VANKE 万科企业股份有限公司 CHINA VANKE CO., LTD.

2005 Annual Results Announcement

Important Notice: The Board, the Supervisory Committee, Directors, members of the Supervisory Committee and senior management of the Company individually and collectively accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report and confirmed that to the best of their knowledge and belief, there are no other facts that the omission of which would make any statement in this report misleading.

Three-year financial information summary (Unit: RMB)

	2005	2004	2003
Revenue	9,920,738,936	7,257,182,725	5,973,268,303
Operating profit	1,961,959,890	1,249,116,468	815,198,517
Share of losses less profits of associates and jointly controlled entities	(2,075,482)	(3,840,986)	(4,069,917)
Profit before tax	1,940,636,552	1,249,852,248	811,128,600
Taxation	(524,987,007)	(340,844,929)	(266,360,947)
Profit after tax	1,415,649,545	909,007,319	544,767,653
Minority interst	(50,959,692)	(34,647,464)	(23,619,957)
Net profit for the year	1,364,689,853	874,359,855	521,147,696
Basic earnings per share	0.39	0.26	0.17
Diluted earnings per share	0.37	0.25	0.15
Dividend	0.15	0.15	0.05

Impact of IFRS Adjustments on Net Profit (Unit: RMB)

Items	Net profit for 2005
As determined pursuant to PRC accounting standards	1,350,362,817
Adjustments to align with IFRS:	
Recognition and amortisation of negative goodwill	(778,683)
Recognition and amortisation of goodwill	8,441,783
Deferred tax assets	17,768,942
Revaluation of properties	225,940
Capitalised borrowing costs released to cost of sales	(11,330,946)
As restated in conformity with IFRS	1,364,689,853

Profit Appropriation and Dividend Distribution Proposal

A cash dividend of RMB1.5 (including tax) will be distributed for every 10 shares held. Based on the total share capital of 3,722,687,670 shares as at 31 December 2005, the total dividend distribution amounted to RMB 558,403,150.50. The balance of the unappropriated profit will be brought forward to the following financial year.

The allocation of the profit available for appropriation of RMB1, 424,112,158.00 is as follows:

		Amount (RMB)
Statutory surplus reserve		135,036,281.68
Discretionary surplus reserve		675,181,408.40
The unappropriated profit prepared in accordance with PRC accounting standards and brought forward to the following financial year	Profit for the year available for appropriation for the following financial year	540,145,126.70
	The unappropriated profit retained and carried forward from the previous year	73,749,341.22
	Total	613,894,467.92
Include: Dividend distribution for 2005 (calculated based on the share capital as at the end of 2005)		558,403,150.50
Profit available for appropriation for the following financial year (calculated based on the share capital as at the end of 2005)		55,491,317.42
The unappropriated profit prepared in accordance with IFRS and brought forward to the following financial year		633,591,665.92
Include: Dividend distribution for 2005 (calculated based on the share capital as at the end of 2005)		558,403,150.50
Profit available for appropriation for the following financial year (calculated based on the share capital as at the end of 2005)		75,188,515.42

Special note: Out of the RMB1.99 billion “Vanke Convertible Bonds 2”, the convertible bonds issued by the Company, there were 8,814,702 not yet converted as of 31 December 2005. During the period from 4 January 2006 to 21 February 2006, the closing price of the Company’s A share was higher than 130 per cent (that is RMB4.615 per share) of the conversion price (RMB3.55 per share) for a total of 20 trading days in 28 consecutive trading days. It had already satisfied the related regulations and the conditions of early redemption as stipulated in the “Convertible Bonds’ Offering Circular”. After the Board of Directors’ approval through voting by communication means, the Company decided to exercise the redemption rights for "Vanke Convertible Bonds 2" and redeemed all the outstanding "Vanke Convertible Bonds 2" that are not yet converted before 7 April 2006. The total number of the Company's share will be increased by 248,301,464 shares, to 3,970,989,134 shares, as a result of the conversion of "Vanke Convertible Bonds 2" if the aforesaid convertible bonds are all converted into shares. As such, the Board of Directors proposed to set the total share capital as at the close of the market on the registration trading day for entitlement to dividend distribution as the basis for the implementation of the dividend distribution. As the total amount of cash dividend payment will increase correspondingly due to the conversion of "Vanke Convertible Bonds 2", while the profit available for appropriation will decrease correspondingly. It was estimated that the maximum amount for dividend distribution would be RMB 595, 648,370.10, while the profit carried forward for appropriation for the following financial year could be reduced to a minimum amount of RMB18, 246,097.82.

