

DIRECTORS' REPORT

The Board is pleased to submit their reports together with the audited financial statements of the Group for the year ended 31 December 2005.

Principal Activities

The principal activity of the Group is engaged in the development of quality residential properties for sale in Guangzhou, Beijing and Tianjin. The target customers are mass middle class in China. The Group is also developing commercial properties such as shopping malls and office buildings for sale. Recently, the Group has been developing two hotels and an office building in Guangzhou for long term investment. However, residential property development remains the "theme" business of the Group.

An analysis of the Group's turnover and total assets by geographical distribution during the financial year is set out in note 5 to the financial statements.

Principal Subsidiaries and Jointly Controlled Entity

A list of principal subsidiaries and jointly controlled entity together with their places of operation and incorporation, and their issued capital and registered capital, is set out in notes 10 and 11 to the financial statements.

Results

The profit of the Group for the year ended 31 December 2005 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 89 to 166 of this annual report.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last four years is set out on page 167 of this annual report. The summary of results is for comparative purpose, and it does not form an integral part of the audited financial statements.

Dividend

The Board has passed a resolution to propose the distribution of final dividend for 2005 at RMB0.66 per share. The proposed final dividend, if approved by the shareholders at the annual general meeting (the "AGM") on 16 May 2006, will be paid to shareholders (including domestic shares and H shares), whose names appear on the register of members on 16 May 2006. The proposed dividend has not been reflected in the financial statements as at 31 December 2005.

According to the Articles of Association of the Company (the "Articles"), dividend payable to shareholders shall be calculated and declared in RMB. Dividends payable to holders of the Company's domestic shares shall be paid in RMB, whereas dividends payable to the holders of the Company's H shares shall be paid in Hong Kong dollars. The exchange rate to be adopted shall be the average closing rate of those of the five business days preceding the date of declaration of dividend as announced by the People's Bank of China.

Purchase, Redemption or Sales of Listed Securities of the Company

As from 14 July 2005, the listing date of the Company, neither the Company nor any of its subsidiaries and its jointly controlled entity has purchased, redeemed or sold any of the Company's listed securities.

Uses of Proceeds from Initial Public Offering

The Company's H shares were listed on the main board of the The Stock Exchange of Hong Kong Ltd. (the "Stock Exchange") on 14 July 2005. The proceeds from the Company's H shares issued by way of global offering plus the exercise of over allotment option, after deduction of related expenses, amounted to approximately RMB2.28 billion. All these proceeds have been and/or will be used to fund the property development business of the Company or

its subsidiaries. The Company will not use these proceeds to develop any business other than property related businesses.

Major Suppliers and Customers

During the year, the percentage of purchases attributable to the Group's largest supplier was approximately 21% and the percentage attributable to the five largest suppliers combined was approximately 33%. The percentage of turnover attributable to the Group's five largest customers combined were less than 30% of the total turnover of the Group.

Donation

During the year, the total charitable donation made by the Group was approximately RMB26 million (2004: RMB7 million).

Property, Plant and Equipment

During the year, the detailed changes in property, plant and equipment of the Group are set out in note 7 to the financial statements.

Bank Borrowings

Particulars of the bank borrowings of the Group as at 31 December 2005 are set out in note 20 to the financial statements.

Capitalized Borrowing Costs

Borrowing costs capitalized by the Group during the year amounted to approximately RMB150 million (2004: approximately RMB112 million)

Major Properties

Major properties of the Group as at 31 December 2005 are set out on pages 168 to 171 of this annual report.

Share Premium and Reserves

Movements in the share premium and reserves of the Company during the year up to 31 December 2005 are set out in note 17 to the financial statements.

Distributable Reserves

In accordance with the Articles of the Company, distribution of dividend should be out of a distributable reserves being the lower amount as determined under Accounting Standards for Business Enterprises and Accounting System for Business Enterprises of the PRC ("PRC GAAP") or as determined under the Hong Kong Financial Reporting Standards ("HKFRS"). As at 31 December 2005, the Company's distributable reserves under HKFRS was approximately RMB841 million, whereas if under the PRC GAAP, the distributable reserves was approximately RMB1,906 million.

Capital

Details of movements in the share capital of the Company during the year up to 31 December 2005 are set out in the statement of changes in equity on page 94 of this annual report.

The registered capital of the Company as at 31 December 2004 was RMB551,777,236, divided into 551,777,236 ordinary shares at nominal value of RMB1 each.

