VANKE

万科企业股份有限公司

CHINA VANKE CO., LTD.

Annual Report 1999

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Chairman's Statement

Mr Wang Shi, Chairman

During the year under review, the Group's turnover and net profit amounted to RMB2,840.19 million and RMB227.47 million respectively, representing increases of 28.7% and 12.3% over those of the previous year respectively. Earnings per share were RMB0.42.

During the year, the Group continued to focus on the development of residential properties in five major cities, namely Shenzhen, Shanghai, Beijing, Tianjin and Shenyang. The Group's completed floor area and booked floor area were 452,000 square metres and 400,000 square metres respectively, representing increases of 44% and 45% over those of the past year respectively. Projects in Shenzhen, Shanghai and Beijing continued to generate significant contributions to the Group's overall profit. The Group has commenced construction of 574,000 square metres of floor area. As at December 31, 1999, the Group had a land bank for planned construction area of residential properties of 1.312 million square metres.

Since the State government named real estate industry as a driving force to support the country 's continued economic growth in 1997, the government has implemented a series of policies, such as abolishing welfare housing, reducing borrowing interest rate, encouraging individual purchase of residential unit by lowering mortgage and tax fee. The implementation of these positive policies has created a favorable environment for the development of the residential property market. The property price has been stabilized and the percentage of individual home buyers has increased. The market environment was favorable as property and financial markets continued to improve.

Capitalizing on the well-recognized goodwill of the Group, its creative expertise and sufficient capital support, the Group concentrated on development of large and medium-scale projects and increased application of advanced technology. The research results and related facilities developed by Vanke Construction Technology Research Centre, which was established during the year, had been applied in the Group's residential projects, to strengthen the properties' environmental protection and technology measures. During the year, Shenzhen Vanke Four Seasons Flower City has been named as the "Model District of Healthy Residential Development of the State" by the Ministry of Construction, and has been ranked the first among the candidates for the title in various technical indicators. Shenzhen Vanke City Garden – Ziweiyuan has also won the China Construction Project Luban Award in 1999.

The Group continued its commitment in improving the overall quality of its buildings, and in introducing innovative approach in planning and designing, as well as offering its customers quality property management under a slogan "Whole-heartedly For You". The "Vanke Property Customers ' Club", the first of its kind initiated by the Group in China, was well received by the consumers. The Group's " Vanke Property Customers ' Club " in the five major cities has a membership of 9,700. The club offers added value services such as free information and special offers from shops, and serves to facilitate the communications between the Company and its customer. The club also enables the Group to offer its customers better products and services meeting their needs.

The Group's retail business enjoyed economies of scale, continued to maintain favorable results, and achieved market competitiveness. During the year under review, the Group increased its investment in Shenzhen Vanguard Department Store Co., Ltd. ("Vanguard") and increased its shareholding in Vanguard from 68% to 72%. The Group has opened the fourth Vanguard store in Baoan district, Shenzhen according to the Group's retail business development strategy. The fourth store was opened on January 1, 2000, the shop has become another success of the Vanguard retail chain operation. Meanwhile, in order to further lower operating costs and continue to enjoy economies of scale, the Group is actively preparing for the development of Vanguard Department Store Distribution Centre.

The Group's delicate gift item manufacturing business maintained stable development during the year. The television drama "The making of Steel" produced by the Group's subsidiary Vanke Cultural Communications Company Limited was well-received throughout China and created a positive effect to the society.

During the year, the Group has successfully completed the reporting of and obtained approval for the rights issue, The Groups has raised RMB625 million in January 2000, for the development of residential projects in Shenzhen, Beijing and Shanghai, increase in investment in Vanguard and as additional working capital. The rights issue has provided a solid foundation for the Group’s residential development and improvement of its financial position.

Looking to the future, with continuation of the government’s economic reform and its emphasis on property development, the Group remains optimistic about the prospects of the residential market. The property market is expected to consolidate. In the coming years, the Group will continue to increase the development of residential units. With large scale property development supported by strengthened professional operation standards, the Group’s overall competitiveness will further be enhanced. The Board is fully confident in the long term development of the Group’s core business.

In the coming year, the Group will continue to expand the scale of its development. The Group will develop and launch 14 projects in the coming year. It will also increase the application of new technology in the developments. The Group will speed up the expansion of its land bank in Shenzhen, Shanghai, Beijing, Tianjin, Shenyang and Chengdu by purchasing large sites in the our skirt of urban areas to ensure that the Group will have sufficient land to support its continually expansion in residential development. In retail business, the Vanguard department store will speed up the opening of new stores and the development of its Distribution Centre.

The Group is committed to the training of a professional management team and professional staff. The Group will strengthen the development and training of human resources. After “the year of professional manager” in1998 and “the year of team spirit”in 1999, the Group has defined the year 2000 as ‘the year of professional spirit”, to emphasize on an innovative and aggressive approach based upon a professional spirit. The Group will capitalize on its Internet data transmission system to strengthen the sharing of resources and operation management, and to utilize new information technology in enhancing the promotion of Vanke ’s goodwill and quality service.

The Internet economy has brought along new development opportunities. In the coming financial year, the Group will launch a “residential property alliance” website for the development of a B2B e-commerce platform for construction material trading to complement its core business. The website can help to further lower the Group’s operating costs and enhance its efficiency through large volume orders from on-line business. The website also serves to enhance the Group’s development through extensive exchange of information and the formation of a residential property alliance.

In this financial year, Mr. Yao Mumin has assumed the position of General Manager of the Group and Mr. Wang Tieying became an independent director of the Board of the Company. Their extensive worldwide experiences are expected to contribute to the Group’s business development.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to the investors ’ faith in the Board ’s appropriate decisions, the customers ’ support, the dedication of the staff and the proactive attitude of the Company ’s management.

Wang Shi
Chairman

Shenzhen, March 30, 2000

China Vanke Co., Ltd. (the "Company") was founded in May 1984. It is principally engaged in property development. The Company is one of the first listed enterprises in the People's Republic of China (the "PRC"). Total assets and net assets of the Company amounted to RMB4,698 million and RMB2,041 million respectively at the end of 1999. The Company has 5,263 employees and 37 wholly-owned subsidiaries and associated companies.

In December 1988, the Company issued 28 million shares to raise RMB28 million and hence its asset rapidly expanded. The Company 's A shares became listed on the Shenzhen Stock Exchange on January 29, 1991.

In March 1993, the Company issued 45 million B shares, which were listed on the Shenzhen Stock Exchange on May 28, 1993. The proceeds of the B shares offer were mainly used for property development and it has laid a solid foundation for the Group's expansion. In June 1997, the Company raised an additional RMB383.3 million through a rights issue. The proceeds were mainly used in the development of residential property projects in Shenzhen, and it has further expanded the Company 's core business—— property development.

In 1999, the Company resolved to conduct a share placement. The Company has completed the reporting of and obtained approval. The proceeds of RMB625 million were received in early 2000 and the Company 's financial position has further been strengthened.

The Company concentrates on residential property development in densely populated cities with strong economic growth, such as Shenzhen, Shanghai, Beijing, Tianjin, Shenyang and Chengdu. By the end of 1999, the Group has completed a total of 2.09 million square metres of floor area and has a land bank of 1.312 million square metres.

The Company also invests in retail-store operations. The Company holds a 72% interest in the four Vanguard department stores in Shenzhen. The stores aggregated sales floor area amounted to 59,500 square metres.

Company Name (Chinese):
万科企业股份有限公司
Company Name (English):
China Vanke Co.,Ltd. ("Vanke")

Legal Person Representative:
Wang Shi

Secretary of the Company 's Board of Directors:
Shirley L. Xiao

E-mail Address:
xiaol@vanke.com.cn

Authorized Securities Affairs Representative:
Zhu Yanhua

E-mail Address:
zhuyh@vanke.com.cn
Contact Address:
Company 's Office

Telephone: 86-755-5606666
Fax: 86-755-5601764

Registered and Correspondence Address:
No.27, Shuibei 2 Road, Luohu District,
Shenzhen, the People's Republic of China

Postal Code: 518020

Home Page: http://www.vanke.com.cn

E-mail Address:
zb@vanke.com.cn

Media for Disclosure of Information:
"Securities Times" and one Hong Kong English newspaper

Website for Annual Report Posting: www.cninfo.com.cn

Place for Annual Report Collection:
The Company Directors Secretarial Office
Stock Exchange on which the Company 's shares are Listed:
Shenzhen Stock Exchange

Company 's Share Abbreviation and Stock Codes on the Stock Exchange:
Shen Vanke A, 0002 & Shen Vanke B, 2002

THREE-YEAR FINANCIAL INFORMATION SUMMARY

	1999 RMB	1998 RMB	1997 RMB
Revenue	2,840,188,469	2,206,155,458	2,047,644,838
Operating profit	307,182,103	261,580,941	233,168,911
Share of losses less profits of associated companies	(20,251,379)	(24,493,402)	1,748,159
Profit before tax	286,930,724	237,087,539	234,917,070
Taxation	(49,509,201)	(25,890,039)	(35,242,716)
Profit after tax	237,421,23	211,197,500	199,674,354
Minority interest	(9,946,772)	(8,551,952)	(17,180,313)
Net profit for the year	227,474,751	202,645,575	182,494,041
Earnings per share	0.42	0.37	0.38
Dividend	0.15	0.2	0.25

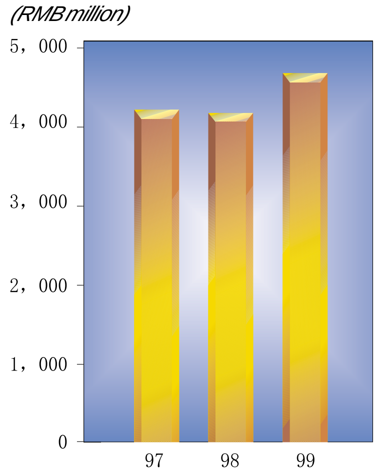
NET IMPACT OF IAS ADJUSTMENT ON THE RESULTS

for the year ended 31 December 1999
(expressed in Renminbi Yuan)

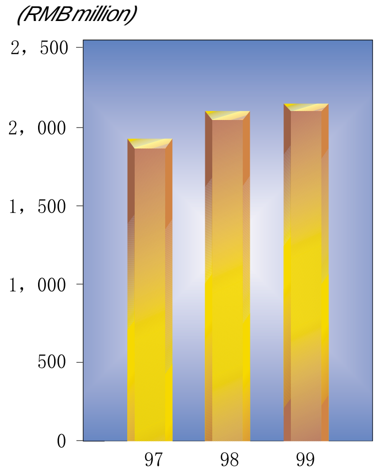
As determined pursuant to PRC accounting regulation	229,142,287
Adjustments to again with IAS	
Recognition of profit from sales of properties	8,169,130
Acceleration of depreciation on fixed assets	-889,824
Provision for bad and doubtful debts	-59,492
Provision for Completed properties for sales	-726,400
Provision for properties under development	-863,000
Recognition and amortisation of deferred income	4,723,933
Recongition and amortisation of goodwill	-4,714,284
Amortization of pre-operating expenses	-3,693,452
Recognition of profit from disposal of other investment	1,740,000
Others	-5,473,131
As restated in conformity with IAS	227,474,751

