

# Directors' Report

The directors are pleased to submit their report together with the audited financial statements of the Group for the year ended 31 December 2006.

**Principal Activities** The principal activity of the Group is the development of quality residential properties for sale in Guangzhou, Beijing, Tianjin, Xian, Chongqing and Hainan. The target customers are the members of the large and growing middle class in China. The Group also develops commercial properties such as shopping malls and office buildings for sale. Recently, the Group has been developing hotels, office buildings and shopping malls in Guangzhou, Beijing, Tianjin and other cities for long-term investment. However, residential property development remains the core 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 entities, 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 2006 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 74 to 145 of this annual report.

**Financial Summary** A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 146 of this annual report. The summary of results is for comparative purposes only and does not form an integral part of the audited financial statements.

**Interim Dividend** The Board declared an interim dividend for the six months ended 30 June 2006 of RMB0.40 per share or, in Hong Kong dollar equivalent, of HK\$0.39 per share. Subsequent to the declaration of the interim dividend, the Company obtained approvals from the China Securities Regulatory Commission and the Stock Exchange for a share subdivision from one existing ordinary share of RMB1.00 to four shares of RMB0.25. The share subdivision became effective on 28 September 2006. The interim dividend was adjusted to RMB0.10 per share, or HK\$0.0975 per share accordingly. The interim dividend was paid on 22 November 2006.

**Final Dividend** The Board has passed a resolution to propose the distribution of final dividends for 2006 at RMB0.20 per share. The proposed final dividend, if approved by the shareholders at the annual general meeting (the "AGM") on 29 May 2007, will be paid to shareholders (including domestic shares and H shares) whose names appear on the register of members on 29 May 2007. The proposed dividend has not been reflected in the financial statements as at 31 December 2006.

According to the Articles of Association, dividends 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 dividends as announced by the People's Bank of China.

### **Closing of Register of Members**

The register of members will be closed from Monday, 30 April 2007 to Tuesday 29 May 2007 (both days inclusive). In order to establish entitlement to the proposed final dividend which is to be approved at the AGM, and entitlement to attending and voting at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's H share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Friday, 27 April 2007.

### **Purchase, Redemption or Sales of Listed Securities of the Company**

During the year ended 31 December 2006, neither the Company nor any of its subsidiaries nor its jointly controlled entity has purchased, redeemed or sold any of the Company's listed securities.

### **Uses of Proceeds from Initial Public Offering**

On 14 July 2005, the proceeds raised by the Company's issue of H shares by way of a global offering, plus the exercise of the over allotment option, after deduction of related expenses, amounted to approximately RMB2.28 billion. All these proceeds have been used to fund the property development business of the Company or its subsidiaries.

### **Placing of New H Shares**

On 21 September 2006, the Company entered into a share placing agreement with JP Morgan Securities Limited and Morgan Stanley & Co. International Limited ("Placement Agents"), pursuant to which the Placement Agents agreed to place an aggregate of 169,200,000 subdivided new H shares (the "Placing Shares") to investors at HK\$9.55 per share (the "Placing"). The Placing shares represent approximately 20% and 16.67% of the H shares in issue and after the issue respectively. The Placing was completed on 3 October 2006. The net proceeds, after deduction of the expenses of the Placing, amounted to approximately HK\$1.6 billion, which will be used to fund property projects to be developed by the Company.

### **Major Suppliers and Customers**

During the year, the percentage of purchases attributable to the Group's largest supplier was approximately 18% and the percentage attributable to the five largest suppliers combined was approximately 45%. The percentage of turnover attributable to the Group's five largest customers combined was less than 30% of the total turnover of the Group.

**Donation** During the year, the total charitable donation made by the Group was approximately RMB10.41 million (2005: RMB26 million).

## Property, Plant and Equipment

For 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 2006 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 RMB273 million (2005: approximately RMB150 million).

**Major Properties** Major properties of the Group as at 31 December 2006 are set out on pages 147 to 150 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 2006 are set out in note 18 to the financial statements.

**Distributable Reserves** In accordance with the Articles of Association, distribution of dividends should be out of distributable reserves, this 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 2006, the Company's distributable reserves under HKFRS were approximately RMB928.2 million being the smaller of the distributable reserve as determined under the PRC GAAP and HKFRS.

**Capital** Details of movements in the share capital of the Company during the year up to 31 December 2006 are set out in the statement of changes in equity on page 79 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 a 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.

On 28 September 2006, the Company obtained approvals from the China Securities Regulatory Commission and the Stock Exchange for a share subdivision from one existing ordinary share of RMB1.00 to four shares of RMB0.25. The share capital structure of the Company, after the share subdivision, is shown as in the table below.