On 8 May 2005, the Company obtained an approval from the China Securities Regulatory Commission for the issuance of H shares to be listed on the main board of the Stock Exchange. On 14 July 2005, a total of 183,925,800 H shares of the Company were globally offered by Morgan Stanley Dean Witter (Asia) Limited, and Credit Suisse (formerly known as Credit Suisse First Boston) as lead underwriters on behalf of the Company, and these H shares were issued and listed on the main board of the Stock Exchange. On 8 August 2005, an additional 27,588,800 new H shares were issued and listed on the main board of the Stock Exchange as a result of the full exercise of an over allotment option granted by the Company to the underwriters.

After the global offering, the total issued share capital of the Company increased to RMB763,291,836, and share premium increased RMB2,068,061,000.

Details of the share capital structure of the Company as at 31 December 2005 is shown in the table below:

Type of Shares	No. of Shares	Percentage of the total issued shares
Domestic shares	551,777,236	72%
H shares	211,514,600	28%
Total	763,291,836	100%

Directors and Supervisors

The directors of the Company during the year were:

Executive Directors

Mr. Li Sze Lim
 Mr. Zhang Li
 Mr. Zhou Yaonan
 Mr. Lu Jing

Non-executive Directors

Ms. Zhang Lin
 Ms. Li Helen

Independent Non-executive Directors

Mr. Huang Kaiwen
 Mr. Dai Feng
 Mr. Lai Ming, Joseph

Supervisors

Mr. Feng Xiangyang
 Ms. Liang Yingmei
 Mr. Zheng Ercheng

In accordance with Article 112 of the Articles, directors and supervisors are appointed for a period of three years. The biographical details of the Company's directors are set out on pages 83 to 86 of this annual report. Details of their remuneration are set out in note 25 to the financial statements.

Directors and Supervisors' Service Contracts

Each of the directors and supervisors of the Company has entered into a service contract with the Company with effect from the date of appointment for a period of three years. None of the directors or supervisor has entered into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' and Supervisors' Interests in Contracts

No contract of significance to which the Company, or any of its subsidiaries or jointly controlled entity was a party, and in which a director or a supervisor of the Company was materially interested, whether directly or indirectly, subsisted at any time during the year or as at 31 December 2005.

Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the Listing Rules, the directors and controlling shareholders are required to have an adequate disclosure of their interests in competing business. For this purpose Mr. Li Sze Lim and Mr. Zhang Li, as at 31 December 2005, each

owned approximately 35.02% and 35.14% of the Company's shares; they will be the controlling shareholders within the meaning of the Listing Rules. Our directors are of the view that the Company is capable of carrying on its business independently of its controlling shareholders.

The promoters of the Company, Mr. Li Sze Lim, Mr. Zhang Li, Mr. Lu Jing, Mr. Zhou Yaonan and Ms. Zhu Ling, hold an interest approximately 35.02%, 35.14%, 1.41%, 0.42% and 0.42% of the Company's shares respectively. Each of them has entered into non-competition undertaking with the Company.

The non-competition undertakings signed by Mr. Li Sze Lim and Mr. Zhang Li do not, however, apply to their indirect interest in an office building known as Block B2 of Beijing R&F City held through their direct and indirect interest in each of Top Elite Group Limited ("Top Elite"), Sparks Real Estate Holdings Limited (Sparks), and Beijing Fushengli Investment Consulting Co., Ltd. ("Fushengli").

Each of Mr. Li Sze Lim and Mr. Zhang Li owned 50% interests in Top Elite Group Limited ("Top Elite"), which held a 20% interest in Sparks Real Estates Holdings Limited ("Sparks"). The other joint venture partner of Sparks was MSR Sparks Holdings Ltd.

("MSR Sparks"), which held the balance 80% of Sparks. Pursuant to the shareholders' agreement entered into amongst Top Elite, MSR Sparks and Sparks on 14 July 2004, MSR Sparks had an option to require Top Elite to purchase or to procure a third party to purchase its 80% interest in Sparks at any time within 22 months following its subscription for the interest in Sparks.

The sole business of Sparks is investment holding. Sparks held 70% interest in Fushengli while the remaining 30% was held by Shanghai Dragon Investment Co. Ltd. ("SDI"). Pursuant to an option agreement entered into amongst Top Elite, MSR Sparks and SDI on 14 July 2004, SDI had an option to require Top Elite to purchase or procure a third party to purchase its 30% interest in Fushengli in the event that MSR elects to exercise its option requiring Top Elite to purchase its 80% interest in Sparks.

