13th Board in March 2003. The Board has approved his resignation.

Due to reason of personal development, Mo Jun resigned from the position of Executive Deputy General Manager of the Company at the 6th meeting of the 13th Board in April 2003. The Board has approved his resignation.

Due to personal reason, Chen Zhiping resigned from the position of Deputy General Manager of the Company at the 7th meeting of the 13th Board in July 2003. The Board has approved his resignation.

Subsequent Event

Due to manifold duties, Mo Jun resigned from the position of Director of the Company at the 10th meeting of the 13th Board in March 2004. The Board has approved his resignation.

According to election of the representatives of the staff, Mr. Zhang Li succeeded to Mr. Xie Dong as the delegate of the staff in the Supervisory Committee since March 5, 2004.

Appointment of 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 in March 2004.

5.2 Number and breakdown of staff

As at 31 December 2003, there were 7,025 employees (excluding 10 retired staff) under the Company's payroll, of which 42% with tertiary qualifications. The breakdown of staff by job nature was as follows: 274 sales personnel (sales and planning), 993 real estate personnel (engineering, design, cost management, project development and related affairs, and property management), up by 4.58% and 14.67% respectively comparing with 2002; 441 other professional personnel (finance, audit, IT, legal, human resources, customer relation and data management), down by 10.18%, and 5,317 property management and administration supportive staff (security, cleaning, logistics, other property management staff and drivers), up by 19.86%. The breakdown of staff by age was as follows: 3,974 employees (56%) were below 30; 2,798 employees (40%) were between 30 and 40; and 253 employees (4%) were over 40. The average age of staff was 31.

6 STRUCTURE OF CORPORATE GOVERNANCE

6.1 Explanations in Accordance with the Regulations on Corporate Governance

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

The Company has been in compliance with the Company Law, the Securities Law and other laws and regulations in relation to the management of listed companies, with a view to continue to fine-tune the Company's corporate governance structure and standardise its operation procedures. During the period under review, the details of the Company's implementation of corporate governance were 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 for the convention of shareholders' meeting and special general meetings. During the year, the connected transaction between the Company and its single largest shareholder regarding the disposal of property held by the Company had been conducted in strict compliance with regulations. The disclosure of information was timely and sufficient, and there was not sign of any damage inflicted by the Company's single largest shareholder in relation to the transaction on the interests of the Company and its minority shareholders. The resolution regarding the issue of the Company's convertible bonds had been approved at the special general meeting by a large majority vote.
2. The single largest shareholder of the Company had faithfully performed its good faith duties, by exercising its right to make decision in accordance with the Board of Directors' operational requirement, abstaining from voting in resolutions regarding connected transactions and performing its duties within the parameters of regulations. The election of directors and members of the Supervisory Committee, the appointment and dismissal 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 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 shareholders.
5. The Company had been awarded "Best in Corporate Governance in China" in the Asian category by *The Asset,* an Asia's finance magazine. The award was based on the opinions of and voting from more than 100 large institutional investors worldwide, each with over US$200 billion assets under management.

6. In accordance with the “Regulations on the Management of Listed Companies”, the Company will elaborate on the competition with the Company’s single largest shareholder China Resources National Corporation and its related companies (“CRNC Group”) in similar businesses. Investors are urged to pay attention to this matter.

China Resources Land (Beijing) Limited ("CRL Beijing"), a 50.3% owned subsidiary of the Company’s single largest shareholder CRNC Group, is competing with the Company in residential property business. As such, to the Company, there exists the risk of competition in similar businesses between the Company and the substantial shareholder and its related parties.

The above-mentioned competition originated from the transfer of the Company’s legal person shares to CRNC Group in 2000. As a result, CRNC Group owns 13.64% of the Company’s total share capital and, through its shareholding of 50. 3% in CRL Beijing, implements the development strategies of its property business. On the surface, competition emerges in similar businesses.

China Resources Land Limited (“CRL”) implemented its national development strategy and established China Resources Land (Beijing) Limited, China Resources Land (Shanghai) Limited and China Resources Land (Chengdu) Limited. CRL intended to complete the plan for its national development strategy within three years. CRNC Group, through CRL, will improve its projects and products in a systematic and well-planned manner and in accordance with principle and strategy. CRNC Group will achieve its strategic goals through specialised business activities, market-driven operation, and modernised management. Up to the end of 2002, CRL owned a land bank comprising 5.49 million square metres and had completed close to 50 property development projects. As at 30 June 2003, the total assets of CRL were HK$9,369 million and net assets amounted to HK$3,958 million.

Although CRL Beijing’s product positioning in terms of geographical location, market and target customer differs from that of the Company, CRL Beijing’s development strategy, development projects in Beijing, as well as land bank in Shanghai and Chengdu pose risk to the Company of competition for customer base in the same business sectors. The competition in similar businesses will spread with CRL Beijing’s implementation of a trans-regional expansion plan for its property development business. However, such type of competition is completely market-driven.

To ensure China Vanke’s property business development, CRNC Group has made an undertaking to the Company that it will provide as much support to China Vanke as it did in the past, and that it will remain impartial in the event of any competition between the investment projects of China Vanke and that of CRNC and its subsidiaries, and in the event of any disagreements or disputes arising from such competition. Until now, the

Company’s normal business development and expansion has not been affected by CRL’s business expansion and CRNC Group’s being the Company’s single largest shareholder.

6.2 Performance of the Independent Director

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. Having taken into account the interest of the Company’s shareholders, particularly that of the minority shareholders, and being an expertise in their own industry, they gave independent and constructive advice in the course of discussion about the various resolutions considered at the Board of Directors’ meetings in 2003.

6.3 The independence of business operation, employees, assets, organisation and finance from the Company's controlling shareholder

The Company's single largest shareholder is CRC and its related (which together held 13.64 per cent of the share capital of the Company at the end of the year). The Company's business operation, employees, assets, organisation and finance are completely independent from those of its single largest shareholder. This allows the Company to maintain independence in business integrity and autonomy in operation.

6.4 The establishment and implementation of appraisal and incentive systems for senior management

Starting from 2002, the Company worked with its consultancy firm to introduce 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 in the competency required for their positions. With regard to all those in charge of subsidiary companies’ operation, the review will focus on the performance of the company for which they are held accountable, the value of their positions and their achievement in the competency required for 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 has 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 operating results of the Group and its various companies for that particular year, overall achievements against the benchmark set by the management and the salary level in the industry. The performance of the Company's General Manager will be reviewed by the Chairman.

To attract and maintain high-level talent and to encourage them to render long-term service to the Company, the Board of Directors passed the "resolution regarding the preferential house purchasing policy", pursuant to which the Group's medium to high-level management talent and excellent employees with significant contribution will be given preferential terms to buy housing developed by Vanke as medium- to long-term welfare. The related resolution was disclosed in the announcement of the Fourth Meeting of the Thirteenth Board.

The above-mentioned performance review and incentive scheme have provided good motivation and direction to business operation in recent years. For senior management, we are taking further steps in exploring medium to long term incentive plans to achieve continued improvement.

7 General Meetings

7.1 The Fifteenth Annual General Meeting

The Fifteenth AGM was held at the Vanke Architecture Research Centre, Meilin Road of Shenzhen, on 22 April 2003. The notice for convening the AGM was published in China Securities Journal, Securities Times and The Standard on 18 March 2003. The last day for verifying the qualification of shareholders was 2 April 2003. A total of 38 proxies and/or shareholders, representing 155,434,631 shares in the Company or 24.63 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 2002; (2) the Audited Financial Report and Auditors' Report for the year 2002; (3) the dividend distribution proposal of the year 2002 and proposal for 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 2003, with auditors' remuneration of RMB700,000 and HK$10,00,000 respectively; (5) the Work Report of the Supervisory Committee for the year 2002. The above resolutions were published in China Securities Journal, Securities Times and The Standard on 23 April 2003.

7.2 The First Special General Meeting 2003

The first SGM of 2003 was held at Vanke Architecture Research Centre, Meilin Road of Shenzhen, on 27 October 2003. The notices for convening the SGM and postponement of the SGM were published in China Securities Journal, Securities Times and The Standard on 9 and 27 September 2003 respectively. The last day for verifying the qualification of shareholders was 18 September 2003. A total of 40 proxies and/or shareholders, representing 363,367,852 shares in the Company or 26.05 per cent of the Company's total share capital, attended the SGM. The following resolutions were approved at the meeting: (1) the resolution regarding the issue of the Company's Convertible Bonds in the PRC, and each of the following items was voted at the meeting: the feasibility of the issue of the Convertible Bonds, the scheme for issuing the Convertible Bonds, the scale of the issue, the nominal value and issuing price, the term of the Convertible Bonds, the interest rate of the Convertible Bonds, the schedule and method of interest payment and repayment of principal, the conversion period, the fixing of conversion price and the principles of adjustment, downward rectification terms, the terms of redemption, the terms for sell back, the terms for redemption prior to maturity, the issuing methods and arrangement of placing to existing shareholders, the use of proceeds, the valid period of the resolution, the authorisation given to the Board to take charge of the issue of Convertible Bonds and related issues; (2) the resolution regarding the feasibility of investment projects to be financed by proceeds from the Convertible Bonds; (3) elaboration on the use of proceeds from the previous fund raising exercise and the Auditors' Report prepared by accounting firm; (4) the resolution regarding the sale of properties at Shenzhen Fujing Building to China Resources Vanguard. The above resolutions were published in China Securities Journal, Securities Times and The Standard on 28 October 2003.

7.3 Election, Change of Directors and Members of Supervisory Committee

Please refer to the above paragraphs for details, namely, "Reasons for the resignation of Directors, Members of the Supervisory Committee and Senior Management during the year under review".

8 Directors' Report

8.1 Management's Discussion and Analysis

Business Environment

2003 was a year of rapid growth for China's property market. Under better regulation by government policies, the national property industry began to enter the stage of healthy development. While certain property markets experienced sharp growth, the overall property market in China indicated a balanced development trend. Investments in the property market had been made more rationally, while supply and demand remained robust and grew in tandem.

In 2003, property investments in China amounted to RMB1,010.61 billion, representing an increase of 29.7% from that of the same period last year. Investments in residential property development reached RMB678.24 billion, representing a 28.6% increase from that of the same period last year.

On the other hand, the Company also noticed the increase in land acquisitions for residential development and the scale of development. As at the end of 2003, the area of land acquired and the area of land developed amounted to 370 million square metres and 210 million square metres respectively, which represented increases of 21.5% and 20.2% from those of last year respectively and was smaller than the growth rate of property investments. All these indicated that property market is experiencing steady growth under the government's management.

The property market continued to grow rapidly during the year 2003. Completed area and sold floor area of commodity housing reached 322 million square metres and 285 million square metres respectively, representing increases of 21% and 28.9% from those of the previous year respectively. Sales revenue of commodity housing also continued to rise, reaching RMB630.39 billion, which represented an increase of 37.4% when compared with that of last year. While demand and supply of the property market both surged, growth in demand substantially surpassed that of supply.

During the year, the selling prices of commodity housing maintained steady growth. The average price of commodity housing in China was RMB2,211, representing an increase of 3.8% from that of the previous year.

Business review

In 2003, the Group's projects in 10 cities including Shenzhen, Shanghai provided profit contribution. Owing to rising market sentiment and the gradual completion of the Group's projects, development of which began in 2001 and 2002, in different cities, the selling prices of the Group's projects rose. As a result, the Group's profit margin substantially increased from that of the previous year.

During the past year, the Company reported satisfactory profit returns from nine markets including Shanghai, Shenzhen, Nanjing, Wuhan, Chengdu, Shenyang, Nanchang, Changchun, Beijing and Tianjin. The profits from these nine markets were mainly generated from a total of 18 projects. During the year, the booked floor area and booked revenue amounted to 1.36 million square metres and RMB5,805 million respectively, representing increases of 21.8% and 37.7% from those of the same period last year respectively. The Company's market share in China increased form 0.94% to 0.99%.

The Company took up 1.55% market share in Shanghai, 3.44% in Shenzhen, 1.27% in Nanjing, 1.91% in Chengdu, 6.31% in Shenyang, 6.39% in Changchun and 0.62% in Beijing. During the year, in accordance with market changes and predictions on the future market, the Company made timely adjustment to its project development tempo, postponing the development and sales of certain projects and raising the selling prices of its projects. Given the increase in the prices of building materials such as steel and cement, the Company's strategic adjustments had boosted the Group's gross profit margin from 20.3% in 2002 to 21.6% in 2003.

In the Shanghai Regional Management Centre, the Group obtained sumptuous return. This region, which included Shanghai as the nexus, Nanjing, accounted for 50.9% of the Group's profit. Shanghai alone generated RMB200 million profit, which represented 38.5% of the Group's net profit. Profit contribution to this region by Nanjing market and Nanchang market amounted to RMB41 million and RMB24 million respectively. Vigorous demand and growth in prices in the Shanghai region also helped boost the overall gross margin of the Group. During the year, the major projects that provided profit contribution through pre-sales included phase 2 and phase 3 of Shanghai Holiday Town, with 119,000 square metres sold and an aggregate of 99.4% being sold, phase 2 and phase 3 of the Vanke City Garden New Town (South), with 89,000 square metres sold and an aggregate of 99.7% being sold, phase 1 of Four Seasons Flower City, with 109,000 square metres sold and an aggregate of 98.6% being sold, phase 2 of Nanjing Metropolitan Apartments, with 46,000 square metres sold and an aggregate of 93.2% being sold, phase 3 and phase 4 of Nanchang Four Seasons Flower City, with 96,000 square metres sold and an aggregate of 91.3% being sold.

With Shenzhen as the nexus, the Shenzhen Regional Management Centre provided significant profit contribution to the Group. Shenzhen realised a net profit of RMB192 million, accounting for 36.9% of the Group's net profit. Profit from this region mainly generated form phase 1 and phase 2 of Shenzhen Paradiso, with 70,000 square metres sold and an aggregate of 71.1% being sold, phase 1 of East Coast, with 48,000 square metres sold and an aggregate of 68.8% being sold, Four Seasons Flower City, with 47,000 square metres sold and an aggregate of 99.4% being sold, Metropolitan Apartments, with 14,000 square metres sold and an aggregate of 94.7% being sold.

