Financial Review

Return on Equity

	2005 RMB' 000	2004 RMB' 000
Equity at 1 January	2,063,286	1,570,579
Equity at 31 December	5,308,912	2,063,286
Average	3,686,099	1,816,932
Profit for the year	1,265,684	541,017
Return on equity %	34.3%	29.8%

Return on equity post IPO improved evidencing that efficient use of shareholders' fund has been sustained.

Consolidated Income Statement

	Note	2005 RMB' 000	2004 RMB' 000	% Change
Turnover	(1)	5,812,379	4,260,396	36.4%
Cost of sale	(2)	(4,314,592)	(3,374,124)	27.9%
Gross profit	(3)	1,497,787	886,272	69.0%
Other revenues	(4)	65,092	48,067	35.4%
Other gains	(5)	173,554		100%
Selling and administrative expenses	(6)	(360,486)	(238,769)	51.0%
Other operating (expenses)/income	(7)	(24,652)	11,247	N/A
Operating profit		1,351,295	706,817	91.2%
Finance costs	(8)	(39,467)	(58,576)	-32.6%
Share of results of jointly controlled entity	(9)	309,073	65,166	374.3%
Profit before income tax		1,620,901	713,407	127.2%
Income tax expense	(10)	(355,217)	(172,390)	106.1%
Profit for the year		**1,265,684**	**541,017**	**133.9%**

Note:

(1) Turnover increased 36% as GFA sold in 2005 increased 10% to 711,225 sq. m. (2004 : 644,365 sq. m.) at an average selling price per sq. m. which increased 24% to RMB8,172/sq. m. (2004 : RMB6,612/sq. m.) In 2005, turnover from 5 properties including Beijing R&F City, R&F Peach Garden, R&F Eastern Dynasty, R&F Aristocratic House and R&F Science Centre accounted for over 90% of the total turnover. Only a small portion of the 2005 turnover came from properties completed for sale brought over from the previous year as the Group's developed properties were mostly sold at time of their completion. The increase in average sale price per sq. m. reflected the general trend in market pricing of properties in both Beijing and Guangzhou as well as a sale mix which included proportionally more higher-priced commercial properties.

(2) Land and construction costs together which averaged RMB5,349 per sq. m. (2004 : RMB4,682 per sq. m.) were the main components and accounted for 95% of the cost (2004 : 96%). Continuous strive to improve the overall quality of the sale properties had marginal impact on the cost of sale but any added cost would have been recovered through higher sale price. Land appreciation tax and capitalized interest included in cost however had become more significant relative to previous year. LAT had increase due to LAT provided on commercial properties sold.

(3) With higher selling prices and cost of sale under control, overall gross profit margin improved to 25.8% in 2005 from 20.8% in 2004. On an individual property basis, gross margin of properties sold in 2005 generally exceed the average gross margin for 2004 with the exception of two properties which accounted for just 11% of 2005 sale. LAT and previously capitalized interest together took approximately 3.0% (2004 : 2.9%) off the gross margin.

(4) Other revenue comprised mainly rental income and interest income. Rental income increased 107% from RMB20.9 million to RMB43.4 million with the investment property in Beijing R&F City leased to a supermarket chain started to earn rental income from January 2005. This additional rental income offset certain compensation received in 2004 from the government for cancelled projects.

(5) Being revaluation surplus amounted to RMB143.6 million of an investment property in Beijing R&F City leased to a supermarket. Also included was a gain of RMB8.0 million on the disposal of a subsidiary, Shenyang Yilong Housing Development Co. Ltd. and the negative goodwill recognized of RMB21.9 million on the acquisition of Xian Binhu Garden Properties Development Co. Ltd. and Xian Baodexin Properties Development Co. Ltd.

(6) Selling expenses which included mainly advertising expenditures amounted to RMB130.3 million (2004 : RMB99.9 million) or 36.2% (2004 :41.9%) of total selling and administrative expenses. As a percentage of sale, selling expenses decreased slightly to 2.2% as compared to 2.3% in 2004. This could be attributable to the economy of scale achieved from higher sale volume and also further enhancement in the brand image of the Group. Manpower cost was the the second largest expenditure which increased to RMB99.6 million from RMB46.7 million in 2004 and indicated the Group's intention to ensure adequate investment in human capital to support the rapid growth of the Group.

(7) Other operating expenses included donations which increased 240% to RMB25.5 million. 2004 amount included amortization of goodwill amounted to RMB14.4 million which ceased from 2005 with the implementation of new HKFRS.