Accounts and Financial Hghlighs

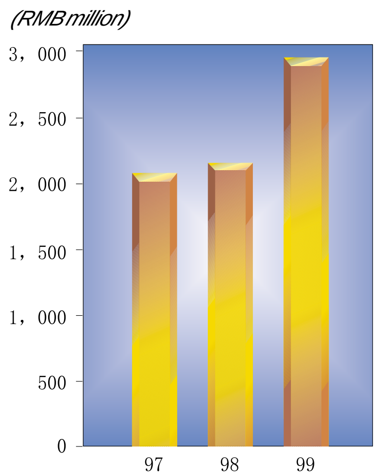
Total Assets



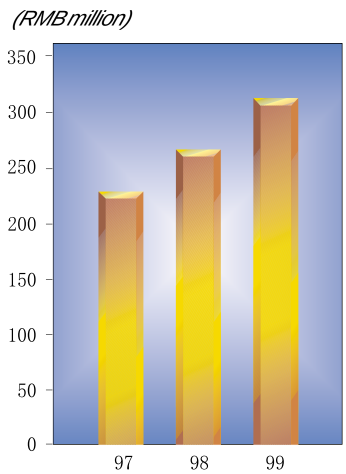
Net Assets



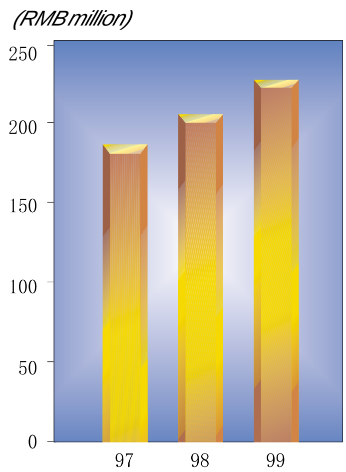
Turnover



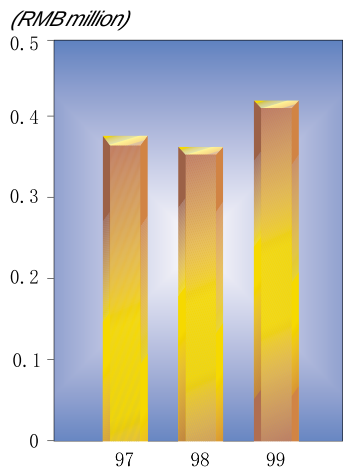
Operating Profit



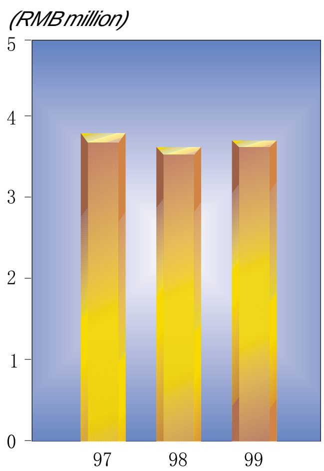
Profit Attributable to Shareholders



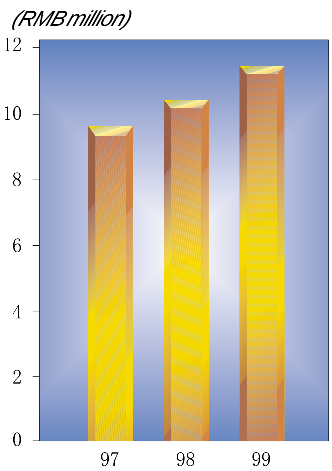
Earnings Per Share



Net Asset Per Share



Return on Net Asset



Changes in Share Capital and Shareholders

1. STRUCTURE OF SHARE CAPITAL

(1). Change in Share Capital Structure of the Company

Share Type	No. of shares held before the change	Shares Increase/Decrease (+,-)			No. of shares held after the change
		Bonus Shares	Others	Subtotal	
1.Non -transferable Share					
a.State-owned Share	47,806,307	4,780,631		4,780,631	52,586,938
b. Legal Person Share	52,650,069	5,265,007		5,265,007	57,915,076
Sub-total	100,456,376	10,045,638		10,045,638	110,502,014
2. Issued					
Transferable Share					
a. A Share	284,800,301	28,480,030		28,480,030	313,280,331
Including Management Share	491,894	49,189	-28,400	49,189	512,683
b. B Share	110,686,488	11,068,648		11,068,648	121,755,136
Sub-total	395,486,789	39,548,678		39,548,678	435,035,467
TOTAL	495,943,165	49,594,316		49,594,316	545,537,481

Note: Due to Mr. Wen Zhe, the ex-director of the company, was resigned for six months, his holding of 28,400 shares of the company were unfroser on December 27 ,1999

Subsequent event: Change in total share capital and shareholding structure

The change in the Company 's shareholding structure was due to the following reasons:

a) SSEZD, the Company 's State-owned shares representative, has acquired 163,380 legal person shares in the Company on January 6, 2000. The concerned shares were then transformed into State-owned legal person shares.

b) The Company conducted a rights issue in 1999, the transferable shares were listed on the Shenzhen stock exchange on February 16, 2000. As at the end of February 2000, the Company 's shareholding structure was as follows: State-owned shares: 8.36%, legal person shares: 9.15%, public A shares: 63.19%, B shares: 19.30%.

(2). Issue and Listing of Shares for past three years

During the period between the years 1997 and 1999, the Company made a rights issue in 1997. Based on a total share capital of 364,604,796 shares after the 1996 bonus issue, the rights issue was placed on the basis of 2.37 rights shares issued for every 10 existing shares. The subscription price was set at RMB4.5 for each A Share and HK$4.2 for each B Share. A total of 86,252,627 new shares were placed, the transferable shares were listed on the Shenzhen Stock Exchange on August 22, 1997.

According to the 1998 Distribution of Dividend and Bonus proposal approved by the Eleventh Annual General Meeting ("AGM") on June 25, 1999, one bonus share was distributed to every 10 existing shares. A total of 49,594,316 bonus share were distributed during the financial year.

The Company made a rights issue at the end of 1999. Based on a total share capital of 545,537,481 shares after the 1998 bonus issue, the rights issue was placed on the basis of 2.727 rights shares for every 10 existing shares. The subscription price was set at RMB7.5 per share. The registration period for placing of rights shares was between January 7, 2000 and January 10, 2000 and the payment period for rights shares started from January 11, 2000 to January 24, 2000. Since holders of the Company 's State-owned shares, B shares and major legal person shares have undertaken not to exercise the rights to subscribe rights shares and have not transferred their rights, total number of rights shares being placed was 85,434,460 shares, including 85,431,546 public A shares and 2,914 legal person shares. The transferable shares were listed on the Shenzhen Stock Exchange on February 16, 2000.

2. Description of Shareholders

(1) As at December 31, 1999, there were 221,503 shareholders, including 217,717 A Share holders (including 10 members of the Company 's senior management) and 3,786 B Share holders.

(2) As at December 31, 1999, the top ten shareholders of the Company were as follows:

NAME OF SHAREHOLDERS	NUMBER OF SHARES HELD	SHARE TYPE	PERCENTAGE (%)
Shenzhen Special Economic Zone Development (Group) Co	50,992,219 A Shares	State-owned Share	9.35
Tem Fat Hing Fung (Changzhou) Development Co., Ltd	26,920,150 A Shares	Legal person Share	4.93
Credit Lyonnais Securities (Asia) Ltd	17,113,957 B Shares	Transferable Share	3.14
Liu Yuansheng	13,541,280 A Shares (of which 11,438,127shares were non-transferable)	Overseas	2.48
Rexmore Company Limited	10,512,739 B Share	Overseas	1.93
Charm Yield Investment Limited	7,147,369 B Shares	Overseas	1.31
J&A Proxy Co., Ltd.	6,179,485 B Shares	Overseas	1.13
Staff Union Committee of China Vanke Co., Ltd.	5,895,078 A Shares	Legal person Share	1.08
Shan Xi Securities Co., Ltd.	3,679,833 A Shares	Legal person Share	0.67
Tai He Securities Invesment Fund	3,373,284 A Shares	Transferable Share	0.62

Note: Shenzhen Special Economic Zone Development (Group) Co.("SSEZD") holds more than 5% of the Company's share capital. SSEZD's shareholding in the Company increased by 19,133,080 shares during the year due to its acceptance of the transfer of shareholding from Shenzhen Investment Administrative Co. and the 1998 bonus distribution. As at December 31, 1999, 20,068,720 shares in the Company held by SSEZD were frozen.

(3) There is no legal person shareholder holding more than 10% of the Company 's shares.

(4) Changes in major shareholders

On July 10, 1999, Shenzhen Investment Administrative Co. ("SIA") transferred 14,497,425 State-owned legal person shares in the Company to Shenzhen Special Economic Zone Development (Group) Co. ("SSEZD"), the largest shareholder of the Company. SSEZD's shareholding in the Company has been increased from 6.42% to 9.35%. The Company has disclosed the above transaction in the Securities Times and a Hong Kong English newspaper South China Morning Post on July 10, 1999.

Subsequent event:Notification of change in the largest single shareholder

On March 3, 2000, SSEZD has entered into a share transfer agreement with Full Knowledge Investments Limited ("Full Knowledge"). Under the agreement, SSEZD has transferred all of its 51,155,599 State-owned legal person shares in the Company to Full Knowledge. The transferred shares accounted for 8.11% of the Company 's total share capital. Established for the shares transfer, Full Knowledge is a wholly owned subsidiary of China Resources Beijing Land Limited. The share transfer was still awaiting the approval of relevant authorities as of the issue date of the annual report. In addition, China Resources Beijing Land Limited already owns 17,073,528 B shares in the Company, accounting for 2.71% of the Company 's total share capital.

3. Trading in the Company 's shares

a) Shenzhen A Shares

Year	First transaction price	Highest price of the year	Lowest price of the year	Closing price at the year end	Total transaction days	Total Volume in billion shares	Total amount in billion yuan
1997	10.41	24.23(06/23)	9.36(01/07)	14.10	239	1.3841	20.2318
1998	14.10	15.08(01/05)	8.31(12/30)	8.40	243	0.3545	3.9977
1999	8.31	15.80(06/29)	7.40(02/09)	9.75	237	0.8452	8.5474

b) Shenzhen B Shares

Year	First transaction price	Highest price of the year	Lowest price of the year	Closing price at the year end	Total transaction days	Total Volume in million shares	Total amount in 100 million yuan
1997	5.07	9.55(05/12)	4.30(12/23)	4.50	229	35.79	2.513
1998	4.90	6.20(05/06)	1.90(08/12)	2.13	221	14.56	0.556
1999	3.20	5.60(06/29)	1.18(03/10)	3.07	218	158.00	3.64

SUMMARY OF ANNUAL GENERAL' MEETINGS

In 1999, two general meetings of the Company were held.

1. The Eleventh Annual General Meeting

The Eleventh Annual General Meeting ("AGM") was held at the Forum Hotel in Shenzhen in the afternoon of June 25, 1999. The notice for convening the Eleventh AGM was published in Securities Times and South China Morning Post on May 22, 1999. The day for confirming the status of shareholders was June 8, 1999. A total of 68 proxies and/or shareholders attended the Eleventh AGM, representing 172,961,089 shares in the Company or 34.88% of the Company 's total share capital. The 172,961,089 shares represented at the meeting included 68,175,075 B shares, which accounted for 39.42% of the total number of shares represented at the meeting.

The following resolutions were considered and approved at the Eleventh AGM:
(1) the 1998 Working Report of the Board of Directors;
(2) the 1998 Audited Financial and Auditors ' Reports;
(3) the 1998 Distribution of Profit and Dividend Proposal;
(4) re-election of Directors;
(5) the 1998 Working Report of the Supervisory Committee;
(6) the proposal for appointment of auditors for the year 1999.

All of the above resolutions were published in Security Times and South China Morning Post on 26 June 1999.

2. 1999 Special General meeting

In the afternoon of 10 September 1999, a special general meeting ("SGM") was held at the Forum Hotel in Shenzhen. The notice for convening the SGM was published in Securities Times and South China Morning Post on 29 July 1999, the day for confirming the status of shareholders was August 6 , 1999. A total of 67 proxies and/or shareholders attended the SGM, representing 197,217,740 shares in the Company or 36.15% of the Company 's total share capital. The 197,217,740 shares represented at the meeting included 73,894,341 B shares, which accounted for 37.47% of the total number of shares represented at the meeting.

The following resolutions were considered and approved at the SGM:
(1) the 1999 rights issue proposal;
(2) Description on use of proceeds raised from the previous rights issue;
(3) the amendment of the Company 's articles of association;
(4) re-election of directors

All of the above resolutions were published in Security Times and South China Morning Post on September 11, 1999.

3. Election, and change of Directors and members of Supervisory Committee

By means of accumulated voting, the Eleventh AGM has elected Wang Shi, Chen Chujie, Zhu Huanliang, Li Feng, James J. Guo, Tian Zhen Yong, Wang Tie Ying as Directors to form the Tenth Board of Directors with the existing Directors Sun Jianyi, Ma Shen, Chen Zuwang, Richard L. Yu, Yao Mumin, Xu Gang, Yang Chuanghau, Xue Bo, Chen Zhiyu, Wu Junhua, Feng Jia.
Due to the change in Mr. Yang Chuanghua's job nature, the 1999 SGM has approved the appointment of Zhou Shao Wei to success Yang's place as the Director of Vanke.