In the Shenyang Regional Management Centre, Shenyang, being the nexus, and Changchun continued to provide stable return. Shenyang Metropolitan Apartments as well as phase 1 and phase 2 of Four Seasons Flower City together reported 136,000 square metres sold in aggregate and an aggregate of 83.1% being sold, while 74,000 suare metres, accounting for 84.1%of Changchuan Vanke City Garden had been sold.

Beijing, Chengdu, Wuhan and Nanchang markets reported stable profits. 76,000 square metres and an aggregate of 92.0% of Beijing Green Garden and Beijing Star Garden had been sold. Phase 3 of Chengdu Vanke City Garden continued to experience brisk sales, with an accumulative sales floor area of 101,000 square metres and an aggregate of 84.3% being sold. During the period, 103,000 square metres and an aggregate of 96.1% of Wuhan Four Seasons Flower City had been sold.

During the year, with the Company's close supervision and efforts made by the staff of the Tianjin Branch, the Tianjin Branch had returned to normal operation. Its strengthening and improvement of workforce produced positive results. During the year, the Tianjin Branch achieved profit. 65,000 square metres and 73.4% of Tianjin Crystal City project had been sold, while 31,000 square metres and 92.6% of Tianjin People Tree had been sold.

Sustainable development
During the year, the Group continued to pay close attention to and conduct study of the implementation of land policy and changes in the land market. At the same time, the Group expanded its business to Pearl River delta, Yangtze River delta and Northeast regions, and tapped into the new markets of Guangzhou and Zhongshan, which together with the existing markets of Shenzhen and Foshan formed interactive regional development, with Shenzhen as the hub. Besides, the Group also proceeded with another interactive regional development, which includes Changchun, Shenyang and new projects in Anshan and Dalian. Shenyang is the nexus of this region. In the Shanghai Regional Management Centre, the Company actively looked for opportunities to tap into new markets.

In the past year, the Group's newly-added land reserves reached 2.76 million square metres, mainly from Shenzhen, Guangzhou, Zhongshan, Shanghai, Nanjing, Chengdu, Shenyang, Changchun, Anshan and Dalian.

As of the end of the year, the accumulated project resources of the Group amounted to 7.44 million square metres, which satisfied the demand for project resources required for stable growth for each of 2004 and 2005.

Due to the change in land policy, there was a loss in project resources of 0.61 million square metres in Chengdu and Wuhan. The main reason for the loss is the application of new land transfer policy. The Group can't practically own the projects without titles of the land use right even though the Group is trying to find ways to get those titles. So the group excluded them from the Group's land bank for the moderate consideration.

Management and Innovation
In the past year, the management further improved the operation process with an aim to enhance the efficiency in operational management. On business management front, the Company had strengthened its market research through conducting regular and timely analysis of the statistics and policies in relation to the property industry, in order to

assist in decision-making. In addition, the Company initiated the adoption of standardised housing in its development projects to enhance product quality. With an aim to improve construction quality, the Company introduced “Monolithic Action”. Under this plan, the Company fine-tuned measures such as the quality standard of different sections through the implementation of “Strategic Supervision”, and strengthened the control of major operational processes and supply management. Moreover, a preliminary three-tier procurement system for the Group, namely centralised, regional and target procurement systems had been established under the plan. With respect to customer relations, the management structure of the Company’s customer service system, which began to take shape, had been designed to increase the level of customers’ satisfaction and loyalty. Regarding performance evaluation and employee relations, the Company continued to promote a performance-oriented culture and improve the quality of its workforce. The Company also paid high regard to cultivating a talented workforce. Through professional and management skill training, the Company enhanced the professional standard and management level of its staff.

During the period under review, the Group carried on with product innovation and encouraged professional achievements. The product of “a garden or balcony for every single house” received a patent from the State Intellectual Property Office of China. Nanjing Vanke Metropolitan Apartments won the overall grand prize in “2003 Innovative Housing in China organised by The Center For Housing Industrialization of the Ministry of Construction. Shenyang Vanke Four Seasons Flower City was named as 2003 “Healthy Residential Community” co-organized by China Real Estate Association and China Real Estate News. Shenzhen Vanke Real Estate Co., Ltd. won the First Prize of 2002 Comprehensive Real Estate Development Capacity in Shenzhen for the fifth consecutive year. Shenyang Vanke Real Estate Co., Ltd. was named as the “Trustworthy Company” in Liaoning province and the Company was elected as the “Top Ten Best Employers in the Real Estate Industry” in January 2004.

Investor Relations

With over 10 years of experience in the domestic and international capital markets and perseverance with its principle of transparency, the Company has successfully developed a broad institutional and retail investors’ base.

In the past year, the Company further enhanced its communication with domestic and foreign investors. The Company updated investors on a regular, open, comprehensive and timely basis on corporate information that might affect their interests. The Company strove to augment the quality and standard of information disclosed, with an aim to increase transparency. In terms of timeliness, accuracy, completeness, legitimacy and the act of disclosure that might affect the stock market and investors, the Company continued to receive an excellent grading from Shenzhen Stock Exchange. The Company also received “The Best Investor Relations Award by a Chinese Company – Small Cap” in the UK-based IR Magazine Asia Awards 2003. This award was based on

the voting by major institutional investors and fund managers worldwide.
During the year, the management of the Company attended over a hundred meetings with domestic and foreign institutional investors and stock analysts. At home and abroad, the Company also hosted and participated in more than 10 large and small to medium sized corporate presentations and press conferences on results announcement. The Company had also set up enquiry hotlines to ensure queries from each retail investor were properly handled.

As at the end of the year, the Company's listed market capitalisation reached RMB7.35 billion, among which the Company's listed market capitalisation of A shares reached RMB6.08 billion, which ranked No.15 among Shenzhen and Shanghai-listed companies; the Company's listed market capitalisation of B shares reached RMB1.27 billion, which ranked No.11 among Shenzhen B share listed companies; The Company was selected as a constituent stock of the Shenzhen Stock Exchange 100 Index.

8.2 Company's Operations

(1) The scope and operations of the Company's core business
The Company's core business is property development. China Vanke has been engaged in the development of properties since 1988. It was among the first developers of residential properties for sale in the PRC. The Company decided to focus on property development in 1992, and has since concentrated its efforts on the development of residential properties. Following the sale of its interests in Vanguard in 2001, the Group has completed its business rationalisation.

Turnover

	RMB '000	%
Property	5,804,799	97.18%
Others	168,469	2.82%
Total	5,973,268	100%

Net Profit

	RMB '000	%
Property	522,641	100
Others	-1,493	**
Total	521,148	100

Breakdown of turnover (RMB 5,805 million) and net profit (RMB 522 million) of property development by regions

Turnover

	RMB '000	%

Shenzhen	1,455,646	25.08
Shanghai	1,635,233	28.17
Beijing	462,574	7.97
Shenyang	463,608	7.99
Nanjing	200,428	3.45
Wuhan	280,710	4.84
Chengdu	309,120	5.33
Changchun	190,159	3.28
Nanchang	236,515	4.07
Tianjin	559,549	9.64
Others	11,257	0.18
Total	5,804,799	100

Net Profit and Booked Area

	RMB '000	%	'000 Sqm	%
Shanghai	199,831	38.23	349	25.59
Shenzhen	189,736	36.30	224	16.42
Nanjing	41,024	7.85	36	2.64
Shenyang	26,098	4.99	146	10.70
Chengdu	24,204	4.63	102	7.48
Nanchang	23,910	4.57	96	7.04
Wuhan	20,476	3.92	105	7.70
Changchun	14,743	2.82	68	4.99
Beijing	8,150	1.56	87	6.38
Tianjin	7,967	1.52	149	10.92
Others	(33,498)	(6.39)	2	0.14

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 2003, the booked area, turnover and booked cost was 1.36 million square metres, RMB 5.81 billion and RMB4.57 billion respectively. The gross profit margin for the year was 21.6%. In 2003, the commodity residential properties sold in the PRC amounts to RMB630.3 billion, the Company's market share was 0.99%(source of information: National Bureau of Statistics of China, www.realestate.cei.gov.cn).

(2) Operating Results of the Wholly-owned Subsidiaries and Holding Companies

(Unit: RMB '000)

Company Name (including subsidiary	Percentage of	Sales in 2003	Net profit in 2003	Total Asset at the end	Major operating project

project develop and property management companies	equity held			of 2003	in 2003
Shanghai Vanke City Garden Development Company Limited	100	1,663,863	200,483	1,860,222	Holiday Town, City Garden New Area South Part, Baoshan, Jinfeng
Shenzhen Vanke Real Estate Company Limited	100	1,537,411	192,156	3,152,759	Four Seasons Flower City, Paradiso, East Coast
Nanjing Vanke Real Estate Company Limited	100	200,698	41,024	591,102	The Metropolitan Apartments
Chengdu Vanke Real Estate Company Limited	100	311,782	24,229	386,506	City Garden
Shenyang Vanke Real Estate Development Company Limited	100	471,680	23,802	712,815	Four Seasons Flower City, The Metropolitan Apartments
Jiangxi Vanke Yida Real Estate Development Company Limited	50	236,942	23,685	208,240	Four Seasons Flower City
Wuhan Vanke Real Estate Company Limited	100	282,147	20,391	401,726	Four Seasons Flower City
Changchun Vanke Real Estate Development Company Limited	100	191,810	14,705	234,703	City Garden
Beijing Vanke Enterprise Shareholding Company Limited	100	484,806	9,874	1,290,115	Star Garden, Green Garden

Tianjin Vanke Real Estate Company Limited	100	573,293	2,611	1,276,652	Garden New Town, People Tree

The Group's Major Property Projects in 2003 *(unit: square metre)*

Project Name	Location	Total Planned Area	Area under construction in 2003	Completed Area in 2003	Accumulated Completed Area
Shenzhen Paradiso	Futian	243,000	77,000	166,000	166,000
Shenzhen East Coast	Yantian	214,800	67,000	77,000	77,000
Shenzhen 17 Miles	Yantian	50,678	25,000	-	-
Guangzhou Four Seasons Flower City	Nanhai	447,000	72,000	-	-
Shanghai Lanqiaoshengfei	Minhang	92,500	30,000	-	-
Shanghai Four Seasons Flower City	Baoshan	227,205	-	109,000	109,000
Shanghai Bluemountain City	Pudong	147,455	106,000	-	-
Shanghai Holiday Town	Minhang	576,000	113,000	115,500	285,500
Shanghai City Garden New Area(south part)	Minhang	156,409	-	118,000	156,409
Nanjing Metropolitan Apartments	Jianye	155,000	49,000	38,000	106,000
Nanchang Four Seasons Flower City	Gaoxin	222,300	149,000	138,000	222,300
Shenyang Four Seasons Flower City	Yuhong	566,157	79,800	96,000	190,588
Shenyang Metropolitan Apartments	Dadong	164,676	82,300	76,800	124,732
Changchun City Garden	Erdao	185,983	89,200	89,200	185,983
Beijing Westmountain Garden	Haidian	107,010	107,010	-	-
Beijing Green Garden	Chaoyang	286,400	104,000	-	182,400
Beijing Star Garden	Chaoyang	285,200	86,400	59,000	198,800
Tianjin Crystal City	Hexi	337,218	102,900	112,000	112,000

Tianjin People Tree	Beichen	108,400	-	54,800	108,400
Tianjin Garden New Town	Beichen	377,299	-	9,200	326,500
Chengdu City Garden	Jinjiang	436,000	125,800	120,800	314,800
Chengdu Metropolitan Apartments	Chenghua	108,900	108,900	-	-
Wuhan Four Seasons Flower City(east district)	Dongxihu	263,618	120,200	115,000	257,468
Wuhan City Garden	Hongshan	898,500	80,000	-	-
Total		**	1,774,510	1,494,300	**

(3) Major Suppliers and Customers

A. 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 equipment and external or internal decoration materials. Such equipment and materials are purchased through centralised procurement on the Internet. For this procurement method, the Company has formed a strategic network of suppliers. In 2003, the purchase amount from the five largest suppliers was about RMB128 million, accounting for 26.96% of the total direct purchase amount of the Company.

B. 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. The booked revenue of the Company for year 2003 amounted to RMB5.81 billion. Sales to the five largest customers amounted to RMB112 million, representing 1.88 % of the total revenue of the year.

(4) Issues and challenges encountered in operation and solutions to the issues

Issues and challenges encountered in operation and solutions to the issues

In 2003, the overall market experienced healthy development. During the year, growth rate of property investment, while the growth rate of demand exceeded that of supply and the growth rate of sales revenue exceeded that of investment, area under construction, area completed, area sold and sales revenue continued to experience rapid growth, while the growth rate of sales exceeded that of invest, which indicated strong support of demand. There was no sign of overheating property investments across the country.

As at the end of the year, the Group's land reserves amounted to 7.44 million square metres construction area. Given that the Group carried out a project development in different phases, the land assignment procedures of certain projects, in which the land was obtained by negotiation, were still under processing. As such, there may exist uncertainty in the amount of land reserves for certain projects mentioned above, which may reduce the total amount of land reserves of the Group, but will not affect the Group's operation, profit and cost in the short run. The management urged investors to be alert of this factor. In view of the changes in the policy on the transfer of land use right and exhaustible land resources, the management will strengthen the planning for the sales of existing projects in accordance with market changes and will take advantage of the Company's development and sales momentum in order to realise the full market value of the properties it developed. Simultaneously, the Company will pay close attention to the market development, and will actively seek collaboration opportunities for obtaining project resources. The Company will keep a more open mind and use flexible measures in response to market changes. In the new year, the Company will further enlarge its land bank to meet the need for sustainable development.