(8) With average interest of 5.45% p.a. (2004 : 5.17%) on the average bank borrowings in 2005 of RMB3,350 million (2004 : RMB2,809 million), interest on bank loans amounted to RMB189.7 million (2004 : RMB171.0 million). Of this interest, RMB150.2 million (2004 : RMB112.4 million) was capitalized to specific projects during their construction period leaving a net finance costs of RMB39.5 million (2004 : RMB58.6 million). However, an offsetting amount of interest previously capitalized of RMB115.8 million had been included as part of the cost of sales.

(9) Being the results of the JCE which developed the residential part of Modern Plaza and increased 3.8 times as a result of GFA sold in 2005 increased to 153,534 sq. m. as compared to 41,020sq. m. in 2004. 2005 sale was RMB969.9 million (2004 : RMB226.6 million) with gross margin improved to 36% from 33%.

(10) Effective tax rate achieved of 27.1% (2004 :25.6%) was below the standard PRC income tax rate 33% mainly due to the carry over effect of the tax treatment applicable in certain situation prior to 31 December 2004 whereby income was charged based on turnover at 2.97%.

Consolidated Balance Sheet

	Note	2005 RMB' 000	2004 RMB' 000	% Change
ASSETS				
Non-current asstes				
Property, plant and equipment		90,409	85,031	6%
Investment properties	(1)	293,000	-	100%
Land use rights	(2)	2,677,801	1,500,463	78%
Properties held for development	(3)	1,879,149	2,970,662	-37%
Intangible assets	(4)	17,940	(97,045)	N/A
Interest in jointly controlled entity	(5)	372,510	63,437	487%
Deferred income tax assets	(6)	50,811	9,982	409%
Available-for-sale financial assets	(7)	85,369	89,463	-5%
Trade and other receivables	(8)	308,173	47,876	544%
Current assets				
Properties under development	(9)	5,237,612	4,143,636	26%
Completed properties held for sale	(10)	988,403	391,041	153%
Land use rights	(2)	2,173,985	1,313,701	65%
Trade and other receivables	(8)	504,560	244,779	106%
Tax prepayments		403,968	186,532	117%
Long-term loan receivable due within one year		-	150,000	-100%
Cash and cash equivalents	(11)	2,193,106	1,043,708	110%
LIABILITIES				
Non-current liabilites				
Long-term bank loans	(12)	(1,770,000)	(1,210,000)	46%
Long-term payables		(86,214)	(180,000)	-52%
Deferred income tax liabilites	(6)	(397,719)	(386,368)	3%
Current liabilites				
Deposits received on sale of properties	(13)	(4,089,236)	(2,982,721)	37%
Accruals and other payables	(14)	(3,506,464)	(2,954,587)	19%
Current income tax		(613,251)	(152,304)	303%
Short-term bank loans, unsecured	(12)	(835,000)	(1,000,000)	-16%
Current portion of long-term bank loans	(12)	(670,000)	(1,214,000)	-45%
SHAREHOLDERS EQUITY		**(5,268,739)**	**(2,009,751)**	**162%**
Minority interests		(40,173)	(53,535)	-25%

Note:

(1) Being a property in Beijing R & F City under a long-term lease commencing January 2005 to a supermarket stated at appraised value; valuation surplus of RMB143.6 million accounted for in the current year profit.

(2) The cost of land use rights for land held pending development are classified as non-current assets and land use rights associated with properties under development and completed properties held for sale are classified as current assets. Total land use rights increased approximately RMB2.0 billion due mainly to acquisitions in 2005 of land including No.2 Baogang Road project, Pearl River New Town J2-5 and R&F Jubilee Garden in Guangzhou, the additional land for Tianjin R&F City project and two pieces of land in Xian.

(3) Mainly the early stage costs and compensation fee for 5 projects the construction of which have not commenced.

(4) The change was mainly the elimination of negative goodwill of RMB105,527,000 on the adoption of HKFRS 3 and HKAS 38 and additional goodwill arising from the acquisition of [illegible] which became a wholly-owned subsidiary of the Group.

(5) The jointly controlled entity was engaged in the development of the residential portion of Modern Plaza; increase corresponded to the Group's share of profit for the year.

(6) The increase in deferred tax assets was attributable mainly to the tax losses of subsidiaries which are expected to become profitable.