On 11 November 2005, MSR Sparks exercised its option to require Top Elite to purchase its 80% interest in Sparks, and SDI exercised its option. On 11 November 2005, Mr. Li Sze Lim acquired the 80% interest in Sparks from MSR Sparks, and on 30 December 2005 Top Elite procured an independent third party to acquire 30% interest in Fushengli from SDI. After the MSR Sparks and SDI had exercised

their respective option, Mr. Li Sze Lim and Mr. Zhang Li owned 63% and 7% interests in Fushengli respectively.

The directors consider that Fushengli is one of the Group's customers. Although Fushengli is holding Block B2 for rental purpose, the directors consider the business is not in direct competition with the Group. However, given by the fact that Fushengli is engaged in office property investment, one might consider that there is indirect competition between Fushengli and the Group. As confirmed by Mr. Li Sze Lim and Mr. Zhang Li, Top Elite, Sparks and Fushengli have no intention of engaging in any business (save as disclosed) which competes or likely to compete with the Group.

Directors' and Supervisors' Interests and Short Positions in the Shares and Underlying Shares and Debentures of the Company

After the Company's H shares had been listed, and the underwriters had exercised the over allotment option on 8 August 2005, the Company issued a total of 211,514,600 H shares. The beneficial interests and short positions of the directors and supervisors of the Company and any of the associated corporations (within the meaning of Part XV of the Securities and

DIRECTORS' REPORT (continued)

Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO") which is required to be (i) notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO; or (ii) entered into the register required to be kept by the Company under Section 352 of Part XV of the SFO; or (iii) notified

to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, were as follows:

- a) Long positions in the shares, underlying shares and debentures of the Company as at 31 December 2005 were as follows:

Director	Nature of interest	Number of share			Percentage of the total number of issued share
		Personal	Spouse or child under 18	Total	
Li Sze Lim	Domestic Share	267,273,168		267,273,168	35.02%
Zhang Li	Domestic Share	267,273,168			
	H share		927,000	268,200,168	35.14%
Lu Jing	Domestic Share	10,769,588		10,769,588	1.41%
Zhou Yaonan	Domestic Share	3,230,656		3,230,656	0.42%
Li Helen	H share	117,000		117,000	0.02%

- b) Long positions in the shares, underlying shares and debentures of the Company's associated corporations (within the meaning of Part XV of the SFO)

Director	Name of associated corporation	Type	No. of shares	Percentage of the total number of issued shares
Li Sze Lim	Guangzhou Tianfu Property Development Co., Ltd.(Note)	Corporate	N/A	7.5%
Zhang Li	Guangzhou Tianfu Property Development Co., Ltd.(Note)	Corporate	N/A	7.5%

Note: Guangzhou Tianfu Property Development Co., Ltd. ("Tianfu Property") is 15% owned by Century Land Properties Ltd., which is beneficially owned by Mr. Li Sze Lim and Mr. Zhang Li in 50% each.

Substantial Shareholders and Other Persons' Interests in the Shares and Underlying Shares of the Company

As at 31 December 2005, so far as the directors are aware, the following persons (other than the directors, supervisors and chief executive officer of the

Company) were holding 5% or more beneficial interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under division 2 and 3 of Part XV of the SFO as recorded in the register as required to be kept under section 336 of the SFO.

Name of shareholder	Type of share	Number of share	Percentage of H share
"H" Share			
Warburg Pincus & Co. (Note 1)	"H" share	35,765,800 (Long)	16.91%
Warburg Pincus Partners, LLC (Note 1)	"H" share	35,765,800 (Long)	16.91%
Warburg Pincus International Partners, L. P. (Note 1)	"H" share	17,883,000 (Long)	8.45%
Warburg Pincus IX LLC (Note 1)	"H" share	17,882,800 (Long)	8.45%
Credit Suisse Group (Note 2)	"H" share	19,113,800 (Long)	9.04%
DLJ Real Estate Capital III, LP (Note 3)	"H" share	18,803,800 (Long)	8.89%
DLJ Real Estate Capital Partners, III LP (Note 3)	"H" share	18,803,800 (Long)	8.89%
RECP Tera Investors LLC (Note 3)	"H" share	18,803,800 (Long)	8.89%
Anderson Dwight, Walter (Note 4)	"H" share	16,750,000 (Long)	7.92%
Ospraie Holding I, L.P. (Note 4)	"H" share	16,750,000 (Long)	7.92%
Ospraie Management Inc. (Note 4)	"H" share	16,750,000 (Long)	7.92%
Ospraie Management LLC (Note 4)	"H" share	16,750,000 (Long)	7.92%
The Ospraie Fund Ltd. (Note 4)	"H" share	14,492,500 (Long)	6.85%
The Ospraie Portfolio Ltd. (Note 4)	"H" share	14,492,500 (Long)	6.85%
Baring Asset Management	"H" share	12,748,600 (Long)	6.03%
Sloan Robertson LLP	"H" share	16,592,200 (Long)	7.84%

Note 1 — These 35,765,800 H shares relate to the same block of shares in the Company. These H shares are held by Warburg Pincus International Partners, L.P. and Warburg Pincus IX LLC as to 17,883,000 shares and 17,882,800 shares respectively.