Mr Yao Mumin,General Manager

1. Company 's operations

(1) The Company 's core business and its market position:

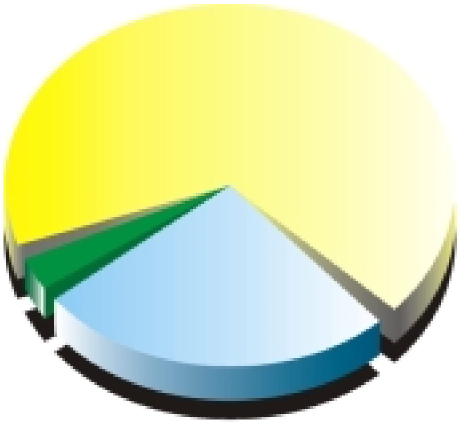
The Company 's core business is property development. Its business activities also cover retail chain operations. The Company has been engaging in the development of properties since 1988. It was among the first developers of the residential property for sale. The Company chose cities such as Shenzhen, Shanghai, Beijing, Tianjin and Shenyang with strong economic growth and large population for large scale residential property development. By the end of 1999, the Company has an aggregate completed area of 2.09 million square metres and a land bank of 1.312 million square metres. The Company established its competitiveness and earned brand recognition through meticulous planning and design, comprehensive facilities and outstanding property management.The Company 's retail chain operations Shenzhen Vanguard Department Store Co., Ltd. ("Vanguard") is well recognized in Shenzhen. According to Guangdong Province Commerce Committee's statistics, Vanguard, in which the Company owns a 72 per cent shareholding, ranked the number one position in terms of the scale

Shenyang Zijinyuan

Four Seasons Flower City

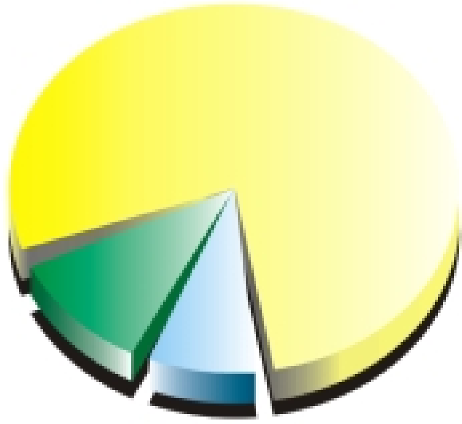
BREAKDOWN OF TORNOVER AND PROFIT BY ACTIVITIES

TURNOVER



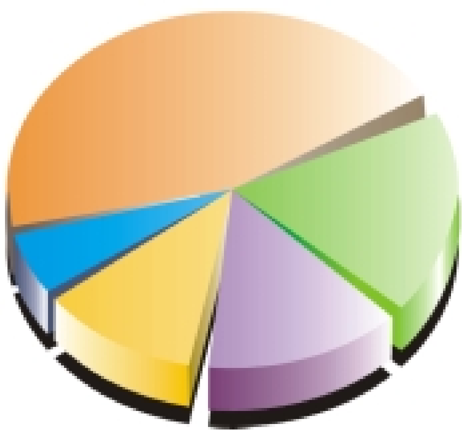
- Property 67.79%
- Retail 29.26%
- Others 2.94%

NET PROFIT



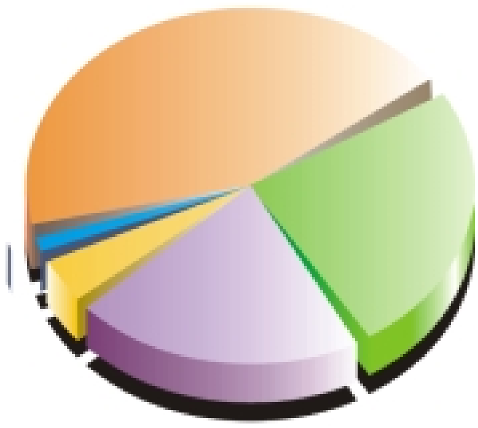
- Property 77.55%
- Retail 8.10%
- Others 14.35%

BREAKDOWN OF TURNVOER AND PROFIT OF PROPERY DEVELOPMENT BY REGIONS



TURNOVER

- Shenzhen 47%
- Tianjin 19.6%
- Shanghai 14.9%
- Beijing 12.2%
- Others 6.4%



NET PROFIT

- Shenzhen 46.0%
- Beijing 26.1%
- Shanghai 21.9%
- Tianjin 4.3%
- Others 1.7%


Beijing City Garden

(2) The Scope and operations of the Company 's core business

The Company has further expanded its residential development operations during the year, with a turnover of RMB1,925million, and a profit attributable to shareholders of RMB176million, representing 32.5 per cent and 3.43 per cent increases from the previous year. Profit from property development accounted for 77.55 per cent of the Company 's net profit. The Company continued to focus on property development in Shenzhen, Beijing, Shanghai, Tianjin and Shenyang. A total of 400,000 square metres have been booked during the year.

In Shenzhen, the development of Vanke Four SeasonS Flower City has commenced; the project has been well-received by the market due to its precise market positioning and unique design. It has been named the National Property Management Excellent Exemplary Housing Estate / 76,000 square metres of floor area of phase I were completed and sold.


Four Seasons Flower City

During the year, Guiyuan was completed and sold. The Fujing Garden in the district of Futian was completed at the end of 1998 and all of the residential units were sold during the year. Juno Tower and Splendid Garden, the two high-rise projects located in Luohu district will be completed at the end of the year 2000, with 80 per cent and 95 per cent of the units sold respectively. During the year, Shenzhen Vanke Property Co. Ltd. was ranked number one of the 1998 Shenzhen property development enterprises annual quality assessment.


Tianjin Garden New Town

The Shanghai City Garden Phase II has been completed, 78 per cent of the Jinfengyuan units has been sold during the year, making a total of 96 per cent of the project's floor area sold. A new project "The Dream of Land" Phase 1 located in the west of City Garden commenced construction on 1 July 1999, and launched 71,000 square meters for sale, with 94 per cent of which were sold. During the year, Ziweiyuan of Shanghai City Garden received the China Construction Project Luban Award.

60 percent of the 88,000 square metres of floor area of Baiheyuan and Yunfenge of Beijing City Garden were sold, an aggregation of 82 per cent of the project's floor area were sold.

The new project Vanke Star Garden Phase I with


Vanguard

floor area of 100,000 square metres commenced construction during the year.

Shenyang Vanke Zijinyuan has launched a total floor area of 32,000 square metres which were all sold. The remaining Units square metres will be launched for sale in 2000. The new project Vanke Garden New Town Phase I was launched for internal subscription and had been well received during the year.

Tianjin Vanke Garden New Town has commenced construction of 160,000 square metres of floor area, and has 160,000 square metres completed, with 81 per cent of its floor area sold or pre-sold. Tianjin Vanke Central Garden has been completed, with 80 per cent of its floor area sold.

Commenced construction, and Construction Of Property Projects in 1999 (unit: s.q.m.)

Project Name	Location	Total Planned Area	Area under Construction in 1999	Completed area in 1999	Accumulated Completed Area
Shenzhen Fujing Garden	Futian	75,762	75,762		
Shenzhen Guiyuan	Luohu		38,515	16,454	38,515
Shenzhen Juno	Luohu		78,110	77,267	77,267
Shenzhen Splendid	Luohu		25,008	25,008	25,008
Shenzhen Golden Garden	Futian	183,200	83,465		
Shenzhen Wenxin Garden	Futian	76,140	76,140		
Shenzhen Four Seasons Flower City	Longgang	326,247	76,427	51445	51,445
Shanghai The Dream of Land	Minghang	124,842	109,750	71,551	71,55
Beijing City Garden	Shunyi County	299,052	10,322	88346	272,594
Beijing Star Garden	Chaoyang	274,000	100,000		
Tianjin Garden New Town	Beichen	560,000	69,785	102,085	163,085
Tianjin Central Garden	Hepin	66,029			30,022
Tianjin City Garden	Hebei	115,194			115,194
Shenyang Zijinyuan	Hepin	55,680	48,384	20633	31,681
Total:			574,274	452,789	

The objective of Vanguard 's development is "close to the community, servicing the need of household necessity and convenience to customers". The self-service shopping style of Vanguard further combined the operations of supermarket and department store. Vanguard now has four branches in Shenzhen in central district of Hua Qiang Road and Cai Tian Road of Futian, one in Cui Zhu Road of Luohu and Shen'an Lake of Bao'an, with an aggregate sales floor area of 59,500 square metres. Turnover and netprofit of retail operations for the year reached RMB831 and RMB18.43 million, representing increases of 28.9 per cent and 38.8 per cent over that of the previous year respectivly.

(3) Operating results of the company 's major wholly-owned subsidiaries and subsidiarie

In 1999, the Group's secondary real estates companies began to expand from single project to multi-project entities, as the Company continued to expand its operations. In operation, companies in different cities promptly adjusted their management structures and concentrated their effort on rational arrangement of development and sale cycle, and had achieved favorable result. Shenzhen City vanguard Department Store Company Limited maintained continued sales growth amidst severe competition.

Unit:RMBten thousand

Company Name	Percentage of equity hold	Commercial Sales in 1999	Net Profit in 1999	Major OperatingProject in 1999	Major Projects Commence in2000
Shenzhen City Vanke Real Estate Company Limited	100%	50,736	5,383	Four Season Garden, Guiyuan,Juno Splendid Garden	Four Season Flower City Golden Garden, Wenxin Garden
Shenzhen Poseidon Properties Co.Ltd	100%	36,190	2,660	Juno Town	Juno Town
Shanghai Vanke City Garden Development Company Limited	100%	25,572	3,873	The Land Of Dream	The Caobao Road Porject,The Land Of Dream
Shanghai Vanke RealEstate Company	100%	1,962	-68	City Garden Jinfengyuan	City Garden
Beijing Vanke Enterprise Shareholding Company Limited	100%	23,154	4,696	City Garden Phase 2	Star Garden Phase 1, City Garden
Tianjin Vanke Shine(Group) Company Limited	100%		948	Garden New Town	Garden New Town, Central Garden, Dongyi Lake project
Tianjin Wan Shao Hotel Company Ltd.	50%		-972	Tianjin Vanke Holiday Inn	Tian Vanke Holiday Inn
Shenyang Vanke RealEstate Development Company Limited	100%	9,900	975	Zijinyuan	Garden New Town Phase I,Zijinyuan
Shenzhen Vangard Department Store Company Limited	72%	83,115	1,843	Vanguard branch1-3	Vanguard branch1-4 The open of the Fifth branch

Note:The adjustment in major operrating projects wil be made according to the market enviroement and land bank of all the companies in 2000

(4) Issues and Difficulties in Operations, and Solutions to the Issues

In light of continued expansion of the Company 's operations and the changing market environment, the Company has been seeking for solutions to the following issues:

Due to expansion in scale of operation, the Company 's stock of completed floor area continued to grow. The situation continued to exist due to expansion in scale of development. The company was highly concerned of the issue and has speed up the sale of properties through rational arrangement of the schedule for unit of new projects and unsold units of old projects; and through a variety of flexible marketing strategies to speed up sale of properties; as well as to broaden sale channel through properties agencies.

In reaction to intensified competition in residential market and general improvement in development quality, the Company has adjusted its strategy to actively develop middle-class residential property and to develop large scale residential districts in sub-urban area, to lower land and development costs. The new town concept and lowered selling price have attracted substantial buyers. The Company will further capitalize on its brand recognition and will highlight the difference of its various categories of products under the "Vanke" brandname, which are catered to the needs of different market segments.

Due to market changes, some of the Company 's early investment in real estates and non-core business projects shown unsatisfactory returns, and had a negative impact on the Group's profitability. The Group has adopted effective measures to improve the efficiency of these projects and it will continue to adopt effective measures to improve the return of the investments in 2000.

The expansion in the Company 's scale of operations has led to requirement for the cultivation of human resource and establishment of a professional management team. The Company has begun to study the multi-porject operation model of the regional companies, and has started the manager allocation system. The Company also established recruitment and training arrangement with major universities in Mainland China and strengthened the professional training of the exiting staff to enhance the management skill and overall quality of the Company 's managers. It is also seeking to identify more effective incentive scheme to attract suitable talents and to create a sense of belonging to the Company.