(7) Being 19.58% interest in Guangzhou Securities Co. Ltd. the fair value of which reduced a further RMB4 million based on independent valuation.

(8) Increase mainly represented by deposits or prepayments amounted to RMB474 million made in respect of new land acquisitions.

(9) GFA under development at end of 2005 was approximately 2.5 million sq. m.

(10) Being approximately 229,000 sq. m. in inventory of which 20 projects in Guangzhou accounted for 47% and the R&F City in Beijing accounted for the other 53% in value.

(11) Despite additional land acquisition during the year, cash on hand increased significantly as a results of the net IPO proceeds of RMB2.28 billion and strong cashflow from properties sale.

(12) Refer "Financial resources, liquidity and liabilities"

(13) There were 11 properties under pre-sale at the end of 2005 as compared to five at the end of 2004 caused the increased of more than 37%.

(14) Increased in line with the increased in properties under development.

Consolidated Cash flow Statement

	Note	2005 RMB' 000	2004 RMB' 000
Net cash (used in)/generated from operating activities	(1)	(509,556)	111,999
Net cash (used in) investing activities	(2)	(109,124)	(576,081)
Net cash generated from financing activities	(3)	1,768,078	685,531
Net increase in cash and cash equivalents		1,149,398	221,449
Cash and cash equivalents at 1 January		1,043,708	822,259
Cash and cash equivalents at 31 December		2,193,106	1,043,708

Note:
(1) Accelerated land acquisitions was the main resaosn for net cash being used in operations.
(2) Mainly partial purchase consideration of RMB250 million for the acquisition of Xian Baodexin Properties Development Co. Ltd. and Xian Binhu Garden Properties Development Co. Ltd. and reduced by the repayment of a long-term loan amounted to RMB150 million.
(3 Mainly the IPO proceeds of RMB2.3 billion; net debt repayment amounted to RMB149 million.

Financial resources, liquidity and liabilities

As at 31 December 2005, the Group's cash on hand amounted to RMB2,193 million with total borrowing stood at RMB3,275 million. This translated into a net debt to equity ratio of 20.5% which is at a prudent level considering the Group's strong operational cashflow, high interest cover of 9 times and the debt maturity profile. Given the currently low net debt to equity ratio, the Group has substantial further borrowing capacity should there be the need to finance expansion of operation.

Debt profile

	Total	Due within 1 year	Due within 2 year	Due within 3 Year	Interest	
	RMB million					
Long-term bank loans	2,440	670	1,310	460	Floating	Unsecured
Short-term bank loans	835	835			Floating	Unsecured
	3,275	**1,505**	**1,310**	**460**		

During 2005, new borrowings of RMB2,085 million including RMB835 million short-term loan and RMB1,250 million long-term loan have been procured at interest rate ranging from 5.184% to 5.76%. With loans repaid amounting to RMB2,234 million, total borrowings reduced marginally by RMB149 million. The effective interest rate of the total loan portfolio at 31 December 2005 was 5.58% (2004 : 5.58%). As the loans were all in RMB and at normally stable floating interest rate benchmarked to rates published by the People's Bank of China, it had not been necessary to set up any hedging arrangements.

Charge on assets

As at 31 December 2005, there existed no charge on any of the Group's assets (at 31 December 2004, properties with book value of RMB36 million were pledged to a bank to secure a bank loan of RMB180 million to a group company).

Contingent liabilities

The Group provided guarantees in respect of bank mortgage loans taken out by purchasers of the Group's sale properties. For guarantees provided in respect of residential properties, the guarantees would be released upon the issuance of real estate ownership certificate of the properties concerned. As at 31 December 2005, such guarantees totaled RMB4,778 million which increased 7.8% from RMB4,433 million as at 31 December 2004 mainly as a result of increased sale.

Material acquisitions and disposals

In September 2005, the Group acquired 100% interest in Xian Baodexin Properties Development Co. Ltd. and Xian Binhu Garden Properties Development Co. Ltd. which own the land use right for 311 acres and 360 acres of land in Xian at a consideration of RMB236.4 million and RMB199.8 million respectively. According to the payment schedule set out in the sale and purchase agreement, RMB250 million of the total consideration had been paid as at 31 December 2005 with the balance expected to be paid in 2006 and 2007.

In August 2005, 65% interest in Shenyang Yilong Housing Development Co. Ltd., a then subsidiary of the Group held indirectly through R&F (Beijing) Properties Development Co. Ltd. was sold to an independent third party at a consideration of RMB19.1 million.