

Directors' Report

The Board of Directors is pleased to present to the shareholders their report together with the audited accounts of the Company and its subsidiaries (the "Group") for the year ended 31st December 2003.

Principal Activities

The Group is principally engaged in land and properties development and property investment.

Results and Profit Distribution

The results of the Group for the year ended 31st December 2003, prepared in accordance with the accounting principles generally accepted in Hong Kong and its financial position as at the same date are set out on pages 49 to 53 of the annual report.

Dividends

According to our Prospectus dated 10th June 2003, our dividend payment for the year 2003 will be pro-rata based on the period from the Listing Date to 31st December 2003. At the meeting held on 4th March 2004, the Directors recommended the payment of a dividend in the sum of RMB69,477,000 for the period from 1st January 2003 to 18th June 2003 to the Promoters of the Company. The Company's dividend allocation for the period from 19th June 2003 to 31st December 2003 is based on the Company's share capital of 1,613,300,000 shares as at 31st December 2003. A final dividend of RMB2.5 cents per share and a final special dividend of RMB2.5 cents per share were proposed and the total amount payable will be RMB80,576,000. These proposed dividends are not reflected as dividend payable for the year ended 31st December 2003 but will be reflected as an appropriation of retained profits for the year ending 31st December 2004.

Financial Highlights

The Group's consolidated results and summaries of assets and liabilities for the last four years are set out on page 2 of the annual report.

Major Customers and Suppliers

During the year, the Group purchased less than 30% of goods and services from its five largest suppliers and sold approximately 53% of its goods and services to its five largest customers.

None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers mentioned above.

Fixed Assets

Details of the movement of fixed assets of the Group during the year are set out in note 14 to the accounts.

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Principal Properties

The summary of principal properties owned by the Group is set out on page 5 of the annual report.

Reserve

Details of movements of reserve of the Group and the Company during the year are set out in note 29 to the accounts.

Purchase, Sale or Redemption of Shares

During the period from 19th June 2003 when the Company was listed on the Hong Kong Stock Exchange to 31st December 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Directors and Supervisors

The directors and supervisors for the year are as follows:

Directors

Executive Directors

Mr. Liu Xiaoguang	(Chairman)
Mr. Tang Jun	(President)
Mr. He Guang	(Vice-President)
Mr. Pan Pei	(Vice-President)
Mr. Wang Zhengbin	(Vice-President)

Non-executive Directors

Mr. Wang Qi
Ms. Zhu Min
Mr. Muk Kin Yau

Independent non-executive Directors

Mr. Peter Yuk Lun Eng
Mr. Kwong Kai Sing, Benny
Mr. Ke Jianmin

Directors' Report

Directors and Supervisors *(continued)*

Supervisors

Supervisors

Mr. Yu Changjian

Mr. Wei Jianping

Independent Supervisors

Mr. Xu Jianhong

Mr. Yang Yulu

The biographical details of directors, supervisors and senior management are set out on pages 27 to 31 of the annual report.

Election of Directors and Supervisors

All the existing executive directors and Mr. Wang Qi, Ms. Zhu Min, Mr. Peter Yuk Lun Eng Mr. Kwong Kai Sing, Benny, being non-executive directors were appointed as directors of the Company in December 2002. Mr. Ke Jianmin, an independent non-executive director was appointed as a director of the Company in June 2003. Mr. Muk Kin Yau, a non-executive director was appointed as a director of the Company in November 2003.

Mr. Yu Changjian, Mr. Wei Jianping and Mr. Xu Jianhong were appointed as Supervisors of the Company in December 2002. Mr. Yang Yulu, was appointed as an Independent Supervisor of the Company in June 2003.

Directors' Emoluments

Details of directors' emoluments are set out in note 12 to the accounts.

Highest Paid Individuals

During the year, the five individuals with the highest remuneration in the Group are all directors of the Company.