2. Financial Position of the Company

During the reporting period, the Company 's turnover and profit further increased due to continued steady growth in operations. The Group's financial remained strong. The Group further strengthen in payment, and significant improved its capital efficiency when compared to that of the previous year.

3. Investment of the Company

During the reporting period, the net amount of the Group's long-term investment had decreased by RMB29.99 million or 16 per cent from that of the previous year. For details of the names, major activities of invested companies and the Group's shareholding as a percentage of the invested companies' share capital, please refer to notes 14 and 15 to the financial statements.

(1) Use of Proceed:

The proceeds from the 1997 rights issue had been fully applied during 1998, Jintian City Garden and Vanke Garden – Guiyuan together had received RMB147 million of proceeds, established a firmed foundation for the Shenzhen Land Bank. The 1999 special general meeting had resolved to a further rights issue, which had completed reporting and obtained approval during 1999. The placing of the rights shares is based upon the share capital of 545,537,481 shares after the 1998 bonus issue, on the basis of 2.727 rights shares for every 10 shares held, and the subscription price was RMB7.50 in total. The proceeds of the rights issue were invested asto: RMB220 million to Shenzhen Vanke Four Seasons Flower City, RMB200 million to Beijing Star Garden, RMB80 million to Shanghai Vanke City Garden, increased holdings amount to RMB40 million of Shenzhen Vanguard Department Store Company Limited, the rest regarded balance as workly captal.

Subsequent Events:

The Company 's 1999 rights issue commenced of the end of 1999. The Company received the proceeds on 25 January 2000.

Since holders of the Company's State-owned shares, B shares and major legal person shares have undertaken not to exercise their subscription rights for the rights shares and have not transferred their rights, total number of rights shares being placed was 85,434,460. The total proceeds of the rights issue amounted to RMB640,758,450. After deducting the related expenses, the net proceeds of the rights issue amounted to RMB625,384,886.27. The Company will applied the proceeds to the committed projects.

(2) Use of Capital not from Capital Market

a. Investment in associated companies

To strengthen it's management and shareholding struture, the Group increased its shareholdings in Five of its shareholding companies, with a total investment of RMB100.94 million, as follow:

(unit: RMB)

Shanghai City Garden

Associated Companies	Sharedholding Before Shar Transfer	Transferred Party	Transferred Shares as a Percentage	Price of Transferred Share	Shareholding After Share Transfer	PaymentTerms
Dalian Vanlian Properties	62.5%	Shenyang Wangzhong Co.,Ltd;	27.5%	8,800,000	100%	by properties
		Baori Internat-ional Co.,Ltd.	10%	3,200,000		
Shenzhen Poseidon Properties Company Limited	70.6%	Xingjiang Dade Industry Deve-lopment Company	14.7%	21,660,000	100%	RMB28,580,000 by cash and RMB20,560,000 by properties
		Shenzhen Hengwei Indaustry Co.	14.7%	27,480,000		
Tianjin Vanjke Shine(Group) Company Limited	76.91%	Pacific Linked Limited	19.11%	25,960,000	100%	cash payment
		Ho Shun Fu(HK) Enterprises Limited	3.98%	5,400,000		
Chengdu Vanke Shine Company Limited	40%	Chendu Suzhong City Constrction Development Co.;	5%	720,000	100%	cash payment
		Shenzhen Hongfu Hengye Co.,Ltd.	10%	1,512,000		
		Chengdu Shine Shareholdings Company Limited	25%	3,610,000		
		(HK)Silver Field Properties Limited	20%	2,400,000		
Shenzhen VankeGift Manufacturing Company Limited	75%	Jenston International (HK) Co. Ltd.	25%	200,000	100%	cash payment

During the year, to support the business development of the Group's subsidiaries and member companies, the directors has resolved to increase its investment in the following six companies by RMB248 million:

(unit: RMB million)

Company's Name	Original Registered Capital	Registered Capital After Injection	Shareholding
Shenzhen Vanke Real Estate Company Limited	50	100	100%
Shanghai Vanke City Garden Development Company Limited	30	100	100%
Beijing Vanke Enterprise Company Ltd	20	100	100%
Shenyang Vanke Housing Development Co. Ltd	10	30	100%
Shenzhen Vanke Department Store Shareholdings Co. Ltd	50	75	72%
Shenzhen Vanke Gift Manufacturing Co. Ltd	2	5	100%

b. **Project Investment**

During the reporting period, the Company has added two new residential projects namely Shenyang Vanke Garden New Town and 37 Caobao Road Shanghai. The land cost for the group's real estates project in 1999 was RMB460.72 million. Please refer to "Operation Report" and "Daily activities of the Board of Director" in the Director's Report for the establishment and progress of the projects.

4. The Impact of Operation Environment and Change In Policies and Regulations

Since the State government named real estate industry as a driving force to support the country's continued economic growth in 1997, the government has allowed the transaction of residential property, provided favorable financial policy for mortgage. These policies had stimulated the consumption for residential property and gave rise to private residential market. The implementation of these positive policies has created a favorable environment for the stable long-term development and room for further expansion of the Group's core business.

During 1999, the government lowered the interest rate for liquidity loan and mortgage loan for the seventh time, publishing a "Notice regarding the adjustment of taxation policies for the real estate market". According to the notice, sales tax, stamp duty and property value added tax had been waived or lower for private purchase in the secondary residential sales market; Sales tax for the sale of vacant units had also been waived or lowered. Moreover, beginning from 2000, the government has suspended tax on fixed assets investment. All of the above policies effectively reduced cost individual of property consumption on stimulated market consumption power, facilitated the real estate market development. Also, reducing developer' development costs and increase their profitability.

On 11 January 2000, the State council issued a " Notice on the correction of territorial government's refund of local tax", which started that from 1 January 2000 onward, all levels of local governments have to suspended the practice of tax refund. The Company's member enterprises outside of Shenzhen were all benefited from certain of tax refund from local government. The effective tax rate of the Group's Beijing and Shanghai companies was 15% of its taxable income, the execution of the new policiy is expected to significantly affect the Company's profit margin.

5. Business Development Plan For the New Year

The scale of residential development will be substantially expanded in the year 2000.

There will be 14 projects to be developed and launched by the Group. In addition, the Group continued to increase its land bank in the major cities, urban-rural area to support the group's continued growth, Vanguard will spend up the opening new stores and organizing of a distribution anter. In Shenzhen, the Four Seasons Flower City Phase II with a 100,000 square metres of area. Golden Garden Phase I with a floor area of 65,000 square metres will be in the market at the first half of the year, the project is located in Jingtian matured district. Shenzhen Real Estate Company is accelerating the two floors height Juno and Splendid Garden project in Luohu district. In Shanghai, The Land of Dream project maintains sales preference over others. The Shanghai Company will quicken the Caobao Road project (a tentative name), it will be ready for sale in the second half of the year.

In Beijing, the Vanke City Garden will accelerate sale of the last inventories of Baiheyuan and Yunfeng Estate. The Beijing Star Garden Phase I will be available in the second half of the year.
In Tianjin, Dongli Lake project was obtained through property exchange, development scheme and planning of the project was completed. 100,000 square metres of the Tianjin Garden New Town will be commenced. The Tianjin Central Garden will be completed in the year.

In Shenyang, the Garden New Town internal sale in 1999 reflected a splendid marketing prospective, and the middle-class residential project Zuijinuyuan will be all completed in 2000.
The Group's Board of Directors determined to process the residential investment strategy, within the year, to increase the land bank.

Land Bank by the end of 1999 and Major Property Projects in 2000 (Unit: square metre)

Project Name	Location	Area Area	Planned Construction	Kick-off Plan in 2000	Planned Commenced Area in 2000	Planned Completed Area in 2000
Shenzhen Four Seasons Flower City	Longgang	217,498	326,242	274,802	196,000	130,000
Shenzhen Golden Garden	Futian	28,627	183,200	102,963	90,000	83,264
Shenzhen Wenxin Garden	Futian	20,000	76,140			
Shanghai The Land of Dream Phase I	Minhang	125,000	124,842	15,092	15,092	53,292
Shanghai Caobao Road Project (a ten-a tative name)	Minhang	63,000	108,000	108,000	100,000	60,000
Beijing Star Garden	Chaoyang	107,000	274,000	174,500	121,000	50,000
Tianjin Garden New Town	Beichen	530,000	560,000	397,000	120,000	120,000
Tianjin Central Garden	Hebei	18,220	66,029	10,000		
Shenyang Garden New Town	Dongling	148,000	240,000	240,000	120,000	80,000
Shenyang Zijinyuan	Hebei	23,000	55,680			24,000
Total				1,312,357	762,092	610,556

(Note: The pace of the Group's development will be adjusted according to the market environment:In additon,the development of Tianjin Dongli Lake,and the land bank development in Shenzhen, Shanghai and Chengdu are in the prosee, details of which will be annouced in due course.)

6. **Work Report of the Directors**

(1) **During 1999, the Board of Directors held seven board meetings.**

On February 8, 1999, the fourth meeting of the Ninth Board of Directors was held, the Meeting accepted Mr. Wang Shi resignation from the position of General Manager and appointed Yao Mumin to succeed the Company 's General Manager position. The meeting also appointed Richard L. Yu as the Deputy General Manager and Financial Controller. It further approved the reformation of the Group's residential policies; approved the calculation method on the Group's 1999 to 2000 Year ended encouragement bonus; approved the decision to increase the holdings of Dalian Vanlian Properties.

On April 9,1999, the Fifth Meeting of the Ninth Board of Directors was held, approved the decision to increase the registered capital of the Shanghai Vanke City Garden Development Company Limited. The Meeting also researched and confirmed the proposal to reform the Board of Directors; approved the proposal of the Eleventh Annual Genneral Meeting; approved the decision to engage auditors for the year 1999; approved the 1998 auditor's report and annual report. The meeting again researched and confirmed the 1998 profit and dividend distribution; reviewed and approved the 1999 General Manager working plan.

On 25 June 1999, the First meeting of the Tenth Board of Directors was held, the Meeting elected Wang Shi as the Tenth Chairman of the Board; Chen Chujie and Sun Jianyi were also elected as the Vice-Chairman for the Board of Directors. The Meeting also appointed Shirley L. Xiao as the Secretary of the Board of Directors . Approved the proposal ror authorizing the chairman to provide guarantee for bank borrowings on behalf of the Board. Approved the 1999 Special General Meeting ("SGM") proposal and approved the Vanke Construction Technology Research Centre.

On 13 August 1999, the Third Meeting of the Tenth Board of Director was held, the Meeting approved the 1999 interim report and financial statement; approved the development new project, Dongqingyuan in Shenyang. The Meeting approved the new project Shanghai 73 Caobao Road; approved the purchased and increase holdings of Shenzhen Vanke Gift Manufacture Company Limited.

On 10 September 1999, the Fourth Meeting of the Tenth Board of Directors confirmed the 1999 rights issue price; approved the development Shanghai Dawn Garden project; approved the decision of the registration of a company for Shanghai Xuhui District project.

On 15 December 1999, the Fifth Meeting of the Tenth Board of Directors approved the calculation method to measure "other accounts receivable" and provision for bad debt. The Directors also approved the increase in holdings in Tianjin Vanke Shine(Group)company limited and increase the land bank of Tianjin DongLi Lake.

The Board of Directors has approved the following resolutions by ways of telephone voting:

On 30 September 2000, by telephone voting, the Board of Directors has approved the increase in shareholding in Chengdu Vanke Shine Company Limited; a guarantee loan of US$8.5 million for Tianjin Vansho Restaurant Company Limited; the increased in registered capital of Shenzhen Vanke Real Estate Company Limited and Beijing Vanke Enterprise Company Limited to RMB100 million respectively.

On 11 November 1999, by telephone voting, the Board of Directors has approved the increase in registered capital of Shenzhen Vanke Real Estate Company Limited to RMB30 million; the establishment of Shenyang Vanke City Garden Development Company Limited(the company of Shenyang Vanke Garden New Town) and the internal transfer of shares of Shanghai Vanke Real Estate Company Limited.

On 26 November 1999,by telephone voting,the Board of Dirctor has approved the development of Beijing Lu Yi Resident project .

(3) The Execution of Annual General Meeting by the Board of Directors

According to the Eleventh Annual General Meeting, the Directors meeting authorized the organizing of the 1998 dividend distribution and amending the Company 's articles, operating license according to the share interest.