The dividend distribution proposal mentioned above is subject to shareholders' approval at the general meeting. In accordance with the Company Law of the People's Republic of China, which came into effect on 1 January 2006, the Company had not appropriated its profit for 2005 for the statutory public welfare fund. In accordance with the Company Law of the People's Republic of China, the Company will also make corresponding amendment to the profit allocation provisions of the Company's Articles of Association, which will be submitted together with the dividend distribution proposal to the shareholders' meeting for consideration. As such, the issue regarding that there has been no appropriation for the statutory public welfare fund under the 2005 profit allocation proposal will become effective only after approval of the amendments to the Company's Articles of Association at the shareholders' meeting.

BUSINESS REVIEW

Changes in market environment and management's opinion

The year 2004 marked the end of the situation where people's income outgrew that of property prices prevailing in the previous six years. A number of cities witnessed exponential growth in property prices and a relatively high proportion of property purchased for investment. The pressure felt by low to middle-income families of purchasing property and the financial risk associated with the property industry became the major concerns of the general public.

Property prices remained on the upward trend in 2005. According to the National Development and Reform Commission and National Bureau of Statistics of China, the selling prices of property in 35 cities in the first quarter rose by 9.8 per cent from that of the same period last year. The selling prices of commodity housing increased by 10.5 per cent, and the land value rose by 7.8 per cent on that of the same period last year. Land used for residential property development rose by 9.6 per cent.

Along with the continued rise in property prices, the macroeconomic austerity measures focused on the property market had been tightened up. In the work report of the State Council, curbing exponential growth in property prices was listed as a priority task for 2005. On 17 March, the central bank adjusted housing loan policy. On 26 March, the General Office of the State Council issued “Notice of Stabilising Housing Prices”. Thereafter, the central and local governments promulgated a series of relevant measures.

On 27 April, the Standing Committee of the State Council analysed the property development trend, and put forward eight measures to strengthen its guidance and control. On 9 May, the General Office of the State Council circulated the “Opinions on Execution of Measures to Stabilise Housing Prices”, which were jointly promulgated by seven ministries and central government agencies. After the introduction of this document, more people tended to wait and see, i.e. withholding their plan to sell or purchase property. In cities such as Shanghai, Hangzhou, Beijing, Xiamen, transaction volume in May dropped by more than 20 per cent from that of April. The impact was more obvious in Shanghai. The average transaction volume of commodity housing in Shanghai in May and June was around 800,000 sq m, which was only 30 per cent of the monthly average of 270,000 sq m in 2004.

All this showed that, during the year under review, the operating environment of the property industry underwent substantial changes. Industry’s perspective and market expectations also took a surprise twist within several months. At the beginning of the year, most of the industry players were optimistic due to the continued rise in property prices, or due to the fact that property prices in core cities would rise to the same level as those of the metropolises of developed countries within the next few years. However, in the middle of the year, people became uncertain about the market outlook, or thought that the bleak outcome of the previous round of macroeconomic austerity measures would happen again.

In contrast to the sudden reverse of opinion of some of the industry players during the year under review, the management of the Company held a different view.

Since the second half of 2004, the Company’s management had been paying high regard to the changes happening and those to happen in the industry. The management believed, whether the operating environment appeared to be at the peak or bottom, that was only a small part of a big picture. To find out more, to get the gist and to make appropriate judgement would require understanding of two basic characteristics of the property industry.

First, residential property is a special commodity with both social and investment attributes. It is a daily necessity, as well as an important element to improve the quality of living. It can even become an investment product that generates profits. When it becomes scarce, the conflicts among the basic needs, requirements for enhancement and investment demands will intensify. Low-income group has more pressing needs, but its house purchasing ability is low. As a result, when property prices rose to extraordinarily high levels or exceeded the level at which the low-income group can afford, it is legitimate for the government to take control measures.

Second, China’s urbanisation is proceeding at the fastest rate in world’s history. People’s consuming power is also increasing at steady pace. To meet the demand for property of most of the city dwellers through marketisation thus becomes an irrevocable trend. No fundamental change will take place in the unparalleled future demand of residential property in China, and undoubtedly the prospects of the property industry will remain bright.