<b>Type of shares</b>	<b>No. of shares</b>	<b>Percentage of the total issued shares</b>
Domestic shares	2,207,108,944	72.3%
H shares	846,058,400	27.7%
<b>Total</b>	<b>3,053,167,344</b>	<b>100.0%</b>

As mentioned earlier, the Company entered into a share placing agreement on 21 September 2006 with JP Morgan Securities Limited and Morgan Stanley & Co., International Limited pursuant to which an aggregate of 169,200,000 subdivided new H shares was issued to investors. The Placing was completed on 3 October 2006. The share capital structure of the Company, after the Placing, is as follows:

<b>Type of shares</b>	<b>No. of shares</b>	<b>Percentage of the total issued shares</b>
Domestic shares	2,207,108,944	68.5%
H shares	1,015,258,400	31.5%
<b>Total</b>	<b>3,222,367,344</b>	<b>100.0%</b>

## 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

According to Article 92 of the Articles of Association, directors are appointed for a period of three years. During the year, all executive directors, including Mr. Li Sze Lim, Mr. Zhang Li, Mr. Zhou Yaonan and Mr. Lu Jing were due for retirement in 2006 being eligible they offered themselves for re-election at the AGM held on 15 June 2006. All of them were re-elected as executive directors at that last AGM.

Ms. Zhang Lin, a non-executive director is due for retirement in 2007 being eligible she has offered herself for re-election at the forthcoming AGM to be held on 29 May 2007. The biographical details of Ms. Zhang Lin and the other directors are set out on

pages 67 to 71 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 taking effect from the date of appointment for a period of three years. None of the directors or supervisors 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 entities 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 2006.

## Directors' Interests in Competing Business

Pursuant to Rule 8.10 of the Listing Rules, the directors and controlling shareholders are required to provide adequate disclosure of their interests in competing businesses. For this purpose Mr. Li Sze Lim and Mr. Zhang Li, as at 31 December 2006, each owned approximately 33.32% and 33.22% of the Company's shares; they are the controlling shareholders within the meaning of the Listing Rules. The Company's 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 of approximately 33.32%, 33.22%, 1.34%, 0.40% and 0.40% of the Company's shares respectively. Each of them has entered into non-competition undertakings 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 interests in each of Top Elite Group Limited ("Top Elite"), Sparks Real Estate Holdings Limited ("Sparks"), and Beijing Fushengli Investment Consulting Co., Ltd. ("Fushengli").

Mr. Li Sze Lim and Mr. Zhang Li each owns a 50% interest in Top Elite which held a 100% interest in Sparks. The sole business of Sparks is investment holding. Sparks holds 70% interest in Fushengli, while the remaining 30% is held by an independent third party. Mr. Li Sze Lim and Mr. Zhang Li each effectively own 35% interests in Fushengli.

The directors consider that Fushengli is one of the Group's customers. Although Fushengli holds Block B2 for rental purpose, the directors consider the business is not in direct competition with the Group. However, given 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 is likely to compete with the Group.

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

As at 31 December 2006, 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 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 2006 were as follows:

Director	Nature of interest	Number of shares			Percentage of the total number of issued shares
		Personal	Spouse or child under 18	Total	
Li Sze Lim	Domestic shares H shares	1,069,092,672	4,650,000	1,073,742,672	33.32%
Zhang Li	Domestic shares H shares	1,069,092,672	1,220,000	1,070,312,672	33.22%
Lu Jing	Domestic shares	43,078,352		43,078,352	1.34%
Zhou Yaoan	Domestic shares	12,922,624		12,922,624	0.40%
Li Helen	H shares	1,203,600		1,203,600	0.03%

- 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 Limited., which is beneficially owned by Mr. Li Sze Lim and Mr. Zhang Li at 50% each.

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

As at 31 December 2006, so far as the directors are aware, only the following persons (other than the directors, supervisors and chief executive officer of the Company) held 5% or more beneficial interests or short positions in the shares and underlying shares of the Company which would be required 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.

<b>Name of shareholder</b>	<b>Type of share</b>	<b>Number of shares</b> (Note)	<b>Percentage of</b> <b>H shares</b>
J P Morgan Chase & Co.	"H" share	143,008,056 (L)	14.09%
		30,145,256 (P)	2.97%
Baring Asset Management	"H" share	91,738,292 (L)	9.04%
Sloan Robertson LLP	"H" share	79,238,400 (L)	7.80%
Halbis Capital Management (Hong Kong) Ltd.	"H" share	52,845,200 (L)	5.20%
Northern Trust Fiduciary Services (Ireland) Ltd.	"H" share	51,034,400 (L)	5.03%

Note: The letters "L" and "P" denote a long position and lending pool in the shares respectively.