The Rights Issue proposal passed at the 1999 SGM of the Group on September 10, 1999. It has been approved pursuant to the document "Shen Zhen Ban Zi (1999) No.178" of the Shenzhen Securities and Exchange Commission and document "Zheng Jian Gong Si Zi (1999) No.141" of the China Securities Regulatory Commission. The "Circular of Issue of Rights Shares" regarding the Company 's Rights Issue will be published in the "Securities Times" and "China Securities" on 22 December 1999. The total number of rights shares: Holders of the Company 's state-owned shares and major legal person shares have undertaken not to exercise their rights for the subscription of rights shares and not to transfer their rights. The actual number of Rights shares being placed were85,434,460 ordinary shares in Reminbi, Including 2,914 legal person shares and 85,431,546 public A shares. The proceeds of the rights issue was RMB640,758,450 in Cash. After deduction of related expenses, the actual proceeds was RMB625,384,886.27 in total"Tian Qin Yan Zi Bao Zi (2000) No.5"Tian Qing Certified Public Accountant. Dealings in the Company 's transferable shares will commence on February 16, 2000.

7. The Company 's Management and Employees

Directors, supervisors, and Senior Management Team

Wang Shi, male, aged 48, is the founder of the Company. He organized "Shenzhen Exhibition Center of Modern Science and Education Equipment", the predecessor of Vanke, in 1984, and acted as General Manager. The Company was reorganized into China Vanke Co. Ltd., a shareholding company, in 1988, at which time Mr Wang became Chairman and General Manager as well as Legal Person Representative of the Company. Mr Wang no longer acted as the General Manager with effect from February 81999. In June 1999, he was re-appointed as the Chairman of Vanke for a term of three years.

Chen Chujie, male, aged 54. He was appointed as an Executive Director of the Company in 1995, in June 1996, he was re-appointed and promoted to become Vice-Chairman of Vanke for a three years term.

Sun Jianyi, male, aged 46. He was appointed as a Director in 1995 and Executive Director of the Company in 1997, he was re-appointed in May 1998 for a three-year term Vice-Chairman. Meanwhile, he is the Executive Deputy General Manager of PingAn Insurance Company of China.

Zhu Huanliang, male, aged 46, is a representative of individual shareholders. He was appointed as a Director of the Company in 1991. In June 1999, he was re-appointed as the Director for a three-year term.

Chen Zuwang, male, aged 53, joined Vanke in 1990. He was appointed as a Director in 1992, in May 1997, he got re-appointed as the Director for a three years term. He was the Deputy General Manager and in charge of the Company 's audit since 1991.

Ma Shen, male, aged 59, became a Director of the Company in 1992. In May 1997, he was re-appointed as the Director of Vanke for a three-year term. He is currently the Managing Director of Tian An (Shenzhen) Enterprise Development Limited.

Richard L. Yu, male, aged 35. He was appointed as a Director in 1994 and became Deputy General Manager in 1996. In May 1997, he was re-appointed as the Director of Vanke for a three-year term. He is currently Executive Deputy General Manager and in charge of finance of the Company with effect from February 1999.

Yao Mumin, male, aged 46, acted as a Director and Executive Deputy General Manager of the Company since 1995. In May 1997, he was re-appointed as a three-year term Director. He was appointed as General Manager of the Company in February 1999.

Xu Gang, male, aged 41, acted as a Director since 1995. In May 1997, he was re-appointed as the Director for a three-year term. He has been the Deputy General Manager of the Company since 1993.

Wu Junhua, male aged 48, is a representative of B shares. He was appointed as a Director of the Company three-year term in May 1998.

Feng Jia, male, aged 44, the independent director of the Company. He was appointed as a Director of the Company three-year term Director of the Company in May 1998. He is currently the General Manager of Shenzhen International Corporate Service Company.

Li Feng, male, aged 45, appointed as a Director in 1996, Re-appointed in June 1999 for a three years term. He is currently the Chief Representative of Tem Fat Hing Fung Investment (China) Limited.

James J. Guo, male, aged 34, became a Director since 1996. He is a Managing Director of Tianjin Vanke Shine (Group) Company Limited, which is a 76.9% owned subsidiary of the Company.

Xue Bo, male, aged 40, became a Director in May 1997 for a tem of three years. He is currently the Manager of Assets Management Dept. of Shenzhen Investment Administration Co.

Chen Zhiyu, male, aged 44, appointed as a Director for a term of three years in May 1997. He is a Director of Jenston International (HK) Limited.

Tian Zhenyung, male, aged 34, master degree holder, a representative of B shares , appointed as a Director for a three-year term in June 1999.

Wang Tieying, male, aged 44, the Independent Director of the Company. He was appointed as a Director in June 1999 for a term of three years. He is currently the General Manager and a Director of China Resources Enterprise,Limited.

Zhou Xiaoxiong, male, aged 38, appointed as a Director of the Company in September 1999 for a term of three years. He is currently a Director of the Administration at the Bank of China, Shenzhen Branch.

Members of the Supervisory Committee

Ding Fuyuan, male, aged 49, joined Vanke in 1990, became a member of the first Supervisory Committee of the Company in 1993. He was appointed as Chief Supervisor in 1995, and in May 1998, he was again elected as the convenor of the Supervisory Committee for a three-year term. He is currently Secretary of Communist Party Committee of the Company and Chairman of the Company's staff union.

Tan Renchen, male, aged 47, became a member of the Supervisory Committee in 1995, in May 1998, he was again elected as member of the Supervisory Committee for a three-year term, currently he is Secretary of the Disciplinary Committee of Shenzhen Investment Administration Co.

Xie Dong, male, aged 35, joined Vanke in 1992, representative of the Company's staff union, he was elected as a member of the Supervisory Committee in May 1997. He is currently manager of personnel department of the Company.

Senior Management:

For information on Yao Mumin General Manager, Richard L. Yu, Deputy General Manager and person in charge of finance. Chen Zuwang, Deputy General Manager and person in charge of audit. Xu Gang, Deputy General Manager please refer to the "Brief Introduction on Directors".

Shirley L. Xiao, female, aged 34, joined Vanke in 1994, she is currently Secretary of the Board and head of General Manager's Office.

Subsequent Events:

On 27 March 2000, the Seventh Meeting of Tenth board of directors had approved the General Manager's nomination and resolved to appoint James J. Guo and Mo Jun as Deputy General Managers of the Company, to support the Company's real estates business development.

For James J. Guo's, brief introduction please refer to "Brief Introduction" on Directors.

Mo Jun, male, aged 33, joined Vanke in 1991, is the General Manager and Chairman of Beijing Vanke Enterprise Company Limited.

Change in Share Holding of Director, Member of Supervisory committee and senior Manager (unit: share)

Name and Title	No. of Shares Held at Beginning of 1999	No. of Shares Held at End of 1999	No. of Shares Held at the End of February 2000
Chairman and General Manager Wang Shi	99,688	109,656	139,559
Deputy Chairman Chen Chujie	25,819	28,400	36,144
Deputy Chairman Sun Jianyi	17,212	18,933	24,096
Director Zhu Huanliang	180,734	198,807	253,021
Director Ma Shen	25,819	28,400	36144
Director and Deputy General Manager Chen Zuwang	25,819	28,400	36144
Director and Executive Deputy General Manager Richard L. Yu	27,797	30,579	38,914
Director and General Manager Yao Mumin	17,212	18,933	24,096
Director and General Manager Xu Gang	17,212	18,933	24,096
Convenor of Supervisory Committee Ding Fuyuan	28,755	31,630	40,255

Note: Changes in Shareholding of the Directors, Supervisors and senior management were resulting from the distribution of bonus shares in 1998, and subsequent change was due to participation in the subscription of the 1999 rights issue.

Remuneration of The Company 's Directors, members of Supervisory Committee and senior management amounted to RMB2.745 million, two persons received an amount between RMB350,000 and RMB390,000; three persons received an amount RMB300,000 to RMB340,000; two received RMB250,000 to RMB290,000; two received RMB200,000 to RMB240,000. 13 members of

Supervisory Committee and Directors had not received any remuneration from the Company, they were: Chen Chujie, Sun Jianyi, Zhu Huanliang, Ma Shen, Wu Junhua, Feng Jia, Li Feng, James J. Guo, Chen Zhiyu, Zhou Shaowei, Tian Zhenyung, Wang Tieying, Tan Renchen.

Reasons for the Departure of Directors, Members of the Supervisory Committee and Senior Management during the reporting period:

During the reporting period, Mr. Wang Shi has resigned from the post of General Manager of the Company, Wen Zhe, Yu Ziqiu and Yang Chuanghua hare resigned from the board of directors for the following reasons:

As the Company has completed its organization restructuring and with the presence of a skillful management team, Mr. Wang Shi decided to resign from the post of General Manager of the Company in February 1999. The term of directorship of Mr. Wen Zhe, an incumbent director of the Company, has expired and he has decided not to stand for re-election at the Eleventh AGM. J&A Securities Limited, a shareholder of the Company, has re-named Mr. Tian Zhenyong to be a director of the Company. Mr. Yu Ziqiu has retired from the post of director of the Company. Due to Mr. Yang Cuanghua's change in his assignment, Bank of China Shenzhen branch, a shareholder of the Company, has re-named Zhou Xiaoxiong to replace Mr. Yang as a director of the Company.

Appointment of General Manager and Secretary of the Board of Director of the Company
In the Fourth Meeting of Ninth Board of Directors, the Board had appointed Mr. Yao Mumin as General Manager of the Company. In the First meeting of the Tenth Board of Directors the Company resolved to continue to appoint Shirley L. Xiao as the Secretary of the Board.

Number and breakdown of Staff

There were 5,263 employees under the Company 's payroll as at 31 December 1999. Of this number, 762 employees worked in the Company 's headquarters or its direct subsidiaries (77 per cent of them with tertiary qualifications and 5 were retired personnel), 4,501 employees worked in the Group's joint ventures or associated companies (14 per cent of them with tertiary qualifications and 4 were retired personnel). The breakdown of the staff by job nature was as follows: production workers: 486, sales personnel: 1,454, technicians: 518, financial personnel: 177, administrative staff: 1,606 and service staff: 1,562.

8. Pofit and dividend distribution proposal and transfer of surplus reserve fund to share capital proposal

Net profit of the Company in 1999 prepared in accordance with PRC accounting regulations and IAS were RMB229,142,287.45 and RMB 227,474,751 respectively, profit available for appropriation were RMB243,941,294.06 and RMB235,664,070 respectively.

The upper limit of profit available for appropriation was based on the lower of the undistributed profit calculated in accordance with PRC accounting regulations and IAS. Therefore, the Company 's profit available for appropriation in 1999 was RMB235,664,070 which was prepared in accordance with IAS. According to relevant rules and regulations, the Board of Directors proposed the following appropriation proposal:

(1) to appropriate 10 per cent of the 1999 net profit calculated by PRC accounting regulations to statutory surplus reserve;

(2) to appropriate 10 per cent of the 1999 net profit calculated by PRC accounting regulations to statutory public welfare fund;

(3) to appropriate 30 per cent of the 1999 net profit calculated by PRC accounting regulations to discretionary surplus reserve;

(4) after deducting the amount transfer to statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve, the remaining unappropriated profit was RMB121,092,926, of which RMB94,645,791.15 was reserved for bonus distribution. Based on a total share capital of 630,971,941 shares as at December 31, 1999, a dividend of RMB0.15 per share (including tax) is recommended for the year ended December 31, 1999. Based on a total share capital of 545,537,481 at the year end of 1999, the total dividend would have been RMB0.1735 per share (including tax). The dividend will be paid in cash on the basis of RMB1.50 and one bonus share for every 10 existing shares.

(5) the balance of the unappropriated profit will be transfer to the coming financial year.

The directors resolved not to transfer surplus reserve to share capital during the year..
The distribution proposal is subject to the shareholders ' approval at the Shareholders General Meeting.

The aforementioned proposal is subject to the shareholders ' approval at the forthcoming AGM, and the approval of relevant authorities.

9. Media for disclosure of information

During the year, the Company selected Securities Times and a Hong Kong English publication for placing notices and announcements of the Company 's information.