The growth in operational scale had also led to the increase in the Group's total inventories of properties, which rose to RMB8,505 million at the end of 2003. Inventories of completed properties increased to RMB1,866 million, representing an increase of 40.9% from that of the same period last year. In 2004, the Group will, according to its project expansion scheme and plan for project development, tightly grasp at the momentum of project development in various regions and stress on marketing of completed projects. Moreover, the Group will also adopt different sales and leasing strategies for various types of completed commercial properties, in order to further lower the inventory level of completed residential properties and increase the cash flow for project development.

The outbreak of "SARS" in some cities in the first half of the year had only limited impact on the Company's business in Beijing and Tianjin. Since the disease had been brought under control, the Board of Directors was confident that it would not have lingering effect on the Company's performance.

After making efforts in various aspects, the Tianjin Branch realised profit in 2003. With the straightening out of outstanding problems and the development of existing and new projects, Tianjin Branch is expected to enter a stage of healthy and stable development from 2004 onwards.

(5) Explanation on applications of the business plan for the year

The Company has not disclosed any profit forecast for 2002, nor any plans related to income, cost or expenditure. Therefore, the Company does not need to make special explanation on changes of business plan. In 2002 annual report, the Company disclosed ‘It is estimated that areas under construction and area completed will amount to 1.81 million square metres and 1.71 million square metres respectively, while the planned area sold and booked floor area will amount to 1.45 million square metres. In 2003 the Group completed the area under construction and the area completed at the volume of 1.79 million and 1.48 million respectively, and sold and booked areas 1.31 and 1.36 million respectively, showing a slight difference with the disclosed target. The reason is: Demand and supply in the property market were both robust. Market prices continued to rise steadily. On the other hand, with the practice of property financing policy and policy on open transaction of transfer of land use rights during the year, the problem of insufficient land resources became more noticeable. In accordance with market changes and in making attempts to ensure the Group’s projects generate profits during the year, the Company raised the prices of some of its projects, in order to realise maximum profit per gross floor area. Such adjustments improved the gross profits of the projects and the Company’s profitability, while affecting the Company’s sold area and booked area during the year. These projects mainly included Shanghai Holiday Town, Wuhan Four Seasons Flower City, Tianjin Crystal City projects. Besides, owing to the “SARS” outbreak and the application of certain permits, the development of Beijing Xishan Garden and phase 3 of Beijing Green Garden projects had been postponed to 2004. This arrangement had, to certain extent, affected the completed and booked plan.

The adjustments to sales and booked area mentioned above had not affected the Company’s profit growth target for 2003 set by the Board of Directors.

8.2 Investment of the Company

During the year under review, the Group’s net long-term investment amount decreased by RMB 3.93 million, representing a decrease of 6.1 % 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

In 2002, the Group raised the amount of RMB1.5 billion through the issue of the Company’s convertible bonds. The use of proceeds is as follows:

Investment Projects	Statement made on the issue of convertible bonds		As of present		Construction Progress
	Amount of promised investment	Estimated net sales profit rate	Amount of completed investment	Portion of net sales profit rate booked	
	RMB'000	%	RMB'000	%	%
Shenzhen Four Seasons Flower City (second district)	250,000	20.0	250,000	31.4%	100.0%
Shenzhen Paradiso (Xiasha)	400,000	22.4	400,000	29.0%	78.6%
Shanghai Vanke Holiday Town	300,000	13.5	300,000	16.6%	66.4%
Beijing Green Garden	300,000	17.9	300,000	16.8%	74.6%
Chengdu City Garden	250,000	19.5	250,000	21.4%	73.2%
Total	1,500,000		1,500,000		

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

A、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 2003 interim period, the proceeds had been fully applied to all the projects as planned.

B、With the exception of Beijing Green Garden, which reported a booked investment return slightly lower than that disclosed in the "Convertible Bonds' Offering Circular", other investment projects had generated higher investment returns when compared with the estimated rates in the circular. Shenzhen Four Seasons Flower City (second district), Shenzhen Paradiso reported satisfactory investment returns.

(2) Use of capital not from the capital market

Equity investment

a. During the period, the Company established a new wholly-owned subsidiary – Foshan Vanke Real Estate Co., Ltd., with a registered capital of RMB50 million. It is principally engaged in the development and operation of the Nanhai Vanke Four Seasons Flower City project.
b. During the period, the Company established a new wholly-owned subsidiary – Zhongshan Vanke Real Estate Co., Ltd., with a registered capital of RMB20 million. It is principally engaged in the development and operation of the Zhongshan Vanke

City Landscape project.

c. During the period, the Company established a new wholly-owned subsidiary – Guangzhou Vanke Real Estate Co., Ltd., with a registered capital of RMB50 million. It is principally engaged in the development and operation of the Guangzhou Nanhu project (a tentative name).

d. During the period, the Company established a new wholly-owned subsidiary – Guangzhou Vanke Property Co., Ltd., with a registered capital of RMB30 million. It is principally engaged in the development and operation of the Guangzhou Vanke City Garden project.

e. During the period, the Company established a new wholly-owned subsidiary – Dalian Vanke Jinxiu Flower City Development Co., Ltd., with a registered capital of RMB10 million. It is principally engaged in the development and operation of the Dalian Vanke City Garden project.

f. During the period, the Company increased its shareholding in Anshan Vanke Real Estate Development Co., Ltd.; as at the end of the period, the Company's shareholding in Anshan Vanke Real Estate Development Co., Ltd. had increased from 65% to 100%.

g. During the period, the Company increased its shareholding in Anshan Vanke Property Management Co., Ltd.; as at the end of the period, the Company's shareholding in Anshan Vanke Property Management Co., Ltd. had increased from 42.25% to 100%.

h. During the period, the Company promoted the establishment of Jiangxi Vanke Yida Property Management Co., Ltd., with a registered capital of RMB1 million, of which 80% was held by the Company's subsidiary Jiangxi Vanke Yida Real Estate Development Co., Ltd., 10% was held by the Company's subsidiary Shanghai Vanke Zhongshi Property Co., Ltd. and the remaining 10% was held by the Company's partner Jiangxi Yida Investment Development Co., Ltd. Jiangxi Vanke Yida Property Management Co., Ltd. is engaged in property management.

Other investments

During the reported year, the Company's property development business added the following 13 new projects. The total site area and planned construction area were 2.36 million square metres and 2.76 million square metres respectively.

Region	New projects	Location(District)	Site area (‘000 sq. metres)	Planned Construction area (‘000 sq. metres)	Progress status

Shenzhen	Huayu Project	Longgang	112	142	Pre-construction
	Banxuegang Project	Longgang	398	428	Pre-construction
Guangzhou	Nanhu Project	Baiyun	82	162	Pre-construction
	City Garden	Huangpu	136	193	Pre-construction
Zhongshan	Four Seasons Flower City	Nan	324	500	Pre-construction
Shanghai	Jinghongxincun Project	Minhang	192	122	Pre-construction
	Qibaozhen 53# Project	Minhang	58	145	Pre-construction
Nanjing	Bright City	Hexi	134	211	Pre-construction
Shenyang	Arboretum Project	Dongling	412	143	Pre-construction
Changchun	Shangdong Garden	Erdao	153	204	Pre-construction
Dalian	City Garden	Shahekou	162	224	Pre-construction
Anshan	City Garden	Tiedong	154	173	Pre-construction
Chengdu	Metropolitan Apartments	Chenghua	45	109	Under Construction
	Total		2362	2756	

Remark: The above project resource cost RMB2.97 billion in total. By the end of 2003, the Company had paid RMB2.28 billion land cost.

8.3 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.

RMB’000

Financial Status	**31/12/2003**	**31/12/2002**	**+/- %**	**Reason for Change**

Total Assets	10,541,354	8,189,799	29%	Steady growth in the scale of business
Fixed Assets	433,716	611,362	-29%	Sold and wrote off certain fixed assets
Non-current Liabilities	909,382	1,521,023	-40%	Conversion of convertible bonds and bank borrowings originally categorised as long-term and due within one year had been categorised as current liabilities
Shareholders' Equity	4,739,949	3,619,884	31%	Growth in net profit during the period under review and convertible bonds
Gross Profit	1,291,241	889,353	45%	Growth in property business
Operating Profit	815,199	525,852	55%	Increase in profit generated from core business
Net Profit	521,148	382,025	36%	Increase in profit generated from core business

8.4 The impact of changes in operating environment, policies and regulations

In June 2003, the People's Bank of China promulgated "Notice regarding further tightening of property lending" to standardise seven financing policies in relation to the various stages of property development. These policies govern the granting of loans in relation to land acquisition, working capital for building and construction enterprises, home mortgage, etc. In August, the State Council of People's Republic of China promulgated "Notice of the State Council of PRC regarding the promotion of continuous and healthy development of the property market", stating that the property sector had become one of the pillar industries of the national economy. Regulations of a healthy market system, the development of home mortgage, the control of land supply, the establishment of a good market order and the promotion of the secondary market, which serve as guidance, were also introduced. The Company believed the introduction of the above-mentioned policies would provide local property sector a systematic framework in the medium to long term. Such policies will play an important role in regulating property development and the act of transaction, intensifying industry consolidation and raising the overall industry standard, facilitating long-term and healthy development of the property sector. Being a large-scale property developer with regulated operations, the Company will benefit from a better regulated and more rational market. The Company also noticed that the change in and expectation on the property financing policy would raise the requirement for developers with respect to financing ability, utilisation of capital resources and project development capability, particularly in terms of financing ability. With an aim to fully utilise its advantage of development prowess, the Company will be more active in expanding its financing channels, making endeavours to collaborate with foreign-invested projects and forming more partnerships for project development.

8.5 Business development plan for the year 2004

In 2004, the Group will continue to expand the scale of development in the existing markets, and intensify investment in the Yangtze River delta region to develop a strategic plan in the Yangtze River delta region. Besides, the Company will also increase investment in key developed markets, particularly in Beijing and Chengdu, where the Company will increase project resources in order to ensure the Company's expansion and sustainable development in these markets, The Company will also try to tap into potential second-tier cities outside the cities mentioned above, to look for new investment opportunity.

The Group has 33 projects under development in 2004. It is estimated that areas under construction and area completed will amount to 1.78 million square metres and 1.54 million square metres respectively.

Major Projects in 2004 ***(unit: square metre)***

Project Name	Location	Site Area	Planed Constructi on Area	Planned Commenced Area in 2004	Planned Completed Area in 2004	Project Resources as at the end of 2003 ('000 sqm.)
Shenzhen Region						
Shenzhen East Coast	Yantian	268,484	214,800	70,800	48,900	7.1
Shenzhen 17 Miles	Yantian	67,571	50,678	26,000	25,000	2.6
Shenzhen Banxue gang(a tentative name)	Longgang	398,000	428,000	115,000	115,000	42.8
Shenzhen Huayuw eihong(a tentative name)	Longgang	220,101	250,143			14.2
Guangzhou City Garden	Huangpu	136,000	193,000	60,000	-	19.3
Guangzhou Nanhu (a tentative name)	Baiyun	82,000	162,000	50,000	-	16.2

Guangzhou Four Seasons Flower City	Nanhai	438,000	447,000	143,000	139,000	37.9
Zhongshan City Landscape	Nan	324,000	500,000	57,500	35,000	50
Dongguan Golf Project(a tentative name)	Laobu	123,000	180,000	40,000	24,000	-
Shanghai Region						
Shanghai Holiday Town	Minhang	599,647	576,000	90,000	52,900	10.7
Shanghai Langrun Garden	Minhang	110,000	124,000	123,900	-	12.0
Shanghai Qibao 53#(a tentative name)）	Minhang	57,900	145,000	54,000		14.5
Shanghai Lanqiao shengfei	Minhang	317,485	92,500	-	30,000	6.0
Shanghai Blue -mountain City	Pudong	430,530	147,455	-	33,600	4.1
Shanghai Four Se asons Flower City	Baoshan	214,344	227,205	40,600	70,300	4.0
Shanghai Jinghongxincun(a tentative name)	Minhang	192,000	122,000	-	-	12.2
Nanjing Metropolitan Apartments	Jianye	51,568	155,000	-	49,000	-
Nanjing Bright City	Hexi	134,000	211,000	100,000	-	21.1
Nanchang Four Seasons Flower City(south part)	Gaoxin	224,668	222,300	-	29,000	-
Nanchang Four Seasons Flower City(north part)	Gaoxin	347,300	391,700	65,000	46,800	39.2
Shenyang Region						
Shenyang Metropolitan Apartments	Dadong	83,300	164,676	-	19,500	3.2
Shenyang Four Seasons Flower City	Yuhong	446,900	566,157	103,000	81,000	30.6
Arboretum Project(a tentative name)	Dongling	411,600	142,500	-	-	14.3

Changchun Shangdong Garden	Erdao	153,000	204,000	75,000	49,500	20.4
Dalian City Garden	Shahekou	161,890	224,268	85,000	65,000	22.4
Anshan City Garden	Tiedong	154,000	173,000	75,000	60,000	17.3
Other Cities						
Beijing Westmountain Garden	Haidian	98,811	107,010	-	107,010	-
Beijing Green Garden	Chaoyang	251,639	286,400	-	47,000	-
Beijing Star Garden	Chaoyang	112,348	285,200	-	38,000	-
Tianjin Garden New Town(east part)	Beichen	550,896	377,299	5,253	5,253	4.7
Tianjin Crystal City	Hexi	350,175	337,218	113,600	66,500	29.2
Tianjin Dongli Lake(a tentative name)	Dongli	2,730,014	1,365,007	63,000	29,000	136.5
Chengdu City Garden	Jinjiang	407,000	436,000	117,000	80,000	11.7
Chengdu Metropolitan Apartments	Chenghua	45,000	108,900	-	108,900	-
Wuhan Four Seasons Flower City	Dongxihu	466,669	532,003	-	-	53.2
Wuhan City Garden	Hongshan	898,500	898,500	63,000	84,700	81.9
Wuhan Hongkong Road Project(a tentative name)	Jiangan	6,943	48,300	48,300	-	4.8
Total		**	**	1,783,953	1,539,863	744.1

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 6.43 million square metres.