Management Contracts

Except for the connected transactions as stated in this report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Directors' Report

Interests of Directors and Supervisors

As at 31st December 2003, the interests and short positions of each Director, supervisor and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Hong Kong Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors):

Director/Supervisor	Relevant entity	Type	No. of Shares held (RMB)	Approximate percentage of registered capital of the relevant entity
Liu Xiaoguang	Beijing Capital Sunshine Real Estate Development Co., Ltd.	Individual	2,000,000	2%
Tang Jun	Beijing Capital Sunshine Real Estate Development Co., Ltd.	Individual	2,000,000	2%
Pan Pei	Beijing Capital Technology Investment Ltd.	Individual	1,500,000	0.75%
Wang Qi	Beijing Capital Sunshine Real Estate Development Co., Ltd.	Individual	400,000	0.4%
	Beijing Capital Technology Investment Ltd.	Individual	2,000,000	1%
Yu Changjian	Beijing Capital Sunshine Real Estate Development Co., Ltd.	Individual	600,000	0.6%
	Beijing Capital Technology Investment Ltd.	Individual	800,000	0.4%

Directors' Report

Save as disclosed above, as at 31st December, 2003, none of the directors, supervisors and chief executive of the Company has any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of listed companies. None of the directors, supervisors and chief executive of the Company, their spouses or children under the age of 18 years had been granted any rights to subscribe for equity or debt securities of the Company, nor has any of them exercised such rights during the year.

Interests of Directors and Supervisors in Contracts

Apart from service contracts in relation to the Company's business, no contract of significance to which the Company, its holding company, any of its subsidiaries or its fellow subsidiaries was a party, and in which a director or supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Interests of Directors in Competing Business

During the year and up to the date of this report, none of the directors or management shareholders has any interest in business which competes or may compete with the business of the Group under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Details of Share Offering and Listing

Class of shares	H shares
Listing place	Hong Kong
Offer price	HK\$1.66 per share
Listing date	19th June 2003
Number of issued H shares	564,630,000 shares

Share Capital

As at 31st December 2003, there were a total issued share capital of 1,613,300,000 shares of the Company (the "Shares") which include:

	Number of Shares	Approximate percentages of share capital
Domestic Shares	690,671,700	42.8%
Non-H Foreign Shares	357,998,300	22.2%
H Shares	564,630,000	35.0%

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Substantial Shareholders' Interests in Shares

As at 31st December 2003, the following persons had interests or short positions in the Shares or underlying Shares or debentures of the Company and such interests and / or short positions shall be recorded in the register under section 336 of the SFO:

Long positions in the Shares of the Company:

Name of shareholders	Number of Shares directly and indirectly held	Approximate percentages of share capital (%)		Aggregate direct and indirect interests
		Direct interests	Indirect interests	
Capital Group	965,907,900 ⁽¹⁾	3.5	56.4	59.9
Beijing Sunshine Real Estate Comprehensive Development Company	619,146,500 ⁽²⁾	3.6	34.8	38.4
Beijing Capital Sunshine Real Estate Development Co., Ltd.	561,461,900 ⁽³⁾	17.7	17.1	34.8
Beijing Capital Technology Investment Ltd.	172,006,700	10.7	—	10.7
Beijing Capital Hangyu Economic Development Co., Ltd.	118,747,600	7.4	—	7.4
China Resource Products Limited	275,236,200	17.1	—	17.1
Yieldwell International Enterprise Limited	82,762,000	5.1	—	5.1
Fexi Holdings Limited	82,762,100 ⁽⁴⁾	—	5.1	5.1
Chung Pok Ying	82,762,100 ⁽⁵⁾	—	5.1	5.1
Reco Pearl Private Limited	158,102,000	9.8	—	9.8
Recosia China Pte Ltd.	158,102,000 ⁽⁶⁾	—	9.8	9.8
Recosia Pte Ltd.	158,102,000 ⁽⁷⁾	—	9.8	9.8
Government of Singapore Investment Corporation (Realty) Pte Ltd.	158,102,000 ⁽⁸⁾	—	9.8	9.8

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Substantial Shareholders' Interests in Shares *(continued)*

Notes:

