

# Directors' Report

The Board of Directors is pleased to present to the shareholders their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st December 2005.

## Principal Activities

The Group is principally engaged in property development and investment, hotel operation and project development consulting operation.

## Results

The results of the Group for the year ended 31st December 2005, prepared in accordance with Hong Kong Financial Reporting Standards and its financial position as at the same date are set out on pages 67 to 75 of the annual report.

## Dividends

At a Board meeting held on 31st March 2006, the directors declared a final dividend of RMB5 cents per share based on the Company's total issued number of shares of 1,715,960,000 on the same day and the total amount payable will be RMB85,798,000. This proposed dividend is not represented as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2006.

## Financial Highlights

The Group's consolidated/combined results and summary of assets and liabilities for the last five years are set out on page 4 of this 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 67% of its goods and services to its five largest customers. The Group's turnover from the largest customer accounted for approximately 36% of the total sales.

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.

## Property, plant and equipment

Details of the movement of property, plant and equipment of the Group during the year are set out in note 6 to the consolidated financial statements.

## Principal Properties

The summary of principal properties owned by the Group is set out on pages 8 to 9 of the annual report.

## Reserve

Details of movements of reserve of the Group and the Company during the year are set out in note 19 to the consolidated financial statements.

## Purchase, sale, or redemption of shares

During the year, the Company had not redeemed any of its shares. Neither the Company nor any of its subsidiaries has purchased or sold any of its equity 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	(contract expired on 4th December 2005)

#### *Non-executive Directors*

Mr. Feng Chunqin (appointed on 5th December 2005)  
Mr. Wong Zhengbin (changed from Executive Director to Non-executive Director from 5th December 2005)  
Ms. Zhu Min  
Mr. Muk Kin Yau

#### *Independent Non-executive Directors*

Mr. Peter Yuk Lun Eng (contract expired on 4th December 2005)  
Mr. Kwong Kai Sing, Benny  
Mr. Ke Jianmin  
Mr. Yu Xingbao  
Mr. Li Zhaojie (appointed on 5th December 2005)

# Directors' Report

## Directors and Supervisors (Continued)

### Supervisors

#### *Supervisors*

Mr. Wang Qi

Mr. Yu Changjian

Mr. Wei Jianping

#### *Independent Supervisor*

Mr. Xu Jianhong

Mr. Pan Pei and Mr. Peter Yuk Lun Eng did not re-elect as members of the Board when the term of office of all directors of the Company were expired on 4th December 2005. Mr. Feng Chun Qin and Mr. Li Zhaojie were appointed as directors of the Company on 5th December 2005.

The biographical details of directors, supervisors and senior management are set out on pages 38 to 41 of the annual report.

## Directors' and Supervisors' Emoluments

Details of directors' and supervisors' emoluments are set out in note 29 to the consolidated financial statements.

## 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.

## Interests of Directors and Supervisors

As at 31st December 2005, 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 Stock Exchange of Hong Kong Limited (the "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 Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors):

## Interests of Directors and Supervisors (Continued)

Director/Supervisor	Relevant entity	Type	No. of Shares held	Approximate percentage of registered capital of the relevant entity
Liu Xiaoguang	Beijing Capital Sunshine Real Estate Development Co., Ltd.	Individual	2,000,000	2.00%
Tang Jun	Beijing Capital Sunshine Real Estate Development Co., Ltd.	Individual	2,000,000	2.00%
Wang Qi	Beijing Capital Sunshine Real Estate Development Co., Ltd.	Individual	400,000	0.40%
	Beijing Capital Technology Investment Ltd.	Individual	2,000,000	1.00%
Yu Changjian	Beijing Capital Sunshine Real Estate Development Co., Ltd.	Individual	600,000	0.60%
	Beijing Capital Technology Investment Ltd.	Individual	800,000	0.40%

Save as disclosed above, as at 31st December 2005, 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 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 and Supervisors in Competing Business

During the year and up to the date of this report, none of the directors or supervisors 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 (the "Listing Rules").