8.6 Work Report of the Board of Directors

(1) During 2003, the Board of Directors held 5 board meetings.

A. On 13 March 2003, the Fifth Meeting of the Thirteenth Board of Directors was held to consider and approve the following resolutions: "2002 Auditors' Report" (draft); the proposals on profit allocation and the transfer of capital surplus reserve to share capital; the appropriation and write-off of the provision for diminution in asset value for the year 2002; resolution regarding remuneration policy for management executives; resolution regarding the appointment of auditors of the Company for the year 2003; resolution regarding the resignation of Chen Zuwang as Deputy General Manager; 2002 Annual Report and Summary of 2002 Annual Report; the 2003 working plan of the general manager; resolutions regarding the convention of the Fifteenth AGM; the details of preferential house purchasing policy; resolution regarding the increase in its shareholding in Anshan Vanke Properties Development Company Limited and the appointment of investor relations.
   The above resolutions were published in China Securities Journal, Securities Times and The Standard on 18 March 2003.
B. On 22 April 2003, the Sixth Meeting of the Thirteenth Board of Directors was held to consider and approve the following resolutions: resolution regarding authorizing Chairman to represent the Board for bank borrowings and surety; [the resolution regarding authorizing the Chairman to represent the Board for land acquisition]; the 2003 first quarterly report and financial statements; resolution regarding resignation of Mo Jun as executive deputy general manager of the company; resolution regarding reducing the registered capital of Shenzhen Vanke Property Company Limited; resolution regarding the listing of phase 2 of Beijing Dougezhuang New Town.
   The above resolutions were published in China Securities Journal, Securities Times and The Standard on 23 April 2003.
C. On 24 July 2003, the Seventh Meeting of the Thirteenth Board of Directors was held to consider and approve the following resolutions: 2003 Interim Report of the Company, financial statements and Summary of Interim Report; the resolution regarding the proposals of no distribution of interim dividend and no transfer of capital surplus reserve to share capital; resolution regarding the appropriation of the provision for diminution in asset value and loss management for the 2003 interim period; resolution regarding the resignation of Chen Zhiping from the position of deputy general manager of the Company; resolution regarding [the sale of property of Dalian Vanke Properties Development Company Limited located at Yinghuajia;

resolution regarding reconfirmation of the adjustment to the shareholding in Shenzhen Liandong E-commence Company Limited.

The above resolutions were published in China Securities Journal, Securities Times and The Standard on 29 July 2003.

D. On 5 September 2003, the Eighth Meeting of the Thirteenth Board of Directors was held to consider and approve the following resolutions: resolution regarding the issue of convertible Bonds; resolution regarding the feasibility of investment projects to be financed by the proceeds from the issue of Convertible Bonds; the elaboration on the use of proceeds from the previous fund raising exercise and a special report of the auditors; resolution regarding the sale of Shenzhen Fujing Building to China Resources Vanguard; resolution regarding the expansion of the Company's business scope; resolution regarding the increase in the share capital of Guangzhou Vanke Investment and Development Co., Ltd. and the establishment of its branch; resolution regarding the holding of the First Special General Meeting in the year 2003.

The above resolutions were published in China Securities Journal, Securities Times and The Standard on 9 September 2003.

E. On 27 October 2003, the Ninth 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 for bank borrowings and surety; the 2003 third quarterly report and financial statements.

The above resolutions were published in China Securities Journal, Securities Times and The Standard on 28 October 2003.

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

A. On 14 January 2003, the resolutions regarding the listing of Tianjin Zhangguizhuang project and acquisition of Shanghai Huaou Real Estate Company Limited were submitted for the Board of Directors' approval through voting by communication means.

B. On 22 January 2003, the resolutions regarding the subsequent approval of the Qianfeng project in Chengdu and participation in tendering for the listing project No.2003A01 in the Jiangning development zone in Nanjing were submitted for the Board of Directors' approval through voting by communication means.

C. On 14 March 2003, the resolution regarding the amendment of the date of the Annual General Meeting was submitted for the Board of Directors' approval through voting by communication means.

D. On 27 March 2003, the resolution regarding establishment of Guangzhou Vanke Investment and Development Co., Ltd. and the listing of Anshan Yingchengzi project were submitted for the Board of Directors' approval through voting by communication means.

E. On 16 May 2003, the resolution regarding authorising the General Manager to make donations to the prevention of Severe Acute Respiratory Syndrome ("SARS") was submitted for the Board of Directors' approval through voting by communication means.

F. On 3 June 2003, the resolutions regarding the subsequent approval of the Daosen project in Changchun; the subsequent approval of the Jinxiu project in Shahekou of Dalian; the listing of the Zhongxin project in South District of Zhongshan; the establishment of Dalian Vanke Jinxiu Flower City Development Co., Ltd.; the establishment of Zhongshan Vanke Real Estate Co., Ltd. were submitted for the Board of Directors' approval through voting by communication means.
G. On 17 June 2003, the resolution regarding the self-investigation report on insider dealings of the Company's shares was submitted for the Board of Directors' approval through voting by communication means.
H. On 30 June 2003, the resolutions regarding the participation in the public auction of a piece of land in Banxuegang of Shenzhen; the consideration of the Board of Directors' report to shareholders about acquisition by China Resources Co., Limited; the establishment of Jiangxi Vanke Yida Property Management Co., Ltd.; the establishment of Hexi branch of Tianjin Vanke Property Development Co., Ltd. were submitted for the Board of Directors' approval through voting by communication means.
I. On 6 August 2003, the resolutions regarding the participation in tendering for the Nanjing Hexi project; the subsequent approval of Guangzhou Nanhu project; the subsequent approval of Dashadi project in Huangpu district of Guangzhou were submitted for the Board of Directors' approval through voting by communication means.
J. On 12 September 2003, the resolutions regarding the participation in tendering for the Wuhan Erqilu project; the establishment of Dongguan Vanke Real Estate Company Limited were submitted for the Board of Directors' approval through voting by communication means.
K. On 23 September 2003, the resolutions regarding the amendments to the proposed plan for the issue of convertible bonds of the Company; the amendments to the investment projects to be financed by the proceeds raised from this issue of the Company's convertible bonds; the postponement of shareholders' meeting were submitted for the Board of Directors' approval through voting by communication means.
L. On 20 November 2003, the resolutions regarding the adoption of a trust capital scheme for financing purpose; the transfer of shareholding and the increase in share capital of Zhongshan Vanke Real Estate Company Limited; the subsequent approval of the southern part of Tianjin Glass Factory project were submitted for the Board of Directors' approval through voting by communication means.
M. On 17 December 2003, the resolutions regarding the listing of Shenyang Changbai project and the listing of the Jiasong Nanlu project in Songjiang of Shanghai were submitted for the Board of Directors' approval through voting by communication means.

The progress of the relevant issues were disclosed in China Securities Journal, Securities

Times and The Standard on 27 June 2003, 4 July 2003, 11 July 2003, 12 August 2003, 19 August 2003, 27 September 2003 and 26 November 2003.

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

In accordance with the authorization by the Fifteenth AGM, the Board had proceeded with the work of dividend distribution and transfer of capital surplus reserve to share capital for 2002. The distribution plan for 2002 was as follows: RMB2.0 (including tax) cash dividend was paid for every 10 existing shares held. The record date was 22 May 2003, while the ex-dividend date was 23 May 2003. The cash dividend after tax for holders of A share was RMB1.6 for every 10 shares held. The exchange rate for B share cash dividend was HK$1.0 = RMB1.0610. The transfer of capital surplus reserve to share capital proposal was as follows: 10 shares were transferred from the capital surplus reserve for every 10 shares held. The record date was 22 May 2003. The listing day of newly increased transferable A shares was 23 May 2003 and the listing day of newly increased transferable B shares was 28 May 2003.

The first SGM of 2003 held on 27 October 2003 authorized the Board to take charge of the issue of convertible bonds and related issues: the Board to formulate and implement a detailed scheme for issuing the convertible bonds in accordance with the relevant law and regulations; to determine the timing for the issue, the schedule and method of interest payment and repayment of principal and issue matters according to the actual circumstances; to make timely amendments to relevant terms of the Company's Articles and Association in accordance with the situation at the time of the issue and conversion of the convertible bonds; to determine other matters related to the issue of convertible bonds in accordance with relevant law and policy. The application for the issue will soon be submitted to China Securities Regulatory Commission for review and approval.

8.7 Profit, Dividend Distribution and Transfer of Capital Surplus Reserves to Share Capital Proposal

Details on the profit available for appropriation of the Company in 2003 prepared in accordance with PRC accounting regulations and International Financial Reporting Standard ("IFRS") are as follows:

Unit: RMB

	PRC accounting regulations	IFRS
Profit available for appropriation after tax	545,355,248.09	554,371,807
Include: Net profit for 2003	542,270,658.17	521,147,696
Transferred profit available for appropriation at the beginning of the year	138,464,583.92	168,604,105
Allocation of dividend for 2002	(135,379,994.00)	(135,379,994)

The upper limit of profit available for distribution was based on the lower of the unappropriated profit calculated in accordance with PRC accounting regulations and that calculated in accordance with IFRS. Therefore, the Company's profit available for distribution in 2003 was RMB545,355,248.09.

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 for consideration:

1. to appropriate 10% of the 2003 net profit calculated in accordance with the PRC accounting regulations to statutory surplus reserve;
2. to appropriate 5% of the 2003 net profit calculated in accordance with the PRC accounting regulations to statutory public welfare fund;
3. to appropriate 40% of the 2003 net profit calculated in accordance with the PRC accounting regulations to discretionary surplus reserve;
4. to appropriate for dividend distribution from the net profit the year, basing on the Company's total share capital and a dividend of RMB0.05 per share and a bonus issue of 1 share for every 10 shares;
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 RMB545,355,248.09 is as follows:

	Amount (RMB)	% share of profit available for appropriation
Statutory surplus reserve	54,227,065.82	9.94%
Statutory public welfare fund	27,113,532.91	4.97%
Discretionary surplus reserve	216,908,263.28	39.78%
The unappropriated profit set aside in accordance with PRC accounting regulations and brought forward to the following financial year	247,106,386.08	45.31%
Include: Dividend distribution for 2003	209,377,416.60	38.39%
Profit available for appropriation for the following financial year	37,728,969.48	6.92%
The unappropriated profit prepared in accordance with IFRS brought forward to the following financial year	256,122,945	
Include: Dividend distribution for 2003	209,377,416.60	

Profit available for appropriation for the following financial year	46,745,528.40	

Dividend distribution proposal: A cash dividend of RMB0.5 (including tax) and one bonus share will be distributed for every 10 shares held. Based on the total share capital of 1,395,849,444 shares as at 31 December 2003, total dividend distribution amounted to RMB209,377,416.60, of which RMB69,792,472.20 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 four 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 1,395,849,444 shares as of 31 December 2003, the total share capital after the transfer of capital surplus reserve and distribution of bonus shares will consist of 2,093,774,166 shares. The total amount involved in the transfer of capital surplus reserve to share capital will be RMB558,339,777.60. Prior to the transfer, the total amount of capital surplus reserve is RMB1,458,336,399.89. After the transfer, the balance of capital surplus reserve will be RMB899,996,622.29.

Special notes: Given that the Company's issued convertible bonds became convertible starting 13 December 2002, 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, four shares are to be transferred from capital surplus reserve for every 10 shares held, and the proportion of bonus share and dividend amount in cash for each ordinary 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 will increase correspondingly, while profit available for appropriation and capital surplus reserve will decrease correspondingly.

As at 4 March 2004, 81,875,538 shares had been added to the share capital when compared to the end of 2003 due to the conversion of Vanke's convertible bonds. Should the remaining balance of the Vanke's convertible bonds be converted to Vanke shares at the close of the market on the registration trading day for entitlement, the total share capital will increase to 1,516,782,212 shares at the most, which is up to 120,932,768 shares more than the total share capital as at the end of 2003. As such, the total amount of cash dividends will increase by RMB6,046,638.40 at the most, while the total share capital will be increased by up to 60,466,384 shares as a result of the bonus share distribution and the transfer of capital surplus reserve to share capital.

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

8.8 Media for Disclosure of Information

The Company has chosen China Securities Journal, Securities Times and a Hong Kong English publication for placing notices and announcements of the Company.

8.9 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.

8.10 The independent directors' explanation and independent opinion on the Company's surety provided to external parties and the implementation of relevant regulations

As of 31 December 2003, the balance of the amount for which the Company provided surety to its wholly-owned subsidiaries reached a total of RMB630.9 million, representing 18.0% of the audited net asset value of 2002.

For the full year of 2003, the accumulated amount for which the Company provided surety to its wholly-owned subsidiaries reached a total of RMB669.3 million, representing 19.1% of the audited net asset value of 2002.