- (1) Of these 965,907,900 Shares, 56,007,100 Shares are directly held by the Capital Group, the remaining 909,900,800 Shares are deemed corporate interests under the SFO indirectly held through Beijing Sunshine Real Estate Comprehensive Development Company, Beijing Capital Sunshine Real Estate Development Co., Ltd., Beijing Capital Technology Investment Ltd., Beijing Capital Hangyu Economic Development Co., Ltd. and China Resource Products Limited.
- (2) Of these 619,146,500 Shares, 57,684,600 Shares are directly held by Beijing Sunshine Real Estate Comprehensive Development Company, the remaining 561,461,900 Shares are deemed corporate interests under the SFO indirectly held through Beijing Capital Sunshine Real Estate Development Co., Ltd. and China Resource Products Limited.
- (3) Of these 561,461,900 Shares, 286,225,700 Shares are directly held by Beijing Capital Sunshine Real Estate Development Co., Ltd., the remaining 275,236,200 Shares are deemed corporate interests under the SFO indirectly held through China Resource Products Limited.
- (4) 82,762,100 Shares are deemed corporate interests under the SFO indirectly held through Yieldwell International Enterprise Limited.
- (5) 82,762,100 Shares are deemed corporate interests under the SFO indirectly held through Yieldwell International Enterprise Limited and Fexi Holdings Limited.
- (6) 158,102,000 Shares are deemed corporate interests under the SFO indirectly held through Reco Pearl Private Limited.
- (7) 158,102,000 Shares are deemed corporate interests under the SFO indirectly held through Reco Pearl Private Limited and Recosia China Pte Ltd.
- (8) 158,102,000 Shares are deemed corporate interests under the SFO indirectly held through Reco Pearl Private Limited, Recosia China Pte Ltd. and Recosia Pte Ltd.

Save as disclosed above, the register required to be kept under section 336 of SFO showed that the Company had not been notified of any interests or short positions in the Shares and underlying Shares of the Company as at 31st December 2003.

Use of Proceeds of H Share Issue

Use of Proceeds of H Share Issue are set out on page 20 of the annual report.

Designated Deposit and Due Fixed Deposit

As at 31st December 2003, Designated Deposit and Due Fixed Deposit of the Group are set out on page 24 of the annual report.

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Employees

As at 31st December 2003, the Group had 549 staff. Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. We provide employee benefit, including provident fund schemes, medical insurance scheme, unemployment insurance scheme and housing provident fund. We have conditionally adopted the Share Appreciation Rights Incentive Scheme (the "Incentive Scheme"). The principal terms and conditions of the Incentive Scheme are summarized in the section headed "Summary of terms of the Share Appreciation Rights Incentive Scheme" in Appendix VIII to the Prospectus. As at 31st December 2003, no share appreciation rights have been granted under the Incentive Scheme.

Staff Housing Quarters

During the year, the Group did not provide any housing quarters to its staff.

Connected Transactions

Ongoing Connected Transactions

Set out below is a summary of the ongoing connected transactions ("Ongoing Connected Transactions") of the Company for which the Stock Exchange has granted a waiver:

Provision of decoration and installation services

Since 2000, subsidiaries of the Group have from time to time entered into contracts for decoration and installation services with Beijing Ji Gao Indoor Decoration Works Company Limited ("Ji Gao"), a limited liability company incorporated in the PRC, and which is 60% owned by Beijing Capital Technology Investment Ltd., a substantial shareholder of the Company, and 40% owned by New Capital Investment (Hong Kong) Limited. Accordingly, Ji Gao is a connected person of the Company. The Stock Exchange has granted a waiver to the Company from strict compliance with the relevant requirements of the Listing Rules, subject to, inter alia, that the annual amount for decorating and installation services provided by Ji Gao shall not exceed RMB8,341,090, representing 0.47% of the cost of sales of the Company of approximately RMB1,774,700,000 for the year ended 31st December 2002. For the year ended 31st December 2003, no decorating and installation services have been provided by Ji Gao to the Company.

Further details of the Ongoing Connected Transactions are set out in the Prospectus of the Company dated 10th June 2003.