The management therefore believes it could draw two points for the operating environment. First, only stable development is truly favourable to the industry. An excessively active market cannot last very long and it is unreliable. Second, a market supported by real demand will never slide into a recession or collapse.

Based on this analysis, the management had at the end of 2004 made a projection on the latest round of austerity measures. At the beginning of 2005, the management had adjusted its business plan for the potential risk in the Yangtze market. Yet, the management remained confident in the future prospects of the property industry and the Company's results in the long run.

The above opinions were revealed in the first quarterly report of the year under review. The conclusion was proved to be correct with the market changes at the beginning of the second quarter.

Company's response and business review

Compared with that in 2004, the Company had made substantial improvement in its results during the year under review.

During the year under review, the Company realized a sales area of 2,318,000 sq m, with a sales revenue of RMB13.95 billion, representing increases of 41.5 per cent and 52.3 per cent respectively from those of 2004. The booked area amounted to 1,769,000 sq m, which increased by 23.4 per cent. The booked revenue amounted to RMB9.73 billion, representing a 38.1 per cent increase. The net profit amounted to RMB1.36 billion, representing a 56.1 per cent increase.

Of the booked area, Shanghai Company accounted for 213,000 sq m, which were mainly attributable to projects of Shanghai Holiday Town and Yun Garden. Shenzhen Company booked 143,000 sq m, mainly from the projects of Shenzhen Vanke City and Shenzhen East Coast. In other cities, projects including Wuxi Charming City, Guangzhou Four Seasons Flower City, Nanchang Four Seasons Flower City, Shenyang Four Seasons Flower City, Tianjin Crystal City etc achieved satisfactory sales results, with 154,000 sq m, 131,000 sq m, 106,000 sq m, 104,000 sq m and 103,000 sq m sold respectively in the period.

By the end of the year, the Company had sold but not yet booked 657,000 sq m, worth RMB4.87 billion.

The achievement of the above-mentioned results was mainly attributable to the Company's preparation for and timely response to the changes of operating environment. The industry in general was optimistic in 2004; relatively aggressive expansion became the choice of strategy at the time. The Company, with more than 10 years of experience in the industry, insisted on a stable financial strategy and a cost-efficient growth model, which were criticised by some as too conservative. However, the recent facts showed that the Company's perseverance with such a practice does help mitigate the cyclical impact of the industry. The Company continued to maintain a growth momentum, while ensuring safe operation.

By the end of 2004, with the sharp rising trend of property prices in certain cities, property developers were easily tempted to "withhold their plan to sell until the price surges". On the other hand, the Company had insisted on its normal practice – getting a fair return, and persisted in launching products as scheduled and achieved satisfactory results. In particular, the return on certain projects sold but not yet booked at the end of 2004 was relatively high, which made considerable contribution to the Company's results for the year under review.

The Pearl River Delta region and the Yangtze River Delta region had been the two largest regional markets of the Company. Since the start of the year under review, the property prices in the Pearl River Delta region had been stable, which implied relatively low market risks. The rising trend for property prices in the Yangtze River Delta region, on the other hand, implied a greater possibility of fluctuations. In light of this situation, the Company adjusted its pace of operation accordingly before the year under review; particularly in the first quarter, the Company accelerated the progress of project launch in the Yangtze River Delta region. From January to April, the Company realised a sales area of 210,000 sq m in the Yangtze River Delta with a sales revenue of RMB1.55 billion, which were substantially higher than those of the Pearl River Delta region (91,000 sq m and RMB600 million).

In the second half of the year, the Pearl River Delta region and other regions became the major contributors to the Company's operating results. In the second half of the year, the Company realised a sales area of 449,000 sq m in the Pearl River Delta with a sales revenue of RMB2.96 billion, accounting for 32 per cent and 36.4 per cent of the Company's total sales area and sales revenue respectively. The Company realised a sales area of 278,000 sq m in the Yangtze River Delta with a sales revenue of RMB1.92 billion, accounting for 19.9 per cent and 23.5 per cent of the Company's total sales area and sales revenue respectively. The Company realised a sales area of 673,000 sq m in other markets with a sales revenue of RMB3.26 billion, accounting for 48.1 per cent and 40.1 per cent of the Company's total sales area and sales revenue respectively.

Management and innovation

To ensure safe operation amid cyclical changes in the industry, to sustain efficient growth and to lay a solid foundation for capturing the opportunities arising from industry consolidation became the main focus of the management for the year under review.