Note 2 — These 19,113,800 H shares relate to the same block of shares in the Company, 18,803,800 shares are held by RECP Tera Investors LLC and 310,000 shares are held by Credit Suisse First Boston (Asia) Ltd.

Note 3 — These 18,803,800 H shares relate to the same block of shares in the Company, which are held by RECP Tera Investors LLC.

Note 4 — These 16,750,000 H shares related to the same block of shares in the Company, 14,492,500 shares of which are held by The Ospraie Portfolio Ltd.

Share Option Scheme

The Group has not adopted any share option scheme during the year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

Financial Assistance and Guarantee to Affiliated Companies

The Company has not provided any financial assistance to and guarantee for facilities granted to affiliated companies (within the definition under chapter 13 of the Listing Rules) which together in aggregate exceeds the relevant percentage of 8%, requiring disclosure under the Listing Rules.

Connected Transactions

There has been no connected transaction which is subject to disclosure, announcement or approval from independent shareholders under Rule 14A of the Listing Rules during the year.

As disclosed in the prospectus, the Company has entered into the following connected transactions, which the Stock Exchange has either granted waivers to or is exempted from the independent shareholders' approval, but subject to disclosure in the annual report under Rule 14A.32 of the Listing Rules.

1. Financial assistance under Rule 14A.63 of the Listing Rules

During the year, the Company had provided 100% guarantee in respect of bank loans which amounted to RMB380 million borrowed by Tianfu Property. The Company had also pledged a certain property as security for a loan of RMB180 million which was part of the RMB380 million.

Tianfu Property is held as to 85% by the Company and as to 15% by Century Land Properties Limited ("Century Land"). Century Land is owned as to 50% by each of Mr. Li Sze Lim and Mr. Zhang Li who are the directors and controlling shareholders of the Company. As Tianfu Property is not a wholly owned subsidiary of the Company, where Mr. Li Sze Lim and Mr. Zhang Li are entitled to exercise, or control the

exercise of, more than 10% of the voting power at the AGM, Tianfu Property is a connected person (as defined in the Listing Rules). Under the Listing Rules, the provision of guarantees and pledge for the benefit of Tianfu Property constitutes a provision of financial assistance to a connected person of the Company.

Pursuant to Rule 14A.42 (3) of the Listing Rules, we have applied to the Stock Exchange, and the Stock Exchange has agreed, to grant a waiver to the Company from strict compliance with the announcement and independent shareholders' approval requirements under Rules 14A.47 and 14A.48 in connection with these financial assistance provided that the total guarantee will not exceed RMB380 million and will be reduced according of the expiry of the guarantees and the pledge.

As at 31 December 2005, the total guarantee was reduced to RMB200,000,000 and the pledge had been cancelled.

2. Continuing connected transactions under Rule 14A.34 (1) of the Listing Rules

(i) *Provision of restaurant services by Guangzhou Fuligong Restaurant Co., Ltd. to the Company*

On 27 June 2005, the Company entered into an agreement with Fuligong Restaurant Co., Ltd. ("Fuligong"). Fuligong agreed to provide restaurant services to members of the Group from time to time on normal commercial terms which are no less favourable than those available to independent third parties. The agreement will be for a period commencing from the date of the listing which is 14 July 2005 to 31 December 2007.

Fuligong is wholly owned by Mr. Li Sze Lim and Mr. Zhang Li who are the directors and controlling shareholders of the Company. Fuligong is therefore a connected person of the Company.

The total purchase of restaurant services for the year ended 31 December 2005 amounted to RMB7.3 million approximately.