**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 of Association or the laws of the PRC which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

**Financial Assistance and Guarantee to Affiliated Companies** The Company has not provided any financial assistance to or guarantee for facilities granted to affiliated companies (within the definition under chapter 13 of the Listing Rules) which together in aggregate would exceed the relevant percentage of 8%, requiring disclosure under the Listing Rules.

**Connected Transactions** During the year, the following connected transactions were entered into between the Group and its controlling shareholders and directors based on normal commercial terms. The transactions were approved by the Board, including all independent non-executive directors. As the amount of the transactions was less than 0.1% of each of the percentage ratios, they were exempt from announcement or approval from independent shareholders, but subject to disclosure in the annual report under Rule 14A.31 of the Listing Rules.

**Provision of Environmental Protection Installations and Related Services**

As at 31 December 2006, the Company and its subsidiaries had entered into 47 continuing transactions with Guangzhou Canton-Rich Environmental Inc. ("Canton-Rich") amounting to RMB5,143,150. Canto-Rich had provided 7 installation services including installation of systems for purification of drinking water, treatment of waste water and environment protection systems for electric generation machine rooms, with a total consideration of RMB4,153,150; 26 application services related to environment protection laws and regulations for a total service charges of RMB840,000; and 14 inspection services for a total fee of RMB150,000. The payment of all the above services was settled before 31 December 2006. Canton-Rich is 39.5% owned by each of Mr. Li Sze Lim and Mr. Zhang Li, the controlling shareholders and directors of the Company, and it is a connected person of the Company.

**Continuing Connected Transactions**

As disclosed in the prospectus, the Company has entered into the following connected transactions, which the Stock Exchange has either granted waivers to or 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**

As at 31 December 2005, the Company had provided a 100% guarantee in respect of bank loans, which amounted to RMB200 million borrowed by Guangzhou Tianfu Property Development Co., Ltd. ("Tianfu").

Tianfu 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. Tianfu Property is a connected person (as defined in the Listing Rules). Under the Listing Rules, the provision of guarantees and pledges 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, the Company has 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 with independent shareholders' approval requirements under the Listing Rules 14A.47 and 14A.48 in connection with this financial assistance, provided that the total guarantee will not exceed RMB380 million and will be reduced according to the expiry of the guarantees and the pledge.

The total amount of the bank loan of RMB380 million borrowed by Tianfu was repaid in 2005 (RMB180 million) and in 2006 (RMB200 million) and the guarantees issued by the Company have all 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 under normal commercial terms, which are to be no less favourable than those available to independent third parties. The agreement is for a period commencing from the date of the listing 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 2006 amounted to RMB8,918,000 approximately.

*(ii) Appointment of Beijing R&F Properties Development Co., Ltd. as a leasing agent by Beijing Fushengli Investment Consulting Co., Ltd. ("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 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 dates from 1 March 2005 to 31 December 2006.

The total commission Beijing R&F received in the year ended 31 December 2006 amounted to approximately RMB297,662.

*(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 dates from 1 May 2005 to 30 April 2007.

The total fee received by Beijing Hengfu for the year ended 31 December 2006 was RMB852,000.

*(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 prevailing market rents as confirmed by independent valuers Savills Valuation and Professional Services Limited. The total rental for the year ended 31 December 2006 amounted to RMB8,969,900.

*(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 from 15 June 2005 to 31 December 2006.

The commission received by Beijing R&F for the year ended 31 December 2006 amounted to approximately RMB1,630,000.

The items (ii) to (v) of the continuing connected transactions under the Listing Rule 14A.34(1) as above mentioned all involved Fushengli. As of 31 December 2006, Fushengli was beneficially owned by Mr. Li Sze Lim and Mr. Zhang Li at 35% each. Both Mr. Li Sze Lim and Mr. Zhang Li are directors and controlling shareholders of the Company, and therefore Fushengli is a connected person.

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

The aforesaid continuing connected transactions have been reviewed by the independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into:

- a) in the ordinary and usual course of business of the Group;
- b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; 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.

In accordance with paragraph 14A.38 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Board of Directors engaged the auditors of the Company to perform certain fact finding procedures regarding the above continuing connected transactions on a sample basis 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. The auditors have reported to the Board their factual findings on the selected samples based on the agreed procedures.

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 it has indicated its willingness to be continuously in office. A resolution will be proposed by the Board at the AGM to re-appoint the firm as the auditors of the Group until the close of the next annual general meeting.

By order of the Board

*Chairman*

**Li Sze Lim**

Guangzhou, China

22 March 2007