As at the date of the announcement, the balance of the amount for which the Company provided surety to its wholly-owned subsidiaries reached a total of RMB1,111.1 million, representing 23.6% of the audited net asset value of the year 2003. The Company does not provide surety to external parties, except for its wholly-owned subsidiaries. The details are as follows:

Company's name	Amount (RMB million)	Term	Bank	Type of guarantee
Shenzhen Vanke	7.239	23 June 2003 to 31 March 2004	Industrial and Commercial Bank of China ("ICBC"), Luohu	ICBC gave construction guarantee for Shenzhen Vanke. China Vanke provided back-to-back guarantee.
Shenzhen Vanke	283.618	31 December 2003 to 30	BOC, Shenzhen Branch	BOC gave guarantee of the Company's fund-raising exercise

		January 2006		via the launch of East Coast Project Trust Capital Scheme. China Vanke provided back-to-back guarantee
Shenzhen Vanke	80	29 September 2003 to 28 September 2004	ICBC, Luohu	ICBC provided RMB80 million loan to Shenzhen Vanke. China Vanke provided guarantee.
Shenzhen Vanke	50	11 December 2003 to 10 December 2004	ICBC, Luohu	ICBC provided RMB50 million loan to Shenzhen Vanke. China Vanke provided guarantee.
Shenzhen Vanke	50	25 December 2003 to 24 December 2004	ICBC, Luohu	ICBC provided RMB50 million loan to Shenzhen Vanke. China Vanke provided guarantee.
Beijing Vanke Co., Ltd.("Beijing Vanke")	160	10 May 2001 to 9 November 2004	Headquarters of China Construction Bank ("CCB")	Headquarters of CCB provided RMB160 million loan to Beijing Vanke. China Vanke provided guarantee.
Shenzhen Vanke	20	12 Jan. 2004 to 11 Jan. 2005	ICBC, Luohu	ICBC provided RMB20 million loan to Shenzhen Vanke. China Vanke provided guarantee.
Shenzhen Vanke	3.5	15 Jan. 2004 to 14 Jan. 2005	ICBC, Luohu	ICBC gave construction guarantee for Shenzhen Vanke. China Vanke provided back-to-back guarantee.
Nanjing Vanke	50	15 Jan. 2004 to 12 Jul. 2005	ICBC, Chengxi Branch of Nanjing("ICBC Chengxi")	ICBC provided RMB50 million loan to Nanjing Vanke. China Vanke provided guarantee.
Shenzhen Vanke	2.4	1 Feb. 2004 to 31 Jan. 2005	ICBC, Luohu	ICBC gave construction guarantee for Shenzhen Vanke. China Vanke provided back-to-back guarantee.
Nanjing Vanke	80	9 Feb. 2004 to 8 Feb. 2005	Agriculture Bank of China, Xinjiekou Branch of Nanjing("ABC Xinjiekou")	ABC provided RMB80 million loan to Nanjing Vanke. China Vanke provided guarantee.
Nanjing Vanke	70	16 Feb. 2004 to 8 Feb. 2005	ABC Xinjiekou	ABC provided RMB70 million loan to Nanjing Vanke. China Vanke provided guarantee.
Nanjing Vanke	50	18 Feb. 2004 to 8 Feb. 2005	ABC Xinjiekou	ABC provided RMB50 million loan to Nanjing Vanke. China Vanke provided guarantee.
Nanjing Vanke	100	19 Feb. 2004 to 12 Jul. 2005	IICBC Chengxi	ICBC provided RMB100 million loan to Nanjing Vanke. China Vanke provided guarantee.
Shenzhen Vanke	4.345	4 Mar. 2004 to 28 Feb. 2005	ICBC, Luohu	ICBC gave construction guarantee for Shenzhen Vanke. China Vanke provided back-to-back guarantee.
Shenzhen Vanke	100	8 Mar. 2004 to 4 Mar. 2005	ICBC, Luohu	ICBC provided RMB100 million loan to Shenzhen Vanke. China

				Vanke provided guarantee.

The Company's independent directors, Sun Jianji, Eric Li Ka Cheung, Li Chi Wing and Feng Jia, gave elaboration on the Company's accumulated amount and amount for the period for which the Company provided surety to external parties and the implementation of relevant regulations, and expressed independent opinion as follows: With the special requirement for property development, a local project company has to be established for a project development instead of setting up a local branch. As such, the Company often provides surety for these wholly-owned project companies to obtain financing arrangement. Taking into account the risk factor and the fact that the subsidiaries are wholly-owned by the Company, decision making, finance, capital, appointment and termination are all under the control of the Company. As such, the aforesaid sureties did not actually form the Company's risk of surety.

9 Report of Supervisory Committee

On behalf of the Supervisory Committee, I hereby present the activity report of the committee for the year 2003 as follows:

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

(1) The Twelfth Meeting of the Fourth Supervisory Committee was held on 13 March 2003. The meeting reviewed and confirmed the Company's audit report for the year 2002, the Company's proposal on the distribution of profits and dividends for the year 2002 and the transfer of surplus reserve to share capital, the resolution regarding the Company's appropriation and handling of the assets diminution provision for the year 2002, the policy on the remuneration of management executives, the disclosure of the Annual Report and Summary of Annual Report of 2002, the resolution regarding the details of preferential house purchasing policy for middle and senior management executives and the resolution regarding the share exchange in and increase in the shareholding of Anshan Wanshan Properties Development Company Limited.

(2) The Thirteenth Meeting of the Fourth Supervisory Committee was held on 22 April 2003. The meeting reviewed and confirmed 2003 first quarterly report and financial statements.

(3) The Fourteenth Meeting of the Fourth Supervisory Committee was held on 24 July 2003. The meeting reviewed and confirmed the interim report and financial statements of 2003, the resolution that no dividend payment and no transfer of surplus reserve to share capital for 2003 interim period, the resolution regarding the resignation of Chen Zhiping from the position of deputy general manager of the Company and the resolution regarding the adjustment to the shareholding in

Shenzhen Liandong E-commerce Company Limited.

(4) The Fifteenth Meeting of the Fourth Supervisory Committee was held on 5 September 2003. The meeting reviewed and confirmed the resolution regarding the issue of convertible bonds and the resolution regarding the transfer of properties in Shenzhen Fujing Building.

(5) The Sixteenth Meeting of the Fourth Supervisory Committee was held on 27 October 2003. The meeting reviewed and confirmed 2003 third quarterly report and financial statements.

Independent opinions of the Supervisory Committee on the following events:

(1) 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.

(2) Financial monitoring: In the opinion of the Supervisory Committee, the audit opinions from KPMG Huazhen and KPMG are non-biased and their reports reflect a true picture of the Company's financial position and operating results.

(3) Use of proceeds from the latest fund raising exercise: The proceeds from the Company's issuance of RMB1.5 billion convertible bonds were received in June 2002 and were used up in 2003. 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.

(4) Material connected transaction: During the year, the property interests and leasehold right of part of Shenzhen Fujing Building were transferred from Shenzhen Vanke Real Estate Company Limited, a 100 per cent direct and indirect owned subsidiary of the Company, to China Resources Vanguard Co., Ltd. The disposal and transfer was a one-off transaction. In the opinion of the Supervisory Committee, the board had faithfully performed its good faith duties, the transaction had been carried out in accordance with regulated procedures, the consideration of the transaction was fair and reasonable. No insider dealings, damage to the interests of certain shareholders and the listed company, nor loss of the Company's assets had been found.

(5) Business operation of the Company: In 2003, the Company achieved healthy and rapid growth in its core business and profit. Moreover, the Company's integration and regional development strategy began to yield results. We also noticed that after the Company's establishment of a specialised Tianjin work group in 2003, the management of Tianjin Company had been strengthened and the operational

management of Tianjin Company had improved. During the year, Tianjin Company began to return to black. The Supervisory Committee acknowledged the operation of the Board of Directors and the efforts made by the management.

Ding Fuyuan
Convenor of the Supervisory Committee
9 March 2004

10 Significant Events

10.1 Material Litigation or Arbitration

The Company continued to disclose the proceedings commenced by Singaporean citizens Chen Mengzhe and Chen Jinfeng (“the plaintiffs”) against Tianjin Vanke Shine (Group) Co., Ltd., Tianjin Vanke Shine Development Co., Ltd. and Tianjin Wanxing Property Management Co., Ltd. The Tianjin People’s High Court passed a first trial judgment on 4 September 2003 at the retrial of the case ordered by the Supreme Court of the People’s Republic of China (“the Supreme Court”). The plaintiffs protested against the trial judgment and submitted an appeal to the Supreme Court. The case is now proceeding in court. In accordance with the precautionary principle, the Tianjin subsidiary has made a provision for the loss incurred in the related principal and interest payment of RMB16.35 million.

The lawsuit lodged by Tianjin Heping Jiangong (Group) Co., Ltd. (“Tianjin Heping”) against Tianjin Vanke Real Estate Co., Ltd. (“Tianjin Vanke”) regarding the dispute over the balance of construction fee of RMB29.72 million owed by Tianjin Vanke to Tianjin Heping is still proceeding in court.

The Company and Shenzhen Xiangyuan Printing and Packaging Company Limited (“Xiangyuan”) reached a settlement agreement of the arbitration on the construction of “Huijing Garden”. As at the announcement date of this report, the Company had diligently performed the duties required by the settlement agreement. For details, please refer to the 3rd quarterly report of the Company.

10.2 Acquisition And Disposal Of Assets During The Period Under Review

During the year, the Company did not acquire and dispose material assets.

10.3 Material Connected Transaction

After negotiating with China Resources National Corporation (“CRNC”, holding 99.98 per cent of CRC – the largest shareholder of the Company), the Company disposed to China Resources Vanguard Co., Ltd. (“CR Vanguard”, owned as to 35 per cent by CRNC and 65 per cent by China Resources Enterprise, Limited (“CRE”); CRE is 55.46

per cent owned by CRNC) the property interests of the entire third floor and the east wing of the second floor of the podium of Shenzhen Fujing Building, which comprise 4,597.67 square metres and 789.48 square metres respectively and together represent an aggregate area of 5,387.15 square metres. Shenzhen Fujing Building was owned by Shenzhen Vanke Real Estate Company Limited, a 100 per cent direct and indirect owned subsidiary of the Company. The Company also transferred the leasehold right from the date before the transaction agreement becoming effective to April 2019 of the retail space of 840.46 square metres in Mid Section 02 of the first floor of the podium to CR Vanguard. The disposal and transfer was a one-off transaction.

The net book value of the property interest and the leasehold right of the above-mentioned property was RMB51,472,566.55 and RMB11,536,477.5 respectively on 31 August 2003. Having set 25 August 2003 as the basis day for assessment, China Accounting Consultancy Co. Ltd. conducted assessment with the approach of using the value of current revenue to obtain the assessment value for the property interest of RMB82,423,242.

After negotiating with CRNC, the transaction amount of the property interest and the leasehold right for the above-mentioned property was RMB96,495,825. The consideration was settled by cash in full. Taking the date of 31 August 2003 as the point of reference, the transaction price is RMB33,486,780.95 higher than the book value. The difference is due to appreciation in part of the self-owned property and accumulated appropriation and depreciation. The transaction price is RMB2,536,105.5 higher than the assessed value of self-owned property and the net book value of the leasehold right, due to negotiation between the parties.

China Vanke and CR Vanguard signed a purchase and sales agreement on 3 September 2003. The agreement then became effective on 27 October 2003 after it was approved at China Vanke's first SGM of 2003. As of 31 December 2003, the registration for the change in the shareholding of the property had been completed and the Company had received the consideration in full. The related revenue would be incorporated in the Company's 2003 Profit and Loss Account.

The transaction reduced the Company's rental income by approximately RMB1.68 million for the year 2003, but allowed the Company to make a net profit of approximately RMB24.83 million in 2003. In addition, the Company has a net cash inflow of approximately RMB86.98 million. All of the proceeds would be used for land acquisition or property development, providing financial support to the Company's residential property development.

10.4 Major contracts and their implementation

(1) Superintending, handling, renting other companies' assets or other companies' superintending, handling, renting the listed company's assets

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

(2) Major surety

For details, please refer to "the independent directors' explanation and independent opinion on the Company's surety provided to external parties and the implementation of relevant regulations".

(3) Trust management for financial assets

During the reported period, the Company did not make any trust arrangement for its financial assets.

(4) Other major contracts

On 9 June 2003, the Company and the Shenzhen Branch of China Construction Bank entered into an "Integrated Finance Limit Agreement" with an integrated credit line of RMB1,500 million. On 14 July 2003, the Company and the Shenzhen Branch of the Bank of China entered into a "Credit Line Agreement" with an integrated credit line of RMB700 million. The above cooperation agreement had been implemented smoothly.

During the year, the Group had entered into 13 agreements on real estate projects. For details, please refer to "Project investments" under the section "Use of capital not from the capital market".

10.5 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 2002 was announced in the 2001 annual report. The Board of Directors resolved to implement transfer of surplus reserve to share capital, in addition to the bonus and dividend distribution that was promised previously, after considering shareholder's proposal, the Company's profit prospects, assets condition and market environment. The Board of Directors believes the above-mentioned arrangement is in the interest of the shareholders and is advantageous to the Company's position and influential power in the capital market.

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 in 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.

10.6 Appointment and Termination of the service of Certified Public Accountants

At the Fifteenth AGM, the Group resolved to appoint KPMG Huazhen and KPMG as the auditors of the Company to audit the Company's 2003 accounts in accordance with the PRC and IFRS accounting regulations. The appointment of accounting firms for the Company and its subsidiaries are as follows:

Audited item	2003			2002	
	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, Zhongshan in accordance with the PRC Accounting Standards	KPMG Huazhen	RMB700,000.00	3	KPMG Huazhen	RMB700,000.00
The Group's consolidated financial report in accordance with the IFRS	KPMG	HK$1,000,000.00	11	KPMG	HK$1,000,000.00
The annual financial reports of the Group's regional subsidiaries in Dalian, Changchun, Anshan	Dalian Hualian CPA	RMB75,000.00	2	Dalian Hualian CPA	RMB75,000.00
The annual financial reports of the Group's regional subsidiaries in Wuhan, Chengdu, Nanjing, Nanchang	Deloitte Touche Tohmatsu Shanghai CPA	RMB180,000.00	3	Deloitte Touche Tohmatsu Shanghai CPA	RMB180,000.00
The annual financial report of the Group's regional subsidiary in Hong Kong	Fan, Chan & Co. CPA	HK$24,000.00 (estimated amount)	11	Fan, Chan & Co. CPA	HK$24,000.00

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

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

10.8 Other Significant Events

(1) Change of Single Largest Shareholder
On 27 June 2003, CRNC entered into a share transfer agreement and a convertible bond transfer agreement with CRC, a company promoted and established by CRNC, regarding the transfer of Vanke's State-owned shares and Legal Person shares of 156,151,498 shares and 2,295,420 convertible bonds originally held by CRNC to CRC. For details, please refer to the announcement published by CRC and Vanke on 30 June 2003 and 11 July 2003 in China Securities Journal, Securities Times and the Standard.