Other Connected Transactions

Loan Arrangements

As part of the process to obtain land use rights certificates for the properties of the Company under development and held for future developments, the Company entered into a loan agreement and a supplemental agreement with the Company's controlling shareholder, the Capital Group on 10th February 2003 and 31st May 2003 respectively (collectively the "Loan Agreements"). Under the Loan Agreements, the Capital Group paid RMB1,439 million to the Land Bureau, being 100% of the land premia payable by the Company to the Land Bureau for the relevant properties.

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In return, the Land Bureau issued long-term land use rights certificates for the relevant properties in the names of the corresponding project companies. RMB300 million of the loan has been set off against the amount due to the Company by the Capital Group. The balance of the loan shall be repaid by the Company over a period of three years. The first principal payment of RMB300 million is payable within 3 months from the date of listing of the Company on the Stock Exchange. Interest is payable on this first principal portion only, at a rate equal to the base lending rate promulgated by the People's Bank of China from time to time. No interest is payable on the remaining balance of the loan. Further details of the loan arrangement has been disclosed in the Company's prospectus dated 10th June 2003.

Reorganisation Agreement

Pursuant to the Reorganisation Agreement dated 31st May 2003 entered into between the Company and the Promoters of the Company, the Promoters have given various warranties, representations, undertakings and indemnities in favour of the Group in respect of the following matters:

- (i) any tax (including but not limited to land appreciation tax) payable by any member of the Group in respect of any income, profits or receipts earned, receivable or received by any member of the Group before the listing;
- (ii) any third party interest or encumbrance affecting any of the assets injected into the Company as a result of the Reorganisation;
- (iii) any tax or fee payable by the Group as a result of the Reorganisation or any capital contribution by the Promoters into the Company; and
- (iv) breaches by the Promoters of warranties given by them on the assets they injected into the Company pursuant to the Reorganisation.

Further details of the Reorganisation Agreement are disclosed in the Prospectus of the Company dated 10th June 2003.

Please also refer to note 35 to the accounts for details of other related party transactions of the Group.

Bank Loans and Other Borrowings

As at 31st December 2003, the short-term bank loans of the Group was RMB1,088 million, of which unsecured borrowing was RMB970 million and secured borrowing was RMB118 million; and details of long term bank loans and current portion of long term bank loans are set out in notes 26 to the accounts. Other borrowings were mainly amount due to ultimate holding company, details of which are set out in notes 21 and 27 to the accounts.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles and related laws which oblige the Company to offer new shares on pro-rata basis to existing shareholders.

Subsidiaries

Details of the Company's major subsidiaries are set out in note 15 to the accounts.

Results of Operations

Results of Operations of Financial Year 2003 are set out on page 49 of the annual report.

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Policies on Income Tax

The Company and its subsidiaries, paid PRC corporate income tax at a rate of 33% of its assessable profits according to the relevant laws and regulations in the PRC.

Financial Resources and Liquidity

Financial Resources and Liquidity are set out on page 23 of the annual report.

Audit Committee

The audit committee which was established in accordance with the requirement of the Listing Rules held two meetings in August 2003 and March 2004. Members of the audit committee include Mr. Wang Qi, Mr. Peter Yuk Lun Eng and Mr. Kwong Kai Sing, Benny. The primary duties of the audit committee are to appoint external auditors, review and supervise our financial reporting process and internal control system and provide advice and recommendations to the Board. The annual results of the Group for the year ended 31st December 2003 was reviewed by the audit committee.

Code of Best Practice

The Company was listed on the Hong Kong Stock Exchange on 19th June 2003. Since its listing date until 31st December 2003, the Group complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

Other Major Events

To cater for its operating needs, the Company intended to apply for an initial public offering of A shares in the PRC in 2004. An extraordinary general meeting of the Company will be held on 22nd March 2004 to consider the resolutions relating to the proposed A share issue.

Auditors

The accounts have been audited by PricewaterhouseCoopers, who retire and being eligible, offer themselves for reappointment. A resolution reappointing PricewaterhouseCoopers as the auditors of the Company will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Liu Xiaoguang

Chairman

Beijing, the PRC, 4th March 2004