(ii) Appointment of Beijing R&F Properties Development Co., Ltd. as a leasing agent by Fushengli

On 30 April 2005, Beijing R&F Development Properties Co., Ltd. ("Beijing R&F") and Fushengli entered into an agreement pursuant to which Fushengli appointed Beijing R&F as its agent for the co-ordination, operation, liaison and consultation in respect of the leasing of Block B2 of Beijing R&F City. Pursuant to the agreement, when Beijing R&F introduces a tenant to Fushengli, it will receive a lump sum commission fee from Fushengli, which is equivalent to one-month rental as stipulated in the agreement. When a tenant is introduced by an agent other than Beijing R&F, Beijing R&F will receive a lump sum commission fee from Fushengli at 25% of the monthly rental. The agreement is from 1 March 2005 to 31 December 2006.

The total commission Beijing R&F received in the year ended 31 December 2005 amounted to approximately RMB0.5 million.

(iii) Appointment of Beijing Hengfu Property Management Co., Ltd. as the management company by Fushengli

On 1 May 2005, Beijing Hengfu Property Management Co., Ltd. ("Beijing Hengfu") and Fushengli entered into an agreement pursuant to which Fushengli appointed Beijing Hengfu to provide management services in respect of Block B2 of Beijing R&F City at a monthly administrative fee of RMB41,000, a monthly fee of RMB18 per square meter in respect of occupied offices and shops areas and a monthly fee of RMB150 per car parking space. The agreement is from 1 May 2005 to 30 April 2007.

No fee was received by Beijing Hengfu for the year ended 31 December 2005.

(iv) Lease of properties to Beijing R&F by Fushengli

In May 2005, Fushengli entered into a property leasing agreement with retrospective effect from 1 March 2005 as landlord with Beijing R&F as tenant under which Fushengli agreed to let to Beijing R&F floors 15 to 18 of Block B2 of Beijing R&F City at a monthly rental of RMB747,489.60 (exclusive of management fees and public utilities charges) for a term of 22 months from 1 March 2005 to 31 December 2006 for office and other ancillary uses.

The rent is determined with reference to the prevailing market rent confirmed by an independent valuers Savills Valuation and Professional Services Limited. The total rental for the year ended 31 December 2005 amounted to RMB7,474,900.

(v) Appointment of Beijing R&F as a sales agent by Fushengli

On 27 June 2005, Beijing R&F and

Fushengli entered into an agreement pursuant to which Fushengli appointed Beijing R&F as its agent for the sale of Block B2 of Beijing R&F City. Pursuant to the agreement, when Beijing R&F introduces a buyer to Fushengli, it will receive a commission at the rate of 1.5% of the purchase price from Fushengli. The agreement is for a period of 12 months from 15 June 2005 to 14 June 2006.

The commission received by Beijing R&F for the year ended 31 December 2005 amounted to RMB91,000 approximately.

The items (ii) to (v) of the continuing connected transactions under Rule 14A.34(1) as above mentioned all involved Fushengli. As of 31 December 2005, Fushengli is beneficially owned by Mr. Li Sze Lim as to 63% and Mr. Zhang Li as to 7%. Both Mr. Li Sze Lim and Mr. Zhang Li are directors and controlling shareholders of the Company, therefore Fushengli is a connected person.

DIRECTORS' REPORT (continued)

The Stock Exchange has granted waiver in respect of the above items (i) to (v) from strict compliance with the announcement and independent shareholders' approval requirement, to disclose in the annual report.

The independent non-executive directors of the Company have reviewed the continuing connected transactions and confirm that these transactions have been entered into:

- a) in the ordinary and usual course of business of the Group;
- b) on normal commercial terms that are fair and reasonable; and
- c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

For the purposes of Rule 14A.38 of the Listing Rules, the auditors of the Company have also performed certain agreed-upon procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong

Kong Institute of Certified Public Accountants and reported the above transactions as entered into for the year ended 31 December 2005 have been:

- (i) approved by the board of directors of the Company;
- (ii) entered into in accordance with the terms as mutually agreed and in accordance with the pricing policy of the Group, if applicable, for the samples selected; and
- (iii) the amount of each transaction did not exceed the respective annual cap set out in the waiver letter.

For further details regarding the above continuing connected transactions, please refer to note 36 to the accounts.

Post Balance Sheet Events

Details of the significant post balance sheet events of the Company are set out in note 37 to the financial statements.

Management Contracts

No contract for the management and administration of the Group was entered into or subsisting during the year.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

Auditors

The financial statements of the Group have been audited by PricewaterhouseCoopers and they have indicated their willingness to be continuously in office. A resolution will be proposed by the Board at the AGM to re-appoint them as the auditors of the Group until the close of next annual general meeting.

By order of the Board

Chairman

Li Sze Lim

Guangzhou, China

15 March 2006