The management believed the property industry was scattered, even China Vanke accounted for merely 1 per cent of the market. Therefore, despite cyclical adjustments in the industry, the Company was fully confident in handling the situation. Whether or not the Company would achieve this objective depended on customers' recognition. Thus, during the year under review, the Company pushed ahead with the strategy of "customer segmentation", which was formulated in 2004. This strategy aims at identifying and classifying the different demands of customers and, based on these data, developing products that suit the specific needs of customers. During the year under review, the Company also paid greater attention to customer relations and in return, gained further support from its loyal customers. A poll conducted in 2005 by an independent third party, Gallup, regarding the level of customer's satisfaction, revealed that, on average, each existing customer recommended China Vanke's property to 6.28 people in 2005, and the rate of actual transactions was 20.4 per cent. The continued increase in referrals and repeated purchases from existing customers became the powerful tools of the Company used to ride out the storm caused by the austerity measures.

To achieve both safety and growth, the Company adhered to the strategy of “being cautious but ambitious” in the development of its projects. The Company emphasised the importance of collaboration to acquire land and the importance to acquire the land reserves kept by other companies in the industry, in order to obtain better payment terms to improve the Company’s cash flow. During the year under review, the Company’s newly added land reserves amounted to a GFA of 6,512,000 sq m, of which 48.3 per cent was obtained through collaboration. The Company was even more cautious with the land value prevailing in the Yangtze River Delta region, which already reached a high level at the beginning of the year under review. During the year under review, 85.4 per cent of the newly added project resources in the region was obtained by acquisition of Nandu for a consideration which represented a discount on the market price, with a favourable term of payment by instalments in two years.

The Company had been innovative in financing. On 28 April, “Ping An Trust—Vanke Guangzhou City Garden Project Collective Money Trust” and “Ping An Trust—Vanke Guangzhou Nanhu Project Collective Money Trust” were launched. On 30 June, the Company collaborated with Hypo Real Estate Bank International (“HI”) again on “Shenzhen Vanke City North”. On 1 July, “Beijing International Trust and Investment Co., Ltd. —Beijing Vanke Xishan Project Collective Money Trust” was launched, raising proceeds of RMB180 million. On 8 December, the Company jointly established “CITIC Capital Vanke China Property Development Fund” with CITIC Capital Investment Holdings Limited. In December, the Company entered into an agreement with Reco Ziyang Pte Ltd (“RZP”), a subsidiary of GIC Real Estate Pte Ltd (GIC RE), for the collaboration on the development of the projects of Wuxi Charming City and Shenyang Vanke City by way of transfer of partial equity interests. The Company is currently leading in innovative financing, particularly taking into account the wide range of financing channels.

During the year under review, the Company proceeded with its product and service innovation, with the aim at leading the industry to carrying out radical changes and strengthening its core competitiveness for the future. The new design concept of the Fifth Garden project of Shenzhen Company – "Original Modern Chinese-style Residential Property" had gained wide recognition from customers and the market. Construction of the Phase I of the Tianjin Crystal City residential project had received the highest professional award – "The Fifth Zhan Tianyou Civil Engineering Award". Shenyang Xinyu Mansion project is a successful copy of the Company's well-developed products – the time from land acquisition to the sale of Phase I had been shortened by eight months compared with the average time required for other projects of the Company. This project succeeded in making a breakthrough in enhancing the efficiency in development, demonstrating the effective results of the Company's promotion of its "Prudent Advancement" principle. The Company pushed ahead with the centralised management of its property portfolio in 16 cities across the country. It consolidated over 70 "property management offices" of its property management company under a "property service centre", and promoted its principle of "service orientation" among its 200,000 customers. The Company also had new ideas on enhancing the image and implications of property services.

During the year under review, the Company further enhanced its brand value and was the first enterprise in the property industry to be awarded "China's Famous Brand". The Company's image received further recognition, with the award of "The Most Respected Enterprise in the PRC" for the third time and "China's Best Corporate Citizen" for the second time. The Company was again ranked first among "AsiaEC Listed companies with the greatest development potential", and was named to "CCTV 2004 China's most valuable listed companies" and "Forbes 200 Best Small Companies in Asia". Under the guidance of the Ministry of Construction of the PRC and property industry leaders, the Company launched the campaign on "Gather 'Solutions to Housing Problems of Low to Middle-income Group'", which had a ripple effect on the society.