(2) Change in the registered capital of the Company

As at 17 December 2003, the registered capital of the Company was changed to RMB1,385,680,062 after the transfer of capital surplus reserve to share capital and the conversion of the Company's convertible bonds.

11 A Chronology of 2003

During the year, the Group's financing ability and credit strength increased further. In June, the Company entered into an "Integrated Finance Limit Agreement" with the Shenzhen Branch of China Construction Bank ("CCB") to obtain an integrated credit line of RMB1,500 million. In July, the Company entered into a "Credit Line Agreement" with the Shenzhen Branch of Bank of China to obtain a credit line of RMB700 million.

In April, the Fifteenth 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, the proposals regarding the profit appropriation and transfer of capital surplus reserve to share capital and the appointment of auditors.

In May, Wang Shi, the Chairman of China Vanke, successfully reached the summit of Mt Everest.

In June, CRNC entered into a share transfer agreement and a convertible bond transfer agreement with CRC, a company promoted and established by CRNC, regarding the transfer of China Vanke's state-owned shares and legal person shares of 156,151,498 shares and 2,295,420 convertible bonds originally held by CRNC to CRC. CRC became the largest shareholder of China Vanke.

In July, the Company acquired the lot of Banxuegang in Shenzhen through open auction at a price of RMB970 million，which would be used in residential development.

In October, the first SGM of 2003 was held at Vanke Architecture Research Centre. The meeting considered and approved the resolutions regarding the issue of the Company's convertible bonds in the PRC, the feasibility of investment projects to be financed by the proceeds from the issue of convertible bonds and the sale of Shenzhen Fujing Building to CR Vanguard.

During the year, the Company entered new markets in Zhongshan, Guangzhou, Dalian, Anshan, and continued to enlarge its land reserves through the acquisition of land in Shenzhen, Shanghai, Nanjing, Chengdu, Tianjin, etc.

12 Report of the Auditors

Report of the independent auditors to the shareholders of China Vanke Co., Ltd.

(Established as a joint stock company in the People's Republic of China with limited liability)

We have audited the consolidated balance sheet of China Vanke Co., Ltd. (the "Company") and its subsidiaries (together with the Company referred to as the "Group") as of 31 December 2003 and the related consolidated statements of income, changes in equity and cash flows for the year then ended, set out on pages 2 to 40. These consolidated financial statements are the responsibility of the Group's directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2003, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Certified Public Accountants

Hong Kong,

(Expressed in Renminbi Yuan)

Consolidated income statement
for the year ended 31 December 2003

	Note	*2003* RMB	*2002* RMB
Revenue	2	5,973,268,303	4,374,017,880
Cost of sales		(4,682,027,742)	(3,484,664,562)
Gross profit		1,291,240,561	889,353,318
Other operating income	4	61,472,312	23,055,613
Distribution costs		(210,754,591)	(126,595,071)
Administrative expenses		(315,722,566)	(257,148,473)
Other operating expenses	5	(15,828,833)	(13,520,312)
Profit from operations		810,406,883	515,145,075
Net financing income	7	4,791,634	10,707,186
Operating profit		815,198,517	525,852,261
Share of losses less profits of associates		(4,069,917)	(1,609,252)
Profit before tax		811,128,600	524,243,009
Taxation	8(a)	(266,360,947)	(126,591,097)
Profit after tax		544,767,653	397,651,912
Minority interests		(23,619,957)	(15,627,034)
Net profit for the year	21	521,147,696	382,024,878
		===========	===========
Basic earnings per share	9	0.39	0.30
		===	===
Diluted earnings per share	9	0.37	0.27
		===	===

(Expressed in Renminbi Yuan)

Consolidated statement of changes in equity for the year ended 31 December 2003

	2003		*2002*	
	RMB	RMB	RMB	RMB
Shareholders' equity at 1 January		3,619,884,031		3,237,171,844
Adjustment on translation of foreign subsidiaries	(264,474)		420,381	
Net (loss)/gain not recognised in the consolidated income statement		(264,474)		420,381
Net profit for the year		521,147,696		382,024,878
Dividend paid		(135,379,994)		(126,194,388)
Movement in convertible bonds issued:				
Equity portion of convertible bonds issued	-		132,590,802	
Shares issued upon conversion of convertible bonds	720,935,763		30,007	
Shares issuing cost	(12,441,898)		(554)	
Interest forfeited upon conversion of convertible bonds	8,900,000		-	
Discount transferred to share premium upon conversion of convertible bonds	13,903,405		-	
Deferred tax recognition	3,264,238		(6,158,939)	
Net increase in shareholders' equity relating to convertible bonds		734,561,508		126,461,316
Shareholders' equity at 31 December		4,739,948,767		3,619,884,031
		===========		===========

(Expressed in Renminbi Yuan)

Consolidated balance sheet at 31 December 2003

	Note	*2003* RMB	*2002* RMB
ASSETS			
Non-current assets			
Fixed assets	11	433,716,405	611,362,240
Intangible assets	12	-	(201,189)
Interests in associates	14	5,143,168	9,213,085
Other investments	15	54,954,947	54,811,347
Deferred tax assets	16	1,051,433	2,936,250
Properties held for development		4,171,969,101	2,683,815,424
		4,666,835,054	3,361,937,157
Current assets			
Inventories	17	5,921,723	6,408,648
Completed properties for sale		1,865,990,141	1,324,527,208
Properties under development		2,461,102,280	1,720,767,323
Trade and other receivables	18	572,721,566	588,754,484
Cash and cash equivalents	19	968,783,074	1,187,403,819
		5,874,518,784	4,827,861,482
Total assets		10,541,353,838	8,189,798,639
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	20	1,395,849,444	630,974,713
Reserves	21	3,344,099,323	2,988,909,318
		4,739,948,767	3,619,884,031
Minority interests		59,101,291	45,689,832

(Expressed in Renminbi Yuan)

Consolidated balance sheet at 31 December 2003 (continued)

	Note	*2003* RMB	*2002* RMB
Non-current liabilities			
Interest-bearing loans and borrowings	22	248,523,200	160,000,000
Convertible bonds	23	657,964,178	1,354,864,346
Deferred tax liabilities	16	2,894,701	6,158,939
		909,382,079	1,521,023,285
Current liabilities			
Interest-bearing bank loans	22	1,840,000,000	460,000,000
Trade and other payables	24	2,829,025,439	2,438,124,766
Provisions	25	18,513,132	24,523,672
Taxation	8(b)	145,383,130	80,553,053
		4,832,921,701	3,003,201,491
Total equity and liabilities		10,541,353,838	8,189,798,639

Approved by the Board of Directors

(Expressed in Renminbi Yuan)

Consolidated cash flow statement

for the year ended 31 December 2003

	Note	*2003* RMB	*2002* RMB
OPERATING ACTIVITIES			
Net cash (outflow)/inflow from operating activities	29	(1,620,228,717)	91,383,491
INVESTING ACTIVITIES			
Proceeds of capital injection from minority interests		-	10,000,000
Acquisition of subsidiaries, net of cash acquired		(4,500,000)	5,160,131
Acquisition of other investment		-	(8,600,000)
Proceeds from disposal of fixed assets		134,186,963	31,663,173
Acquisition of fixed assets		(87,521,043)	(82,415,607)
Addition of construction in progress		-	(25,669,730)
Proceeds from disposal of properties held for development		17,084,000	-
Proceeds from disposal of an associate		-	300,000
Interest received		8,564,946	10,821,821
Dividend received		914,374	1,135,227
Net cash inflow/(outflow) from investing activities		68,729,240	(57,604,985)
FINANCING ACTIVITIES			
Net proceeds from issuance of convertible bonds		-	1,468,319,647
Net proceeds from/(repayment of) loans and borrowings		1,468,523,200	(994,300,000)
Dividend paid		(135,379,994)	(126,194,388)
Net cash inflow from financing activities		1,333,143,206	347,825,259

(Expressed in Renminbi Yuan)

Consolidated cash flow statement
for the year ended 31 December 2003 (continued)

	Note	*2003* RMB	*2002* RMB
Net (decrease)/increase in cash and cash equivalents		(218,356,271)	381,603,765
Effect of foreign exchange rates		(264,474)	420,381
Cash and cash equivalents at 1 January	19	1,187,403,819	805,379,673
Cash and cash equivalents at 31 December	19	968,783,074	1,187,403,819

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 2003 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates. The consolidated financial statements of the Group were authorised for issue by the Directors on 5 March 2004.

(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 ("IASB") and interpretations issued by the Standing Interpretation Committee of the IASB.

(b) 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 13.

(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 14.

1 Significant accounting policies (continued)

(c) Basis of consolidation (continued)

(iii) 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 are eliminated to the extent of the Group's interest in the enterprise against the investment in associates. 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 to Renminbi Yuan at the foreign exchange rate 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.

(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.

1 Significant accounting policies (continued)

(e)Fixed assets and depreciation (continued)

(iii) Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of items of fixed assets, and major components that are accounted for separately. The estimated useful lives 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, the carrying amount of goodwill is included in the carrying amount of the investments in associates.

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.

(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.

1 Significant accounting policies (continued)

(f) Intangible assets (continued)

(ii) Negative goodwill (continued)

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 fair value, except for the shares which do not have a quoted market price in an active market and whose fair value cannot be reliably measured. It is then 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 impairment losses (note 1(u)).

(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)) 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 2003 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 and Nanjing.

	Shenzhen		*Tianjin*		*Beijing*		*Shanghai*		*Shenyang*		*Nanjing*		*Others*		*Consolidated*	
	2003 RMB	*2002* RMB	*2003* RMB	*2002* RMB	*2003* RMB	*2002* RMB	*2003* RMB	*2002* RMB	*2003* RMB	*2002* RMB	*2003* RMB	*2002* RMB	*2003* RMB	*2002* RMB	*2003* RMB	*2002* RMB
Revenue																
Property sales	1,455,645,636	1,013,848,009	559,548,698	216,403,662	462,573,859	605,902,755	1,635,233,037	684,161,707	463,607,990	461,861,624	200,428,389	342,733,475	1,027,760,989	889,843,900	5,804,798,598	4,214,755,132
Property management	73,536,649	91,159,618	12,160,681	12,336,259	18,867,553	11,883,542	21,321,060	16,445,698	6,568,498	7,042,526	-	-	12,922,465	5,202,111	145,376,906	144,069,754
Rental	8,228,717	9,642,181	1,583,299	1,319,297	3,364,690	1,719,636	7,308,943	1,854,805	1,503,090	82,980	270,000	-	834,060	574,095	23,092,799	15,192,994
Total revenue	1,537,411,002	1,114,649,808	573,292,678	230,059,218	484,806,102	619,505,933	1,663,863,040	702,462,210	471,679,578	468,987,130	200,698,389	342,733,475	1,041,517,514	895,620,106	5,973,268,303	4,374,017,880
Segment assets	3,314,876,938	3,584,176,028	1,259,506,338	1,026,332,542	1,291,965,473	1,091,534,410	1,868,563,343	1,236,456,468	940,334,267	531,528,126	591,101,939	71,754,286	1,275,005,540	648,016,779	10,541,353,838	8,189,798,639
Capital expenditure	9,702,868	34,103,843	4,333,987	926,635	1,718,314	3,620,717	16,914,003	36,876,810	20,197,115	10,297,851	1,437,652	5,800,567	33,217,104	24,793,261	87,521,043	116,419,684

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.

3 *Effect of acquisition of a subsidiary*

During the year, the Group acquired the remaining 35% interest in Anshan Vanke Properties Development Company Limited (formerly Anshan Vanshan Properties Development Company Limited). The result of the subsidiary is not material for the year.

4 *Other operating income*

	2003 RMB	*2002* RMB
Amortisation of negative goodwill (note 12)	2,224,658	2,224,662
Consultancy fee income	6,547,046	13,442,599
Commission income	4,363,286	3,247,094
Forfeited deposits from customers and compensation from customers	2,436,366	2,398,274
Gain on disposal of fixed assets	30,354,402	-
Other sundry income	15,546,554	1,742,984
	61,472,312	23,055,613
	=========	=========

5 *Other operating expenses*

	2003 RMB	*2002* RMB
Amortisation of goodwill (note 12)	2,023,469	2,491,970
Penalties to government	468,999	1,924,449
Compensation to customers	1,220,601	3,777,583
Loss on disposal of a subsidiary	-	442,985
Loss on disposal of an associate	-	386,681
Loss on disposal of fixed assets	-	608,040
Loss on disposal of properties held for development	7,900,958	-
Other sundry expenses	4,214,806	3,888,604
	15,828,833	13,520,312
	=========	=========

6 *Personnel expenses*

	2003 RMB	*2002* RMB
Wages, salaries and other staff costs	327,665,366	261,074,798
	=========	=========
Including retirement costs	30,925,279	24,930,584
	=========	=========

The average number of employees during 2003 was 7,025 (2002: 6,055).

7 Net financing income

	2003 RMB	*2002* RMB
Interest income	8,564,946	10,821,821
Dividends	914,374	1,135,227
Total financing income	9,479,320	11,957,048
Interest expense and other borrowing costs	98,121,695	102,441,333
Less: Interest capitalised	(92,359,320)	(101,534,936)
	5,762,375	906,397
Foreign exchange (gain)/loss	(1,074,689)	343,465
Total financing expenses	4,687,686	1,249,862
Net financing income	4,791,634	10,707,186

Interest expense and other borrowing costs have been capitalised at a rate of 4.8% (2002: 4.8%) per annum.