# Directors' Report

## Share Capital

As at 31st December 2005, there were a total issued share capital of 1,715,960,000 shares of the Company (the "Shares") which include:

	Number of Shares	Approximate percentages of share capital
Domestic Shares	680,405,700	39.6%
Non-H Foreign Shares	357,998,300	20.9%
H Shares	677,556,000	39.5%

## Substantial Shareholders' Interests in Shares

As at 31st December 2005, the following persons (not being director or chief executive of the Company), so far as are known to any director, have interests or short positions in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of shareholders	Number of Shares directly and indirectly held	Class of Shares	Approximate percentages in relevant class of shares (%)			Approximate percentages in total issued share capital (%)		
			Direct interests	Indirect interests	Aggregate interests	Direct interests	Indirect interests	Aggregate interests
Capital Group	955,641,900 <sup>(1)</sup>	Non-listed Shares	5.39	86.64	92.03	3.26	52.43	55.69
Beijing Sunshine Real Estate Comprehensive Development Company	608,880,500 <sup>(2)</sup>	Non-listed Shares	4.57	54.07	58.64	2.76	32.72	35.48
Beijing Capital Sunshine Real Estate Development Co., Ltd.	561,461,900 <sup>(3)</sup>	Non-listed Shares	27.56	26.51	54.07	16.68	16.04	32.72
Beijing Capital Technology Investment Ltd.	172,006,700	Non-listed Shares	16.56	—	16.56	10.02	—	10.02
Beijing Capital Hangyu Economic Development Co., Ltd.	118,747,600	Non-listed Shares	11.44	—	11.44	6.92	—	6.92
China Resource Products Limited	275,236,200	Non-listed Shares	26.51	—	26.51	16.04	—	16.04
Yieldwell International Enterprise Limited	82,762,100	Non-listed Shares	7.97	—	7.97	4.82	—	4.82
Flexi Holdings Limited	82,762,100 <sup>(4)</sup>	Non-listed Shares	—	7.97	7.97	—	4.82	4.82

## Substantial Shareholders' Interests in Shares (Continued)

Name of shareholders	Number of Shares directly and indirectly held	Class of Shares	Approximate percentages in relevant class of shares (%)			Approximate percentages in total issued share capital (%)		
			Direct interests	Indirect interests	Aggregate interests	Direct interests	Indirect interests	Aggregate interests
Chung Pok Ying	82,762,100 <sup>(a)</sup>	Non-listed Shares	—	7.97	7.97	—	4.82	4.82
Reco Pearl Private Limited	158,102,000	H Shares	23.33	—	23.33	9.21	—	9.21
Recosia China Pte Ltd.	158,102,000 <sup>(a)</sup>	H Shares	—	23.33	23.33	—	9.21	9.21
Recosia Pte Ltd.	158,102,000 <sup>(a)</sup>	H Shares	—	23.33	23.33	—	9.21	9.21
Government of Singapore Investment Corporation (Realty) Pte Ltd.	158,102,000 <sup>(a)</sup>	H Shares	—	23.33	23.33	—	9.21	9.21
Moore Michael William	103,036,000 <sup>(a)</sup>	H Shares	—	15.2	15.20	—	6.00	6.00
Penta Investment Advisers Ltd	103,036,000	H Shares	15.20	—	15.20	6.00	—	6.00
Zwaanstra John	103,036,000 <sup>(a)</sup>	H Shares	—	15.20	15.20	—	6.00	6.00
Platinum Asset Management Limited	47,546,000	H Shares	7.02	—	7.02	2.77	—	2.77
Zesiger Capital Group LLC	40,472,000	H Shares	5.97	—	5.97	2.36	—	2.36

## Substantial Shareholders' Interests in Shares (Continued)

### Notes:

1. Of these 955,641,900 Shares, 56,007,100 Shares are directly held by Capital Group, the remaining 899,634,800 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 608,880,500 Shares, 47,418,600 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.
9. 103,036,000 Shares are deemed corporate interests under the SFO indirectly held through Penta Investment Advisers Ltd.

Save as disclosed above so far as is known to the Directors, there is no person who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries or held any option in respect of such capital.