In 1999, the Supervisory Committee based on the duties designated by the Company Law and the Company 's Articles of Association, seriously executed supervision to ensure smooth operation and satisfactory return of the Company. The major activities of the Supervisory Committee during the year were set out below:

1. Three Supervisory Committee meetings were held during the reporting period.

The Fourth Meeting of Third Supervisory Committee were held on 13 April 1999, the meeting reviewed, discussed and approved the 1998 Report of the Supervisory Committee, and reviewed and confirmed the 1998 Auditor's Report of the Company.

On 27 July 1999, the Fifth Meeting of Third Supervisory Committee was held, the meeting reviewed and confirmed the Company 's 1999 proposal to increase capital through rights issue.

On 17 August 1999, the sixth Meeting of Third Supervisory Committee was held, the meeting reviewed and confirmed the 1999 Interim Financial Report.

2. Independent opinion on the following issues by the Supervisory Committee.

During the reporting period, Supervisory Committees were present at all meetings of the Board of Directors, regularly reviewed the Company 's operations and audited its financial position. In the opinion of the Supervisory Committee, the Directors and senior executives of the Company had been committed, honest and with strong initiative, and have complied with the laws, rules, the Articles of Association and the interests of the Company when exercising their duties. Never in any case, abuse its power in any way to endanger the interest of the shareholders and workers.

Zhonghua (Shekou) Certified Public Accountants and KPMG have audited the 1999 accounts of the Company according to PRC accounting regulations and IAS respectively, and issued an audit report without qualification. In the opinion of the Supervisory Committee, the report gave a true and fair view of the actual operation of the Company.

During the year, the Board of Directors resolved to acquire Dalian Vanlian Properties¸ Dalian Vanlian Properties, Shenzhen Poseidon Properties Company Limited, Vanke (Tianjin) Shine Company Limited, Vanke (Chengdu) Shine Company Limited and Shenzhen Vanke Fift Product Manufacture Company Limited, and to increase its shareholding in Vanguard to dispose of its interest in China Vanke ' (US) company. The decisions were made according to the Company 's long term strategy, transaction prices were fair and reasonable, there were no evidence of insider trading of any kind or action causing damage to the interest of the Shareholders or any loss of asset to the Company.

The Company has developed a scientific standard in personnel management. As the scale of operations continued to expand, the division of labor in management has been further fine-tuned. During the reporting period, the Board of Directors had revised the internal regulation on inspection, reinforced its supervision towards the corporate operation management. As a result, the group benefited from these better rules and regulations in area of company management, project decision and operation and cost management.

Based on the "Accounting principles for joint-stock Company", the Board has added further requirements and requirement stipulated by relevant state document. The internal control system regarding appropriation for assets diminution provision and handling of loss. The Company has set the debt and has appropriated and handled the assets diminution provision for 1999.

The treatment has complied with relevant regulation and the Company 's internal control system, and redressed the Company 's actual situation and effective prevented the risk of loss of assets.

Reviewing the 1999 operations, the supervisory committee noticed that the management team worked closely together to achieve satisfactory results, and had further improved the Company 's overall strength. Under the leadership of the Board of Directors, the Group had been operated according to regulation and further enhanced its ability in risk control and strategic planning, laying a solid foundation for the Group's long-term growth. In the new financial year, the members of supervisory committee will further strengthen its studying of securities regulations to better perform their duties to safeguard the interest of the Company and to be accountable to investors.

Convenor of the Supervisory Committee
Ding Fuyuan

30 March 2000

1. Litigation Or Arbitration of Material Significance

The Company was not involved in any litigation or arbitration of material significance. Shenzhen Vanke Financial Consultancy Limited, a subsidiary of the Company, was unable to withdraw a bank deposit of RMB4,586,750.00 booked under "Other Account Receivable". The Inter-media People's Court of Shenzhen Municipal Government delivered a verdict on initial trail that the deposit-taking bank and Shenzhen Bai Jing He Investment Limited should be responsible for repaying the aforementioned deposit together with interest. The deposit-taking bank appealed against the ruling. On 5 September 1999, High People's Court of Guangdong Provincial Government delivered the (1999)Yue Fa Court Jin Yi Zi No. 312 Civil Verdict : upholding the original verdict. As at 31 December 1999, Shenzhen Vanke Financial Consultancy Limited had not recovered the deposit and has applied for court action.

2. No Penalty is being apply to the Company 's Directors, members of Supervisory Committee and Senior Management during the reporting period.

3. Change in General Manager and Board of Directors

By accumulated voting in the Eleventh AGM, Wang Shi, Chen Chujie, Zhu Huanliang, Li Feng, James J.Guo, Tian Zhenyung, Wang Tieying have been elected as directors to form the Tenth Board of Directors of the Company with existing directors Messrs Sun Jianyi, Ma Shen, Chen Zuwang, Richard L. Yu, Yao Mumin, Xu Gang, Yu Ziqiu, Yang Chuanghua, Xue Bo, Chen Zhiyu, Wu Junhua, Feng Jia.

Due to Mr. Yang Cuanghua's change of responsibility, the 1999 SGM approved Zhou Xiaoxiong to become a director of the Company to replace Mr. Yang..

As the Company has completed its organization restructuring and with the presence of a skillful management team, Mr. Wang Shi has resigned from the post of General Manager of the Company in February 1999, with Mr. Yao Mumin succeeded the position.

4. Acquisition, Merger and Disposal of Assets during the Reporting Period

During the reporting period, the Company purchased Dalian vannian properties Development Company , Shenzhen Poseidon Properties Company Limited, Tinjian Vanke Shine Company Limited, Chengdu Vanke Shine Company Limited and Shenzhen Vanke Gift Manufacturing Company Limited. Increased holdings of Shenzhen Vanguard Department Store Company Limited, details can be referred to the "Investment towards Subsidaries Company" of the "Investment of the Company" in the "Directors ' Report".

In managing the investment relationship, the Company sold all of the Vanke Enterprise Shareholding Company Limited American Company to Silver Field International (Group) Company Limited ror USD150,000 during the period.

In managing the investment relationship, Chengdu Vanke Shine Company Limited, a shareholding company of the Group, disposed 25 per cent of the Silver Field Development Company Limited with RMB2.4 million, to get out of Silver Field Development Company Limited.

Subsequent event:
Approval of the disposal of the Company 's shareholding in Vanke Sony Tech-Service Centre¸ under Vanke Trading Company, for a consideration of RMB812,560, which is the net asset value of the service station.

5. **Material Related Transactions**

During the period, the Company did not engage into any major material related transactions.

6. **The three separated entities: Employees, Assets, Finances**

The Company largest shareholder is the Shenzhen Special Economic Zone Development (Group) Company (which holds 9.35 per cent of the total share of the company at the end of the period), the Company 's employees, assets and finances are separated from the largest shareholder., allowing the Company 's independence in human resources management, completeness in capital management and financially sovereign.

7. **Superintending, handling, renting other companies assets or Other companies superintending, handling, renning a listed company 's assets**

The Company did not superintending, handling, renting other companies assets or other companies superintending, handling, renting a listed company 's assets.

8. **Appointment of Certified Public Accountants**

In the Eleventh Annual General Meeting, the Company re-appointed Zhonghua (Shekou) Certified Public Accountants and KPMG of Hong Kong as auditors of the Group to audit the Group's 1999 accounts in accordance with the PRC accounting regulations and IAS.

9. **Major Contracts**

During the year, Tianjin Vansho Hotel Company Limited, an associated company of the Compay, has borrowed a loan of USD 8.5 million by the Agricultural Bank of China, Singapore branch to repay a loan of USD 8.5million by the Norwchukin Bank in 1996. As approved by the First Meeting of Tenth Board of Directors, the Company acted as a guarantee of the original loan and has entered into a "Guarantee Agreement" with the Agricultural Bank o0f China, singapore branch to continue its guarantee on the loan of USD8.5 million.

Subsequent Event

The Company has enterd into a "Land Bank Development Agreement"with Planning and Management of Land Bureau of Dong Li District,Tiannjin on January 10,2000to confirm the development of the land bank at Dong Li Lake into residential properties.The land bank,with a site area of 2,730,000 square metres,RMB360,000,000 will be satisfied by the Company 's equity interest in Tianjin Vanke Shine (Group)Company Limited(Detail will be disclosed after the signing of the exchange agreement)and the balance will be settled in cash.
The Company has entered into a "Bank Cooperation Agreement (Year 2000)"with China Construction Bank,Shenzhen Branch("CCBSB")on January 21,2000 in Shenzhen.Under the agreement,CCBSB will provide Vanke Group with a maximum credit limit of RMB100 million for the Company 's working capital and a maximum mortgage loan of RMB600 million.

The Company and the head office of the Bank of China ("BOC")has entered into a "Bank and Enterprise Cooperation Agreement"on February 21,2000.Under the agreement,the Company will appoint BOC as its leag banker and BOC will provide a credit line of RMB2 billion for the Company.

A Chronology of 1999

As the Company has completed its organization restructuring and with the presence of a skillful management team, Mr. Wang Shi has resigned from the post of General Manager of the Company in February 1999, with Mr. Yao Mumin succeeded the position. Mr. Richard L. Yu was appointed as Executive Deputy General Manager and Financial Controller of the Company.

On 25 June, the Eleventh AGM was held at the Forum Hotel, Shenzhen. The meeting reviewed and approved the Report of Directors, the Report of the Supervisory Committee, the Dividend Distribution Proposal and Amendment of Articles of Association Proposal etc. The meeting also elected the new session of the Board of Directors and members of the Supervisory Committee.

In July, the Board of Directors established Vanke Construction Research Centre for the purpose of improve the real estate development standard, enrich the content of the Vanke brand-name, increase the scientific elements of the projects.

During the year, the Board has accelerated its residential expansion, investment emphasis on major cities land reserved. In August, Shenyang Vanke Garden New City and No. 73 of Caobao Road, Shanghai project were approved. In December, Tinjin Dongli Lake project was approved.

In September, the Vanke Four Seasons Flower City, located outside Shenzhen Muilin Gate, was promoted for sale, it was well-received in the market, 70,000 square metre of phase I was sold within a year. The Group will promote the new town Development plan according to the market trend.

On 10 September 1999, the SGM was held at the Forum Hotel. The meeting approved the rights issue, Amendment of Articles of Association and change of directors etc.

In December, China Securities Regulatory Commission has reviewed the subscription proposal which Vanke SGM approved. On 22 December, the "Circular of the Rights Issue" was published.

To accelerate the modification of the Group's major second graded real estates companies to investing development companies and in supporting of the local business expansion. the Group invested and raised the venture capital of Shenzhen, Shanghai and Beijing Companies to RMB0.1 billion. during the period The Group increased the venture capital of its Shenyang Company to RMB30 millions.

During the year, the Company increased holdings of Dalian Vanlian Properties, Chengdu Vanke Shine Company Limited, Tinjian Vanke Shine Company Limited and Shenzhen Poseidon Properties Company Limited, the Group owns 100 per cent of the shareholding.

Report of the auditors to the shareholders of China Vanke Co., Ltd.

(Established as a joint stock company in the People's Republic of China with limited liability)

Scope

We have audited the accounts on pages 2 to 30 of China Vanke Co., Ltd. ("the company") and its subsidiaries (together with the Company referred to as the "the group") for the year ended 31 December 1999.