8 Taxation

(a)Taxation in the consolidated income statement comprises:

	2003 RMB	*2002* RMB
PRC income tax for the year	258,351,216	120,042,472
Underprovision in respect of prior years	6,124,914	1,920,352
	264,476,130	121,962,824
Change in deferred taxes (note 16)	1,884,817	4,628,273
	266,360,947	126,591,097

The provision for PRC income tax is 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:

	2003	*2002*
	RMB	RMB
Accounting profit before tax	811,128,600	524,243,009
	==========	==========
Income tax computed by applying tax rate of 15%	121,669,290	78,636,451
Effect of tax rates in various PRC locations	133,060,693	54,789,294
Non-taxable income	(137,100)	(750,000)
Non-deductible expenses	13,417,300	3,123,000
Effect of tax losses utilised	(7,774,150)	(11,128,000)
Underprovision in respect of prior years	6,124,914	1,920,352
Income tax expense	266,360,947	126,591,097
	==========	==========

(b)Taxation in the consolidated balance sheet represents:

	2003	*2002*
	RMB	RMB
Brought forward balance of PRC income tax	34,364,308	43,704,935
Provision for PRC income tax for the year	264,476,130	120,042,472
PRC income tax paid	(219,754,005)	(129,383,099)
	79,086,433	34,364,308
Provision for PRC business tax and city construction tax	64,810,574	52,308,192
PRC value added tax provision	50,639	201,203
PRC land appreciation tax recoverable	(384,046)	(7,233,345)
Other PRC taxation	1,819,530	912,695
	145,383,130	80,553,053
	==========	==========

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 RMB521,147,696 (2002: RMB382,024,878) and on the weighted average number of ordinary shares outstanding during the year of 1,345,745,707 shares (2002: 1,261,943,898 shares).

9 Earnings per share (continued)

(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 RMB542,074,381 (2002: RMB382,024,878) and on the weighted average number of ordinary shares outstanding during the year of 1,464,646,211 shares (2002: 1,401,074,550 shares), calculated as follows:

Net profit attributable to ordinary shareholders (diluted):

	2003	*2002*
	RMB	RMB
Net profit attributable to shareholders	521,147,696	382,024,878
After tax effect of borrowing costs on convertible bonds	20,926,685	-
Net profit attributable to ordinary shareholders (diluted)	542,074,381	382,024,878
	==========	==========

Weighted average number of ordinary shares (diluted):

	2003	*2002*
	RMB	RMB
Weighted average number of ordinary shares at 31 December	1,345,745,707	1,261,943,898
Effect of conversion of convertible bonds	118,900,504	139,130,652
Weighted average number of ordinary shares (diluted) at 31 December	1,464,646,211	1,401,074,550
	==========	==========

(c) During the year, the Company issued additional ordinary shares out of the share premium in the ratio 10:10 to all shareholders. Accordingly, the weighted average number of ordinary shares used in the calculation of the basic and diluted earnings per share in 2002 were adjusted to 1,261,943,898 and 1,401,074,550 respectively. As a result, the basic and diluted earnings per share were adjusted to RMB0.30 and RMB0.27 respectively based on the net profit for the year ended 31 December 2002 attributable to shareholders of RMB382,024,878.

(d) Subsequent to the year end, the Board of Directors of the Company proposed to issue additional ordinary shares out of the share premium in the ratio of 10:4, and distribute bonus issue of 1 share for every 10 shares to shareholders. Had the ordinary shares of 558,339,778 and 139,584,944 been issued respectively, the weighted average number of ordinary shares used in the calculation of the basic and diluted earnings per share would have been adjusted to 2,018,618,561 and 2,196,969,317 respectively.

As a result, the basic and diluted earnings per share would have been adjusted to RMB0.26 and RMB0.25 respectively based on the net profit for the year attributable to shareholders of RMB521,147,696 and RMB542,074,381 respectively.

10 Dividend

A dividend of RMB0.2 per share, before issuance of additional ordinary shares out of the share premium on the ratio 10:10 to all shareholders during the year, resulted in a total dividend payment of RMB135,379,994, in respect of the year ended 31 December 2002 was declared and paid during the year ended 31 December 2003 (note 21).

A cash dividend of RMB0.05 per share and a bonus issue of 1 share for every 10 shares, resulting in a total dividend payment of RMB69,792,472 and share issuance of 139,584,944 shares, in respect of the year ended 31 December 2003 are to be proposed at the Company's forthcoming annual general meeting. The dividends have not been provided for.

11 Fixed assets

	Buildings	*Investment properties*	*Improvements to premises*	*Plant and machinery*	*Furniture, fixtures and equipment*	*Motor vehicles*	*Total*
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Cost:							
At 1 January 2003	372,558,837	284,795,760	52,404,875	9,010,920	73,731,652	45,831,901	838,333,945
Additions	2,304,999	49,058,386	15,782,903	386,925	11,671,959	8,315,871	87,521,043
Reclassification							
- Transfer from completed properties for sale	2,695,467	-	-	-	-	-	2,695,467
Disposal/write off	(139,562,141)	(109,497,119)	(8,489,283)	(2,555,700)	(7,897,127)	(6,848,217)	(274,849,587)
At 31 December 2003	237,997,162	224,357,027	59,698,495	6,842,145	77,506,484	47,299,555	653,700,868
Aggregate depreciation and impairment losses:							
At 1 January 2003	78,016,886	45,821,469	28,675,392	5,331,066	39,451,155	29,675,737	226,971,705
Charge for the year	20,722,255	14,180,799	19,149,537	817,760	11,689,845	5,460,362	72,020,558
(Write back of provision)/provision for impairment losses	(5,207,000)	14,509,777	-	-	-	-	9,302,777
Write back on disposal/write off	(51,445,817)	(12,821,005)	(8,489,283)	(2,476,440)	(6,581,258)	(6,496,774)	(88,310,577)
At 31 December 2003	42,086,324	61,691,040	39,335,646	3,672,386	44,559,742	28,639,325	219,984,463
Net book value:							
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
At 31 December 2002	294,541,951	238,974,291	23,729,483	3,679,854	34,280,497	16,156,164	611,362,240

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 RMB212,170,000 (2002: RMB271,680,000). The value is determined having regard to recent market transactions for similar properties in the same location as the Group's investment properties.

12 Intangible assets

	Negative goodwill RMB	*Goodwill* RMB	*Total* RMB
Cost:			
At 1 January 2003 and 31 December 2003	(19,020,617)	22,666,459	3,645,842
Aggregate amortisation:			
At 1 January 2003	(16,795,959)	20,642,990	3,847,031
Charge for the year	(2,224,658)	2,023,469	(201,189)
At 31 December 2003	(19,020,617)	22,666,459	3,645,842
Net book value:			
At 31 December 2003	-	-	-
At 31 December 2002	(2,224,658)	2,023,469	(201,189)

Amortisation charge of negative goodwill and goodwill for the year is included in "other operating income" (note 4) and "other operating expenses" (note 5) respectively.

The negative goodwill is being recognised in the consolidated income statement over a five year period.

13 Principal subsidiaries

Details of principal subsidiaries at 31 December 2003 are as follows:

Name of company	*Percentage of equity held by the Group 2003*	*2002*	*Principal activities*
Shenzhen Vanke Real Estate Company Limited	100%	100%	Property development
Shenzhen Vanke Property Company Limited	100%	100%	Property development
Shenzhen Vanke Financial Consultancy Company Limited	100%	100%	Investment trading and consultancy services

13 Principal subsidiaries (continued)

Name of company	*Percentage of equity held by the Group 2003*	*2002*	*Principal activities*
Shenzhen Vanke Film and Television Company Limited	100%	100%	Production of video and films
Tianjin Vanke Shine (Group) Company Limited	100%	100%	Property development
Tianjin Vanke Property Management Company Limited	100%	100%	Property development
Beijing Vanke Enterprises Shareholding Company Limited	100%	100%	Property development
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
Shenyang Vanke Real Estate Company Limited	100%	100%	Property development
Dalian Vanlin Properties Development Company Limited	100%	100%	Property development
Chengdu Vanke Xingye Company Limited	100%	100%	Property development
Chang Chun Vanke Real Estate Company Limited	100%	100%	Property development
Shanghai Vanke Pudong Property Company Limited	100%	100%	Property development

13 Principal subsidiaries (continued)

Name of company	*Percentage of equity held by the Group 2003*	*2002*	*Principal activities*
Shanghai Vanke Baoshan Property Company Limited	100%	100%	Property development
Beijing Haikai Vanke Real Estate Development Company Limited	100%	100%	Property development
Tianjin Vanke Shine Development Company Limited	100%	100%	Property development
Shenzhen A-Housing Company Limited	100%	100%	E-business
Anshan Vanshan Properties Development Company Limited	100%	65%	Property development
Jiangxi Vanke-Yida Real Estate Development Company Limited	50%	50%	Property development
Shenyang Vanke Wonderland Company Limited	100%	100%	Property development
Shenyang Vanke Metropolitan Company Limited	100%	100%	Property development
Foshan Vanke Real Estate Company Limited	100%	-	Property development
Zhongshan Vanke Real Estate Company Limited	100%	-	Property development
Guangzhou Vanke Real Estate Company Limited	100%	-	Property development

13 Principal subsidiaries (continued)

Name of company	*Percentage of equity held by the Group 2003*	*2002*	*Principal activities*
Guangzhou Vanke Property Company Limited	100%	-	Property development
Dalian Vanke Jinxiu Flower City Development Company Limited	100%	-	Property development
Jiangxi Vanke-Yida Property Management Company Limited	100%	-	Property development

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

14 Interests in associates

Details of principal associates at 31 December 2003 are as follows:

Name of company	*Percentage of interest held by the Group 2003*	*2002*	*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.

15 Other investments

	2003	*2002*
	RMB	RMB
Investments, at cost less impairment loss of RMB5,060,000 (2002: RMB5,060,000)	54,954,947	54,811,347
	=========	=========

Investments represent investments in unquoted shares of various companies during the year.

16 Deferred tax assets/(liabilities)

Deferred tax assets and deferred tax liabilities at 31 December 2003 and 2002 are attributable to the items detailed as follows:

	2003	*2002*
	RMB	RMB
Deferred tax assets:		
Tax losses	1,051,433	2,936,250
Deferred tax liabilities:		
Recognition of transaction costs and discount of convertible bonds	(2,894,701)	(6,158,939)
Net deferred tax liabilities	(1,843,268)	(3,222,689)
	========	========

Movement in net deferred tax (liabilities)/assets:

	2003	*2002*
	RMB	RMB
Balance at 1 January	(3,222,689)	7,564,523
Transferred from consolidated income statement (note 8(a))	(1,884,817)	(4,628,273)
Relating to convertible bonds recognised directly in reserves (note 21)	3,264,238	(6,158,939)
Balance at 31 December	(1,843,268)	(3,222,689)
	========	========

16 Deferred tax assets/(liabilities) (continued)

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

	2003 RMB	*2002* RMB
Deductible temporary differences	100,420,000	72,644,000
Tax losses	205,106,000	145,800,000
	305,526,000	218,444,000
	=========	=========

The tax losses will expire between 2004 and 2008. 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

	2003 RMB	*2002* RMB
Raw materials	2,652,394	3,289,909
Finished goods	3,269,329	3,118,739
	5,921,723	6,408,648
	=========	=========
Inventories recognised as cost of sales for the year	4,963,574	13,800,063
	=========	=========

In respect of finished goods, a general provision of RMB259,687 (2002: RMB259,687) has been made in the financial statements to state the inventories at the lower of cost and net realisable value.

18 Trade and other receivables

	2003 RMB	*2002* RMB
Debtors, prepayments and other receivables	565,925,774	581,442,810
Amounts due from associates	6,794,145	7,309,926
Deposit with a security broker firm	1,647	1,748
	572,721,566	588,754,484
	=========	=========

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 RMB69,771,644 (2002: RMB36,954,931) 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*	
	2003 *RMB*	*2002* *RMB*	*2003* *RMB*	*2002* *RMB*	*2003* *RMB*	*2002* *RMB*
At 1 January	509,219,577	509,216,805	121,755,136	121,755,136	630,974,713	630,971,941
Issued out of share premium in the ratio 10:10 (note 21(a))	555,144,834	-	121,755,136	-	676,899,970	-
Issued upon conversion of convertible bonds	87,974,761	2,772	-	-	87,974,761	2,772
At 31 December	1,152,339,172	509,219,577	243,510,272	121,755,136	1,395,849,444	630,974,713

During the year, 87,974,761 (2002: 2,772) A shares were issued on the conversion of convertible bonds with total carrying value of RMB792,500,156 (2002: RMB32,987) made up as follows:

	2003 RMB	*2002* RMB
Liability component (note 23)	720,944,607	30,020
Equity component (note 21)	71,564,393	2,980
Cash refund to bondholders	(8,844)	(13)
	792,500,156	32,987
Represented by:		
Share capital	87,974,761	2,772
Share premium (note 21)	704,525,395	30,215
	792,500,156	32,987

Included in the 87,974,761 new shares issued, 45,925,257 A shares were issued from 1 January 2003 to 22 May 2003. These 45,925,257 shares were entitled to the additional shares issued upon capitalisation of share premium in a ratio of 10:10 (note 21(a)).

	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 2002	1,411,554,630	10,870,136	1,022,427,694	-	161,347,443	2,606,199,903
Profit for the year	-	-	-	-	382,024,878	382,024,878
Adjustment on translation of foreign subsidiaries	-	420,381	-	-	-	420,381
Transfer from retained profits	-	-	248,573,828	-	(248,573,828)	-
Convertible bonds issued (note 23)	-	-	-	132,590,802	-	132,590,802
Shares issued upon conversion of convertible bonds (note 20)	30,215	-	-	(2,980)	-	27,235
Share issuing cost	(616)	-	-	62	-	(554)
Deferred tax recognised (note 16)	-	-	-	(6,158,939)	-	(6,158,939)
Dividend paid - 2001 (note 10)	-	-	-	-	(126,194,388)	(126,194,388)
At 31 December 2002	1,411,584,229	11,290,517	1,271,001,522	126,428,945	168,604,105	2,988,909,318
	===========	=========	===========	===========	=========	===========
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 recognised (note 16)	-	-	-	3,264,238	-	3,264,238
Dividend paid - 2002 (note 10)	-	-	-	-	(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
	===========	=========	===========	===========	=========	===========

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 10:10 to all shareholders. After taking into account of the conversion of convertible bonds upto the date of capitalisation issue, a total of 676,899,970 shares with a par value of RMB1 each were issued in addition to the total share capital of 676,899,970 shares as at 23 May 2003.