## Designated Deposit and Due Fixed Deposit

As at 31st December 2005, the Group had no Designated Deposit and Due Fixed Deposit.

## Employees

As at 31st December 2005, the Group had 328 staff. Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Employee benefits provided by the Group include, 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 summarised in the section headed "Summary of terms of the Share Appreciation Rights Incentive Scheme" in Appendix VIII to the Prospectus of the Company dated 10th June 2003. As at 31st December 2005, no share appreciation rights had 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

The connected transactions and the ongoing connected transactions have been approved by the Board of the Company.

## Formation of a PRC Joint Venture Company

The Company entered into the Joint Venture Contract ("Joint Venture Contract") to establish a sino-foreign equity joint venture company in Beijing, PRC with Reco Ziyang Pte Ltd. ("Reco Ziyang") on 31st October 2005. The total amount of investment of the Joint Venture Company is US\$75,000,000, which includes a registered capital of US\$25,000,000. The Company and Reco Ziyang contribute 55% and 45% of the total amount of investment respectively. The Joint Venture Company, which was established on 25th November 2005, was set up for the purpose of the development of the Project situated in Tianjin, PRC. The land of the Project has been obtained by the Company and Reco Ziyang jointly through public trading the Tianjin, PRC in accordance with the Tender Regulation. Reco Ziyang is a major shareholder of Beijing Capital Ziyang Real Estate Ltd., a subsidiary of the Company, it is also an associate of Reco Hibiscus Pte Ltd., which is a major shareholder of a subsidiary of the Company, Beijing Anhua Shiji Real Estate Development Company Limited. Accordingly, Reco Ziyang is a connected person of the Company pursuant to the Listing Rules.

## Connected Transactions (Continued)

### Loan Agreement

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 RMB1,439,000,000 to the Land Bureau, being 100% of the land premium payable by the Company to the Land Bureau for the relevant properties. In return, the Land Bureau issued long-term land use rights certificates for the relevant properties in the names of the corresponding project companies. A loan in the amount of RMB300,000,000 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 RMB300,000,000 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. During 2005, the Group had repaid RMB164,683,000 for the above loan.

Details of the other connected transactions of the Group during the year are included in note 38 to the consolidated financial statements (i) from (a) to (g), (iv), (v) and (vi) prepared in accordance with Hong Kong Financial Reporting Standards.

### Bank Loans and Other Borrowings

Details of the bank loans of the Group are set out in note 24 to the consolidated financial statements. Other borrowings were mainly the amounts due to parent company, details of which are set out in note 23 to the consolidated financial statements.

### 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 a pro-rata basis to existing shareholders.

According to the Strategic Investment Agreement entered into between, among others, the Company and Reco Pearl Private Limited ("Reco Pearl") on 11th March 2003 as amended by a supplemental agreement dated 15th May 2003 ("The Strategic Investment Agreement"), the Company has undertaken that, provided that the shareholding held by Reco Pearl in the Company is above the threshold percentage as set out in the Strategic Investment Agreement, if the Company issues or places any new H Shares or if other securities convertible, or exchangeable into or which represent such new H Shares (the "Additional Securities") are issued or placed by or on behalf of the Company within a period of five years after dealings of the H Shares commence on the Stock Exchange, Reco Pearl shall have the right to purchase or subscribe on identical terms as such Additional Securities are issued to or placed with other investors, such number of the Additional Securities in accordance with the percentage of shareholding held by Reco Pearl Private Limited or any of its affiliate(s) in the share capital of the Company immediately prior to such issuance or placement so as to maintain its relevant percentage shareholding.

## Subsidiaries

Details of the Company's major subsidiaries are set out in note 9 to the consolidated financial statements.

## Results of Operations

Results of Operations of Financial Year 2005 are set out on page 34 of the annual report.

## 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 pages 34 to 35 of the annual report.

## Code of Best Practice

Throughout the year, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

## Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

# Directors' Report

## Auditors

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

By Order of the Board

**Liu Xiaoguang**

*Chairman*

Beijing, the PRC, 31st March 2006