Respective responsibilities of directors and auditors

These accounts are the responsibility of the Group's management. Our responsibility is to express an opinion on these accounts based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accounts give a true and fair view of the financial position of the Group as of 31 December 1999, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Certified Public Accountants

Hong Kong,

Consolidated profit and loss account for the year ended 31 December 1999

(Expressed in Renminbi Yuan)

	Note	*1999* RMB	*1998* RMB
Revenue	2	2,840,188,469	2,206,155,458
Cost of sales		(2,184,002,256)	(1,647,364,866)
Gross profit		656,186,213	558,790,592
Other operating income	4	40,664,770	47,446,355
Distribution costs		(200,499,786)	(150,477,040)
Administrative expenses		(173,611,203)	(150,384,425)
Other operating expenses	5	(15,846,816)	(28,534,254)
Profit from operations	2	306,893,178	276,841,228
Net financing income/(expenses)	7	288,925	(15,260,287)
Operating profit	28	307,182,103	261,580,941
Share of losses less profits of Associated companies		(20,251,379)	(24,493,402)
Profit before tax		286,930,724	237,087,539
Taxation	8(a)	(49,509,201)	(25,890,039)
Profit after tax		237,421,523	211,197,500
Minority interests		(9,946,772)	(8,551,925)
Net profit for the year	22	227,474,751	202,645,575
Earnings per share	9	0.42	0.37

Consolidated statement of recognised gains and losses for the year ended 31 December 1999

(Expressed in Renminbi Yuan)

	Note	*1999* RMB	*1998* RMB
Exchange differences on Translation of the accounts of foreign entities	22	114,550	2,453,643
Net losses not recognised in the income statement		114,550	2,453,643
Net profit for the year		227,474,751	202,645,575
Total recognised gains and losses		227,589,301	205,099,218
		==========	==========

Consolidated balance sheet at 31 December 1999

(Expressed in Renminbi Yuan)

	Note	*1999* RMB	*1998* RMB
ASSETS			
Non-current assets			
Fixed assets	11	544,385,329	484,222,995
Intangible assets	12	17,348,211	22,742,001
Investments in associated companies	14	85,808,479	108,453,196
Other investments	15	67,769,531	75,116,955
Deferred tax assets	16	7,471,665	7,868,096
Properties held for development		17,127,712	5,533,141
		739,910,927	703,936,384
Current assets			
Inventories	17	284,720,683	191,195,833
Completed properties for sale		926,587,267	743,955,291
Properties under development		1,337,183,960	1,334,558,789
Trade and other receivables	18	662,465,862	657,366,256
Marketable securities	19	813,410	2,378,479
Cash and cash equivalents	20	746,059,575	447,490,549
		3,957,830,757	3,376,945,197
Total assets		4,697,741,684	4,080,881,581
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	21	545,537,481	495,943,165
Reserves	22	1,495,567,131	1,412,217,937
		2,041,104,612	1,908,161,102
Minority interests		49,753,178	115,519,444

Consolidated balance sheet at 31 December 1999 (continued)

(Expressed in Renminbi Yuan)

	Note	*1999* RMB	*1998* RMB
Non-current liabilities			
Interest-bearing loans and borrowings	23	55,000,000	20,000,000
Deferred tax liabilities	16	1,301,247	1,351,685
Deferred income	24	9,571,416	2,331,079
		65,872,663	23,682,764
Current liabilities			
Interest-bearing loans and borrowings	23	895,234,400	599,723,114
Trade and other payables	25	1,465,539,218	1,296,195,921
Taxation	8(b)	85,591,822	88,004,919
Dividend proposed	10	94,645,791	49,594,317
		2,541,011,231	2,033,518,271
Total equity and liabilities		4,697,741,684	4,080,881,581

Approved by the Board of Directors on

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Consolidated cash flow statement for the year ended 31 December 1999

(Expressed in Renminbi Yuan)

	Note	*1999* RMB	*1998* RMB
OPERATING ACTIVITIES			
Net cash inflow/(outflow) from operating activities	28	120,274,332	(230,485,454)
INVESTING ACTIVITIES			
Acquisition of a subsidiary	3(c)	(6,920,791)	195,976
Acquisition of additional interest in subsidiaries		(82,200,444)	-
Disposal of a subsidiary	3(c)	1,174,349	(2,927,971)
Acquisition of additional interest in associated companies		(9,791,200)	-
Disposal of fixed assets		25,390,278	20,049,152
Acquisition of fixed assets		(84,226,042)	(128,810,664)
Pre-operating expenses incurred		-	(5,246,390)
Disposal of marketable securities		12,150,785	39,039,260
Disposal of other investments		20,757,144	26,621,255
Interest received		14,884,696	26,516,792
Dividend received		1,424,400	-
Net cash outflow from investing activities		(107,356,825)	(24,562,590)
FINANCING ACTIVITIES			
Net increase in borrowings		324,011,286	154,169,841
Minority interests		11,120,000	(3,177,500)
Dividend paid		(49,594,317)	(67,502,873)
Net cash inflow from financing Activities		285,536,969	83,489,468
Net increase/(decrease) in cash and cash equivalents		298,454,476	(171,558,576)
Effect of foreign exchange rates		114,550	2,453,643
Cash and cash equivalents at 1 January	20	447,490,549	616,595,482
Cash and cash equivalents at 31 December	20	746,059,575	447,490,549

Notes on the accounts

(Expressed in Renminbi Yuan)

1 Significant accounting policies

China Vanke Co., Ltd. is a company domiciled in the People's Republic of China ("PRC"). The consolidated accounts of the Company for the year ended 31 December 1999 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associated companies. The accounts of the Group were authorised for issue by the Directors on .

(a) Statement of compliance

The accounts of the Group have been prepared in accordance with the accounting standards issued by the International Accounting Standards Committee ("IASC") and interpretations issued by the Standing Interpretation Committee of the IASC.

(b) Basis of preparation

The measurement basis used is historical cost except that marketable securities are stated at lower of cost and market value as explained in the relevant accounting policy set out below.

The accounting policies have been consistently applied by the Group and they are consistent with those of the previous year.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The accounts of subsidiaries are included in the accounts of the Group from the date that control effectively commences until the date that control effectively ceases. A list of the Group's principal subsidiaries is set out in note 13.

(ii) Associated companies

Associated companies are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The accounts of the Group include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. A list of the Group抯 principal associated companies is set out in note 14.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the accounts of the Group. Unrealised gains arising from transactions with associated companies are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associated companies are eliminated against the investment in associated companies. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

1 Significant accounting policies (continued)

(d) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi Yuan at the exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated into Renminbi Yuan at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the consolidated profit and loss account.

The assets and liabilities of foreign subsidiaries are translated into Renminbi Yuan at the exchange rates ruling at the balance sheet date while items of income and expense are translated at rates approximating the exchange rate at the date of the transaction. Exchange differences are dealt with in reserves.

(e) Fixed assets

Fixed assets are stated at purchase price or production cost less accumulated depreciation and impairment losses. Production cost for self-constructed assets includes the cost of materials; direct labour and an appropriate proportion of production overheads and borrowing costs.

No depreciation is provided on properties under development.

Depreciation is calculated to write off the cost of other fixed assets less their estimated residual values over their anticipated useful lives on a straight line basis as follows:

	Year	*Estimated residual value as a percentage of costs*
Land use rights in the PRC	Unexpired terms of leases	-
Leasehold properties	25	4%
Investment properties	25	4%
Improvements to premises	5 years or over terms of leases	-
Plant and machinery	5 - 10	4%
Furniture, fixtures and equipment	5 - 10	4%
Motor vehicles	5	4%

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

(f) Goodwill/deferred income on consolidation

(i) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses. In respect of associated companies, the carrying amount of goodwill is included in the carrying amount of the investments in associated companies.

Goodwill is amortised on a straight-line basis to the consolidated profit and loss account over its estimated useful life not exceeding five years.

1 Significant accounting policies (continued)

(f) Goodwill/deferred income on consolidation (continued)

(i) Goodwill (continued)

The unamortised balance of goodwill is reviewed at least annually. Where the balance exceeds the value of expected future benefits, the difference is charged to the consolidated profit and loss account immediately.

(ii) Deferred income

The excess of the fair value of the net identifiable assets of subsidiaries and associated companies acquired over the cost of investments in these companies is taken to deferred income and recognised as income over its estimated useful life not exceeding five years.

(g) Pre-operating expenses

Pre-operating expenses represent costs incurred by subsidiaries prior to the commencement of their businesses and are amortised on a straight line basis to the consolidated profit and loss account over its estimated useful life not exceeding five years from the commencement date of trading.

(h) Other investments

Other investments comprise participations in various unlisted companies in which the Group neither holds, directly or indirectly, 20% or more of the voting powers nor exercises significant influence. The investments are carried at cost less any amounts written off to recognise other than temporary declines in the value of the investment. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the consolidated profit and loss account.

(i) Taxation

Taxation in the consolidated profit and loss account comprises current tax and the change in deferred tax. Income tax is recognised in the consolidated profit and loss account except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to goodwill not deductible for tax purposes and the initial recognition of assets or liabilities which affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1 Significant accounting policies (continued)

(j) Properties held for development

Properties held for development are stated at cost less provision for anticipated losses, where appropriate.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Work in progress and manufactured finished goods are valued at production cost including direct production costs (cost of materials and labour) and an appropriate proportion of production overheads.

The cost of raw materials is computed using the weighted average cost method.

(l) Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to unsold properties. Net realisable value represents the estimated selling price less the estimated costs necessary to make the sale.

(m) Properties under development

Properties under development held under fixed assets are stated at cost. Cost includes cost of land use rights acquired, construction costs and interest charges during the period of construction.

Properties under development held for sale are stated at the lower of cost and net realisable value or, where the properties are sold in advance of completion, at cost less the portion attributable to the recognised sales and foreseeable losses. Cost includes cost of land use rights acquired, construction costs and interest charges during the period of construction. Net realisable value represents the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. Attributable profits are recognised over the course of the development and are computed each year as a proportion of the total estimated profit to completion. The proportion used is the lower of the proportion of development costs incurred at the balance sheet date to estimated total development costs and the proportion of sales proceeds received at the balance sheet date to total sales proceeds. Deposits and instalments received on properties sold prior to their completion but for which sales have not been recognised are carried under current liabilities.

(n) Trade and other receivables

Trade and other receivables are stated at nominal value, less writedowns for any amounts expected to be irrecoverable.

1 Significant accounting policies (continued)

(o) Marketable securities

Marketable securities are quoted shares and bonds which are intended to be held for dealing purposes. The marketable securities are stated at the lower of cost and market value on an individual investment basis.

All increases or decreases in provision are recognised in the consolidated profit and loss account.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. For the purpose of the consolidated cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

(q) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recorded at the net proceeds received. Any discount, premium or other difference between the net proceeds and the redemption value is amortised and included in finance costs over the term of the loan. Thereby, the total finance cost is charged to the profit and loss account at a constant rate of interest on the outstanding amount of the debt.

(r) Trade and other payables

Trade and other payables are stated at their cost.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(t) Revenue

Revenue from the sale of completed properties is recognised upon signing of the sale and purchase agreement. Revenue from pre-sale of properties under development is recognised over the course of development on the basis as stipulated in note 1(m).

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to customers.

Revenue from services rendered is recognised by reference to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed.

Rental income from investment property is recognised on a straight-line basis over the terms of the respective leases.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

1 Significant accounting policies (continued)

(u) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the consolidated profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the consolidated profit and loss account as an integral part of the total lease payments made.

(ii) Net financing costs

Net financing costs comprise interest payable on borrowings, interest receivable on funds invested, dividend income and foreign exchange gains and losses that are recognised in the consolidated profit and loss account (refer note 1(d)).

Interest income is recognised in the consolidated profit and loss account as it accrues, taking into account the effective yield on the asset. Dividend income is recognised in the consolidated profit and loss account on the date that the dividend is declared.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs, except amounts capitalised as stipulated in note 1(v).

(v) Borrowing costs

Borrowing costs incurred on external borrowings related to property projects are capitalised until the properties are ready for their intended use. Other borrowing costs are recognised as expenses during the year in which they are incurred.

(w) Impairment

The carrying amounts of the Group's assets, other than inventories (refer note 1(k) and deferred tax assets (refer note 1(i), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit is less than its recoverable amount. All impairment losses are recognised in the consolidated profit and loss account.