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 10:4 to all shareholders. A total of 558,339,778 shares with a par value of RMB1 each will be issued in addition to the total share capital of 1,395,849,444 shares as at 31 December 2003. The proposed issue will be subject to shareholders' approval at a general meeting. A total of RMB558,339,778 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 10:4 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 (continued)

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 2003 the reserve available for distribution was RMB247,106,386 (2002: RMB138,464,584).

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.

	2003 RMB	*2002* RMB
Non-current		
Unsecured		
- bank loans	-	160,000,000
- other borrowings	248,523,200	-
	248,523,200	160,000,000

	2003 RMB	*2002* RMB
Other borrowings represent:		
Proceeds	260,200,000	-
Transaction costs	(11,676,800)	-
	248,523,200	-

At 31 December 2003, bank loans and other borrowings were repayable as follows:

	2003 RMB	*2002* RMB
After one year but within two years	260,200,000	160,000,000
Current		
Unsecured bank loans	1,840,000,000	460,000,000

22 Interest-bearing loans and borrowings (continued)

No bank loan (2002: Nil) is secured on the Group's fixed assets.

The Group's total bank loans outstanding at the end of 2003 and 2002 are denominated in RMB. The average nominal interest rate is 5.18% (2002: 5.85%).

Type	*Original amount*		*Effective interest rate*		*Fixed/floating*		*Maturity*	
	2003 RMB	*2002* RMB	*2003*	*2002*	*2003*	*2002*	*2003*	*2002*
Bank loan	1,680,000,000	460,000,000	5.04%	5.04%	Fixed	Fixed	1 to 6 months	1 to 6 months
Bank loan	160,000,000	160,000,000	5.02%	6.63%	Fixed	Fixed	7 to 12 months	1 to 2 years
Other borrowing	260,200,000	-	4.5%	-	Fixed	-	1 to 2 years	-
	2,100,200,000	620,000,000						
	==========	==========						

23 Convertible bonds

	2003 RMB	*2002* RMB
Proceeds from issue of 15,000,000 convertible bonds of RMB100 each	1,500,000,000	1,500,000,000
Transaction costs	(31,680,353)	(31,680,353)
Net proceeds	1,468,319,647	1,468,319,647
Amount classified as equity (note)	(132,590,802)	(132,590,802)
Conversion into A shares	(720,974,627)	(30,020)
Discount released to share premium upon conversion	(13,903,405)	-
Transaction costs released to share premium upon conversion	12,442,452	554
Discount on convertible bonds amortised	37,581,944	15,802,683
Transaction costs amortised	7,088,969	3,362,284
Carry value of liability at 31 December	657,964,178	1,354,864,346
	===========	===========

Note: The amount of the convertible bonds initially recognised in equity is net of attributable transaction costs of RMB2,860,769.

23 Convertible bonds (continued)

On 13 June 2002, the Company issued convertible bonds (the "Bonds") amounting to RMB1,500,000,000. The Bonds are listed on the Shenzhen Stock Exchange (the "Stock Exchange") and are guaranteed by the Bank of China Shenzhen branch. Each 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 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 Bonds) which lead to change in equity of the Company. Since 17 July 2002, the conversion price has been revised to RMB11.9 per share as a result of the distribution of a dividend of RMB0.2 per share. Since 23 May 2003, the conversion price has been revised to RMB5.85 per share as a result of the distribution of a dividend of RMB0.2 per share and issuance of shares out of share premium in the ratio 10:10. Exercise in full of the conversion rights attaching to the Bonds as at 31 December 2003 would have resulted in the issue of 120,932,991 A shares.

The 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 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 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 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.

24 Trade and other payables

	2003 RMB	*2002* RMB
Accounts payable - trade	2,100,180,917	1,621,948,607
Bills payable	3,000,000	9,687,600
Amounts due to associates	8,304,747	5,956,167
Deposits received in advance	464,745,081	544,317,648
Other payables and accrued expenses	252,794,694	256,214,744
	2,829,025,439	2,438,124,766

25 Provisions

	Claim RMB	*Compensation to customers* RMB	*Total* RMB
Balance at 1 January 2002	15,351,012	21,850,000	37,201,012
Provisions made during the year	-	11,000,000	11,000,000
Provisions used during the year	-	(23,677,340)	(23,677,340)
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
	=========	=========	=========

Claim

In 1995, the Group sold certain properties in Tianjin Vanke Centre, with a sublease arrangement, to two customers (“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 and requested for a compensation for the income of sublease and the related interest. On 10 July 2002, the Court made a judgement that the Group was required to pay US$1,087,459 and the related interest to the plaintiffs. However, the plaintiffs have appealed to the Court for a further compensation. As the case has not been resolved as at 31 December 2003, the estimated amount of RMB16,351,012 was provided in the financial statements.

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. As at 31 December 2003, an estimated compensation of RMB2,162,120 was provided in the financial statements.

26 Related parties

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

Associates	(notes 14, 18, 24)
Other related party	(note 27)

27 Operating leases

(a) Leases as lessee

Non-cancellable operating leases are payable as follows:

	2003	*2002*
	RMB	RMB
Not later than one year	5,733,753	4,167,136
Between one and five years	3,083,042	4,173,676
Later than five years	1,287,743	1,872,791
	10,104,538	10,213,603
	=========	=========

Total rental expenses for all operating leases were RMB13 million for the year (2002: RMB10 million). The operating leases mainly relate to the rental payments for offices.

(b) Leases as lessor

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

	2003	*2002*
	RMB	RMB
Not later than one year	8,429,113	10,627,022
Between one and five years	21,637,288	40,710,031
Later than five years	11,954,272	141,878,216
	42,020,673	193,215,269
	=========	=========

Total rental income for all operating leases was RMB23 million (2002: RMB15 million) which has been included in revenue and RMB22 million (2002: RMB12 million) expenses were charged to the consolidated income statement relating to investment properties. During the year, the Group has sold certain properties and lease right to a fellow subsidiary of a major shareholder of the Group ("the buyer"), with a total consideration of RMB96 million. This resulted to 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 (2002: RMB4.7 million).

28 *Capital commitments and contingent liabilities*

(a) Capital commitments

Capital commitments outstanding at 31 December 2003 not provided for in the financial statements were as follows:

	2003	*2002*
	RMB	RMB
Contracted for	3,653,491,808	1,843,270,919
Authorised but not contracted	-	11,425,823
	3,653,491,808	1,854,696,742

(b) Contingent liabilities

(i) As at 31 December 2003, 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 RMB4,657 million (2002: RMB3,903 million), including guarantees of RMB2,480 million (2002: RMB1,922 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 from the plaintiffs is pending.

(iii) As at 31 December 2003, the Group has received a claim from a contractor for the repayment of construction costs of RMB29.7 million. The Directors of the Group and the legal advisor are of the opinion that the Group has strong ground of winning the case and, accordingly, no provision is made in the financial statements.

29 Note to cash flow statement

Cash flows from operating activities

		2003		*2002*
	RMB	RMB	RMB	RMB
Operating profit		815,198,517		525,852,261
Adjustments for:				
Depreciation	72,020,558		67,178,226	
(Gain)/loss on disposal of fixed assets	(30,354,402)		608,040	
Loss on disposal of a subsidiary	-		442,985	
Loss on disposal of an associate	-		386,681	
Write off of fixed assets	82,706,449		-	
Loss on disposal of properties held for development	7,900,958		-	
Decrease in provision for bad and doubtful debts	(2,829,663)		(3,626,871)	
Provision for impairment losses of fixed assets	9,302,777		1,000,000	
(Write back of provision)/ provision for completed properties for sale	(231,307)		88,151	
Provision for properties held for development	26,000,000		10,000,000	
Amortisation of negative goodwill	(2,224,658)		(2,224,662)	
Amortisation of goodwill	2,023,469		2,491,970	
Interest income	(8,564,946)		(10,821,821)	
Interest expense	5,762,375		906,397	
Dividend income	(914,374)		(1,135,227)	
		160,597,236		65,293,869
Operating profit before working capital changes carried forward		975,795,753		591,146,130

29 Note to cash flow statement (continued)

Cash flows from operating activities (continued)

		2003		*2002*
	RMB	RMB	RMB	RMB
Operating profit before working capital changes brought forward		975,795,753		591,146,130
Decrease in amount due from associates	515,781		9,961,110	
Decrease/(increase) in trade and other receivables	18,203,200		(36,342,171)	
Decrease/(increase) in inventories	486,925		(1,325,866)	
Increase in properties under development	(647,975,637)		(468,231,716)	
Increase in completed properties for sale	(549,635,591)		(152,520,630)	
Increase in properties held for development	(1,539,138,635)		(539,365,472)	
Increase in trade and other payables	395,081,448		910,601,038	
Decrease in provisions	(6,010,540)		(12,677,340)	
Increase in amount due to associates	2,348,580		-	
Increase/(decrease) in other tax payable included in taxation	20,107,952		(9,576,855)	
		(2,306,016,517)		(299,477,902)
Cash (outflow)/inflow from operations		(1,330,220,764)		291,668,228
Interest paid	(70,253,948)		(70,901,638)	
Net income tax paid	(219,754,005)		(129,383,099)	
		(290,007,953)		(200,284,737)
Net cash (outflow)/inflow from operating activities		(1,620,228,717)		91,383,491
		===========		===========

30 Financial instruments

Financial assets of the Group include cash, listed and unlisted investments, and trade receivables. Financial liabilities of the Group include bank loans, trade payables and convertible bonds.

(a) Interest rate risk

The interest rates and terms of repayment of loans and borrowings of the Group are disclosed in note 22 to the financial statements. The interest rate 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.

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, trade receivables, trade payables and bank loans are not materially different from their carrying amounts.

The fair value of convertible bonds is estimated at RMB813,823,101 by reference to the market value as at 31 December 2003.

31 Comparative figures

Certain comparative figures have been adjusted in order to conform with presentation of financial statements of current year.

(Expressed in Renminbi Yuan)

Net Impact of IFRS Adjustments on the Results and Net Assets for the year ended 31 December 2003

	Net profit for the year ended 31 December 2003 RMB	*Net assets as at 31 December 2003* RMB
As determined pursuant to PRC accounting regulations	542,270,658	4,701,359,103
Adjustments to align with IFRS:		
Recognition and amortisation of negative goodwill	1,445,975	4,536,267
Recognition and amortisation of goodwill	2,281,313	(108,000)
Deferred tax assets	(1,884,817)	1,051,433
Deferred tax liabilities	-	(2,894,701)
Revaluation of properties	-	(17,146,128)
Capitalised borrowing costs released to cost of sales	(22,965,433)	(22,965,433)
Transaction costs released to share premium upon conversion of convertible bonds	-	(322,127)
Discount released to share premium upon conversion of convertible bonds	-	13,903,405
Discount on convertible bonds	-	62,534,948
As restated in conformity with IFRS	521,147,696	4,739,948,767
	==========	===========

13 Directory of the Articles Reviewed

1. The Accounts Report with stamp and signatures of the Company's legal person representative, financial controller and finance manager.

2. Original Auditors' Report with the stamp of the accounting firm, stamp and signature of the Certified Public Accountants.

3. Original announcements and documents of the Company disclosed during the period in newspapers designated by the China Securities Regulatory Commission.

4. Annual report in PRC Accounting Standards.

The Company's Annual Report is edited in Chinese and English, should there be any differences in understanding between the two versions(except the differences due to the discrepancy between PRC accounting regulations and IFRS), please refer to the Chinese one.

APPENDIX

Note on capital usage by
China Vanke Co., Ltd.'s controlling shareholder and connected parties and China Vanke Co., Ltd.'s guarantee to controlling shareholder and subsidiaries of controlling shareholder for year 2003

Board of Directors of China Vanke Co., Ltd.:

We have audited the consolidated balance sheet of China Vanke Co., Ltd. (the "Company") and its subsidiaries (together with the Company referred to as the "Group") as of 31 December 2003 and the related consolidated statements of income, changes in equity and cash flows for the year then ended with "Independent Auditing Standards for Chinese Certified Public Accountants", and signed and issued an audit report with an unqualified opinion on 5 March 2004.

In accordance with the requirement of "Notice regarding capital usage by listed companies' major shareholder and connected parties and illegal guarantees provided by listed companies" promulgated by the China Securities Regulatory Commission and the State-owned Assets Supervision and Administration Commission of the State Council, the Company formulated "Capital usage by controlling shareholder and other connected parties during 2003"("Capital usage").

It is the Company's responsibility to formulate and disclose Capital Usage in accordance with the actual state of affairs of the Company, and the Company is responsible for the truthfulness, legitimacy and completeness for the information contained in Capital usage. We have reviewed the information contained in Capital usage against the Company's financial and accounting information and relevant information contained in the audited accounting statements for the year 2003, and did not find any material discrepancy. Apart from the implementation of relevant audit procedures for connected transactions in the course of audit of 2003 accounting statements, we did not conduct additional audit or other procedures for information contained in Capital usage.

To get a full understanding of the Company's Capital usage by controlling shareholder and other connected parties during 2003, the Capital Usage should be considered together with the audited financial statements.

KPMG Huazhen Certified Public Accountants **Luo Ke**
Jin Nai Wen

5 March 2004

China Vanke Co., Ltd.
Capital usage by controlling shareholder and other connected parties during 2003

Amount Unit: RMB

	Name of the connected parties	Relationship with the listed company	Account name (Accounts receivable/prepayment / other accounts receivable)	Balance as at 1 Jan 2003	increased during the year	decreased during the year	Balance as at 31 December 2003	Reasons for increased capital use in 2003
Amount due from controlling shareholder	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Amount due from other connected parties	Beihai Vanda Real Estate Co., Ltd.	associate (40% held by the Group)	Other accounts receivable	7,309,925.66	-	515,780.29	6,794,145.37	Paid for expenses on behalf

Wang Shi
Person-in-charge of the Company

Wang Wen Jin
Person-in-charge of finance