During the year under review, China Vanke became the first listed company (with B shares) to complete non-tradable share reform. Such a move paved the way for the development of the Company and its shareholders. The Company's investor relations also gained market recognition. The Company became one of the six listed companies to be given the "Merit" grading for disclosure of information for four years in a row by The Shenzhen Stock Exchange. The Company also received the UK-based IR Magazine China Award in the "Best Corporate Governance" category, and was the winner for "Best IR by a PRC company - large cap" in the First Edition of the China A-share Companies Category.

During the year under review, the Company, based on its business strategies, adjusted its organisational structure, strengthened its workforce development and management succession planning, and fine-tuned its remuneration policy, with the aim at attracting more talent joining and staying with the Company. A poll conducted by Gallup regarding employees' dedication to work for 2005 found that China Vanke was on the 59th percentile of the global list. During the year, the Company was also elected as one of the "2005 Best Employers in China" co-organised by Fortune Magazine (Chinese edition) and Watson Wyatt and was named to "CCTV 2005 Best Employers".

Business Development Plan for the Year 2006

In 2005, the real estate industry lived through a new round government regulation. With the property industry further regulated by the austerity measures in 2005, the Company proactively made adjustment and corresponding response to the austerity measures. As a result, the Company was able to maintain rapid growth, as well as to enhance its competitive edge.

Looking ahead, the property industry will continue to be recognised as the pillar industry. On the other hand, the macroeconomic austerity measures will continue to be implemented. The measures continue to focus on solving the problems of overheating investment in the property industry and exponential growth in property prices in certain cities. With the deepening of the austerity measures against finance, credit facilities, land, taxation, sales, etc, the property industry will enter a new development stage.

With the market raising the requirements for capital capability, operation experience, management quality of property developers, there will sharp division between property developers in 2006. Market consolidation will accelerate, and the trend for a few market players will become more apparent.. Undoubtedly, premium companies will be provided with valuable opportunities for development. The Company will take advantage of this change and leverage its competitive edge to escalate its development progress.

In future, the Company will continue to push ahead with the city-economic hubs-oriented development strategy, with the focus on the Pearl River Delta, the Yangtze River Delta and Bohai-rim region, and accelerate its project development. In 2006, the Company will intensify project development in various regions and cities, and expects to increase its land bank by about 10 million sq m. The focus will be on the core cities including Shenzhen, Guangzhou, Shanghai, Tianjin, and particularly Beijing. The Company will also pay high regard to the acquisition of premium sites, improve the structure of its property inventory, and through the rapid development of various projects, fully utilise the rate of turnover and economies of scale, raise human resources and capital efficiency rate, as well as increase its market presence and brand influence.

As such, the Company expects the capital requirements for 2006 will be approximately RMB20 billion, which will be used for land acquisition and project construction. To meet its capital needs, the Company will continue to expedite sales progress, increase cash flow from operating activities, as well as increase its financial leverage through active pursuit of strategic collaboration opportunities, and further exploration of new financial channels. The Company will also increase collaboration with domestic and overseas partners on financing through pushing ahead with the establishment of property fund for project collaboration, as well as explore new financial instruments and financing methods in the property-related capital market. On the other hand, the Company plans to undertake an equity financing exercise during the year. Details on the financing method will be determined in accordance with any changes in policy and market environment and after taking into account of the interest of the Company's shareholders.

In 2006, the Company will implement the strategy of rapid development, which will pose challenges to the Company in acquiring land. The Company's ability to control risk associated with the expansion of operating scale will put its specialisation and organisational ability to test. As such, the Company will strengthen collaboration, augment its ability to achieve strategic collaboration, while pushing ahead with the adjustment to its organisational structure and establishment of regional centres.

Based on the above, the Company will, in 2006, implement customer segmentation strategy, accelerate product categorisation progress, enhance product innovation, and promote radical changes in operation with the aim of making progress in prefabricated homes .

The Group has 60 projects under development in 2006. It is estimated that areas under construction and area completed will amount be 3.29 million sq m and 3.25 million sq m respectively. As at the end of 2005, there were 12.09 million sq m of project resources under the control of the Group. In terms of interest owned, the Group's project resources amounted to 10.19 million sq m.

From the end of the year under review to 16 March 2006, the Company acquired 11 new projects, with a total planned GFA of 1,681,800 sq m. It is estimated that areas under construction and area completed will amount be 0.736 million sq m and 0.547 million sq m respectively.

Wang Shi
Chairman

Shenzhen, 21 March 2006