(x) Provisions

A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group抯 management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The Group comprises the following main business segments:

Property development	:	The construction and development of properties for sale and rental.
Retailing	:	The operation of department stores and related distribution activities.
Other operations	:	Other operations comprise investments in securities, trading activities and manufacturing activities

	Property development		*Retailing*		*Other operations*		*Consolidated*	
	1999	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Revenue								
External – sales	1,920,168,272	1,448,661,049	817,915,331	628,799,356	83,633,069	107,944,244	2,821,716,672	2,185,404,649
Rentals	5,231,788	4,494,544	13,240,009	16,256,265	-	-	18,471,797	20,750,809
Total revenue	1,925,400,060	1,453,155,593	831,155,340	645,055,621	83,633,069	107,944,244	2,840,188,469	2,206,155,458
Result								
Segment result	252,966,026	264,880,362	29,135,934	20,719,419	31,550,150	9,480,893	313,652,110	295,080,674
Unallocated expenses							(6,758,932)	(18,239,446)
Profit from operations							306,893,178	276,841,228
Net financing income/(expenses)							288,925	(15,260,287)
Share of losses less profits of associated companies							(20,251,379)	(24,493,402)
Taxation							(49,509,201)	(25,890,039)
Minority interests							(9,946,772)	(8,551,925)
Net profit for the year							227,474,751	202,645,575

2 Segment reporting (continued)

	Property development		*Retailing*		*Other operations*		*Consolidated*	
	1999	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Other information								
Segment assets	3,371,504,590	2,752,682,525	573,722,826	370,003,191	346,851,991	380,517,112	4,292,079,407	3,503,202,828
Associated companies	81,528,883	99,982,618	-	-	4,279,596	8,470,578	85,808,479	108,453,196
Unallocated assets							319,853,799	469,225,557
Consolidated total assets							4,697,741,685	4,080,881,581
Segment liabilities	1,614,572,678	1,363,081,613	402,502,380	253,052,624	28,757,528	54,247,316	2,045,832,586	1,670,381,553
Unallocated liabilities							561,051,308	386,819,482
Consolidated total liabilities							2,606,883,894	2,057,201,035
Capital expenditure	80,502,453	217,948,501	49,258,593	52,527,086	950,569	8,095,261	130,711,615	278,570,848
Depreciation and amortisation	20,796,012	40,097,067	30,953,475	16,845,263	8,700,273	7,995,104	60,449,760	64,937,434

Geographical segments

In addition to the information on business segments based on the structure of the Group, the figures below present information for geographical segments. The Group抯 activities are principally performed in the PRC.

The property development division mainly operates in Shenzhen, Beijing and Shanghai whilst the retailing and other divisions mainly operate in Shenzhen.

	Shenzhen		*Tianjin*		*Beijing*		*Shanghai*		*Others*		*Consolidated*	
	1999	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Revenue												
External – sales	1,806,123,571	1,278,997,528	372,879,478	403,160,926	235,166,647	173,721,554	286,236,026	207,142,902	121,310,950	122,381,739	2,821,716,672	2,185,404,649
Rental	13,240,009	16,256,265	4,086,334	3,114,959	-	-	-	-	1,145,454	1,379,585	18,471,797	20,750,809
Total revenue	1,819,363,580	1,295,253,793	376,965,812	406,275,885	235,166,647	173,721,554	286,236,026	207,142,902	122,456,404	123,761,324	2,840,188,469	2,206,155,458
Segment assets	2,121,435,141	2,004,716,438	736,896,840	877,608,329	596,114,365	355,716,155	570,338,999	169,366,090	672,956,340	673,474,569	4,697,741,685	4,080,881,581
Capital expenditure	87,113,995	130,950,227	13,122,843	5,825,761	3,380,808	3,820,672	5,881,065	59,730,411	21,212,904	78,243,777	130,711,615	278,570,848

Segment revenue is based on geographical location of customers. Segment assets and capital expenditure are disclosed by the geographical location of the assets.

3 Effect of acquisition and disposal of subsidiaries

(a) Acquisition

On 30 September 1999, the Group acquired the remaining interest in Chengdu Vanke Xingye Company Limited ("Chengdu Vanke"), satisfied in cash. Chengdu Vanke develops properties for sale and rental in Chengdu, the PRC. The acquisition was accounted for using the purchase method of consolidation. In the three months to 31 December 1999, Chengdu Vanke made net loss of RMB2.3 million which is accounted for in the consolidated net profit for the year.

(b) Disposal

On 9 July 1999, the Group disposed of a subsidiary. The subsidiary has no profit and loss account for the year ended 31 December 1998 and for the period ended 9 July 1999.

(c) Cash flow on acquisition and disposal of subsidiaries

The assets and liabilities acquired or disposed of, and the cash flows arising, can be analysed as follows:

	1999 *Acquisition* RMB	*1999* *Disposal* RMB	*1998* *Acquisition and disposal* RMB
Fixed assets	153,596	(1,283,766)	(25,816,043)
Other investments	4,200,000	-	(81,946,713)
Properties held for development	-	-	(70,703,286)
Completed properties for sale	8,882,531	-	(70,959,708)
Properties under development	-	-	195,136,624
Inventories	-	-	(3,205,387)
Trade and other receivables	8,117,941	(373,054)	(178,781,936)
Cash	1,321,209	(25,651)	(11,572,539)
Current interest bearing loans and Borrowings	(6,500,000)	-	-
Trade payables	(1,560,402)	16,154	136,823,771
Other payables	(1,484,933)	636,757	-
Taxation	(1,564,366)	-	-
Non-current interest bearing loans and borrowings	-	-	18,690,758
Minority interests	-	-	33,152,628
Net identifiable assets and liabilities	11,565,576	(1,029,560)	(59,181,831)
Less: Interest in an associated company	(4,665,266)	-	-
Goodwill on acquisition	1,341,690	-	4,842,512
Profit on disposal	-	(170,440)	(1,469,833)
	8,242,000	(1,200,000)	(55,809,152)
Less: Non-cash consideration, included in trade and other receivables	-	-	46,968,608
Consideration paid/(received), satisfied in cash	8,242,000	(1,200,000)	(8,840,544)
Cash (acquired)/disposed of	(1,321,209)	25,651	11,572,539
Cash (outflow)/inflow	6,920,791	(1,174,349)	2,731,995

4 Other operating income

	1999 RMB	*1998* RMB
Amortisation of deferred income	4,723,933	2,331,709
Refund of PRC business tax in respect of prior years	2,241,590	19,224,700
Profit on disposal of other investments	9,209,720	11,244,000
Profit on disposal of marketable securities	10,585,716	7,916,594
Profit on disposal of a subsidiary	170,440	1,469,833
Write back of provision for diminution in value of investments	-	553,769
Gain on disposal of fixed assets	727,707	3,104,074
Forfeited deposits from customers	4,506,509	-
Other sundry income	8,499,155	1,601,676
	40,664,770	47,446,355

5 Other operating expenses

	1999 RMB	*1998* RMB
Amortisation of pre-operating expenses	11,132,531	10,560,508
Amortisation of intangible assets	4,714,285	5,123,679
Provision for diminution in value of investments	-	12,850,067
	15,846,816	28,534,254

6 Personnel expenses

	1999 RMB	*1998* RMB
Wages, salaries and other staff costs	133,374,773	108,499,512

The average number of employees during 1999 was 5,263 (1998: 3,764).

7 Net financing income/(expenses)

	1999 RMB	*1998* RMB
Interest income	14,884,696	26,516,792
Dividends	2,634,000	1,721,499
Foreign exchange gains	-	2,507,389
Total financial income	17,518,696	30,745,680
Interest expense	17,093,833	46,005,967
Foreign exchange losses	135,938	-
Total financial expenses	17,229,771	46,005,967
Net financing income/(expenses)	288,925	(15,260,287)

8 Taxation

(a) Taxation in the consolidated profit and loss account comprises:

	1999 RMB	*1998* RMB
PRC income tax	47,677,001	40,666,189
Under/(overprovision) in respect of prior years	1,485,050	(7,222,800)
Share of taxation of associated companies	1,157	(194,690)
	49,163,208	33,248,699
Change in deferred taxes (note 16)	345,993	(7,358,660)
	49,509,201	25,890,039
	=========	=========

The provision for PRC income tax is based on the estimated taxable income at the rates applicable to each company in the Group.

Overprovision for the year ended 31 December 1998 represents a refund of PRC income tax received from the relevant tax bureau.

The Group's applicable tax rate represents the weighted average of the PRC income tax rates, which range between 15% and 33%.

The following is a reconciliation of income taxes calculated at the applicable tax rate with income tax expense:

	1999 RMB	*1998* RMB
Accounting profit before tax	286,930,724	237,087,539
	=========	=========
Income tax computed by applying tax rate of 15%	43,039,609	35,563,131
Effect of tax rates in various PRC locations	10,819,092	2,304,858
Non-taxable income	(1,516,350)	(4,755,150)
Non-deductible expenses	343,200	-
Effect of tax losses utilised	(4,661,400)	-
Under/(overprovision) in respect of prior years	1,485,050	(7,222,800)
Income tax expense	49,509,201	25,890,039
	=========	=========

8 Taxation (continued)

(b) Taxation in the consolidated balance sheet represents:

	1999	*1998*
	RMB	RMB
Balance of PRC income tax relating to prior years	24,604,609	28,191,477
Provision for PRC income tax for the year	47,677,001	40,666,189
PRC income tax paid	(48,518,436)	(46,988,725)
	23,763,174	21,868,941
Provision for PRC business tax	59,076,676	59,363,422
PRC value added tax provision	1,082,806	2,227,448
Other PRC taxation	1,669,166	4,545,108
	85,591,822	88,004,919
	=========	=========

9 Earnings per share

The calculation of earnings per share is based on the net profit for the year attributable to shareholders of RMB227,474,751 (1998: RMB202,645,575) and on the weighted average number of ordinary shares outstanding during the year of 545,537,481 shares (1998: 545,537,481 shares). Earnings per share for the year ended 31 December 1998 has been adjusted for the capitalisation issue on 25 June 1999 (note 21) accordingly.

10 Dividend

A dividend of RMB0.1735 (1998: RMB0.1) per share, resulting in a total dividend payment of RMB94,645,791 (1998: RMB49,594,317), in respect of the year ended 31 December 1999 is to be proposed at the Company's forthcoming annual general meeting. The amount of dividend proposed has been included in current liabilities.

11 Fixed assets

	Leasehold properties RMB	*Investment properties* RMB	*Improvements to premises* RMB	*Properties under development* RMB	*Plant and Machinery* RMB	*Furniture, fixtures and equipment* RMB	*Motor vehicles* RMB	*Total* RMB
Cost:								
At 1 January 1999	294,870,369	52,060,313	116,298,169	24,452,240	26,574,094	67,010,018	49,324,433	630,589,636
Additions	3,474,090	-	41,817,955	-	-	32,016,546	7,071,047	84,379,638
Transfer from completed properties for sale	26,298,289	20,033,688	-	-	-	-	-	46,331,977
Transfer to leasehold properties	24,452,240	-	-	(24,452,240)	-	-	-	-
Disposals	(25,413,083)	-	(1,970,054)	-	(3,740,363)	(7,193,880)	(4,343,646)	(42,661,026)
At 31 December 1999	323,681,905	72,094,001	156,146,070	-	22,833,731	91,832,684	52,051,834	718,640,225
Aggregate amortisation and depreciation:								
At 1 January 1999	33,927,749	4,441,993	37,142,836	-	12,018,567	29,349,156	29,486,340	146,366,641
Charge for the year	11,930,376	2,110,434	6,747,233	-	1,002,299	15,709,012	7,103,590	44,602,944
Write back on disposals	(2,769,738)	-	(2,084,850)	-	(41,072)	(8,253,184)	(3,565,845)	(16,714,689)
At 31 December 1999	43,088,387	6,552,427	41,805,219	-	12,979,794	36,804,984	33,024,085	174,254,896
Net book value:								
At 31 December 1999	280,593,518	65,541,574	114,340,851	-	9,853,937	55,027,700	19,027,749	544,385,329
At 1 January 1999	260,942,620	47,618,320	79,155,333	24,452,240	14,555,527	37,660,862	19,838,093	484,222,995

Certain leasehold properties of the Group with a carrying value of RMB140 million (1998: RMB17 million) are pledged to secure banking facilities (note 23).
Investment properties are accounted for as fixed assets. It comprises certain commercial properties that are leased to external parties.

12 Intangible assets

	Goodwill RMB	*Pre-operating expenses* RMB	*Total* RMB
Cost:			
At 1 January 1999	15,618,396	24,968,536	40,586,932
Goodwill acquired during the year	10,453,026	-	10,453,026
At 31 December 1999	26,071,422	24,968,536	51,039,958
Aggregate amortisation:			
At 1 January 1999	7,284,423	10,560,508	17,844,931
Charge for the year	4,714,285	11,132,531	15,846,816
At 31 December 1999	11,998,708	21,693,039	33,691,747
Net book value:			
At 31 December 1999	14,072,714	3,275,497	17,348,211
At 1 January 1999	8,333,973	14,408,028	22,742,001

13 Principal subsidiaries

Details of principal subsidiaries at 31 December 1999 are as follows:

Name of company	*Percentage of equity held by the Group* 1999	1998	*Principal activities*
Shenzhen Vanke Real Estate Company Limited	100%	100%	Property development
Shenzhen Poseidon Properties Company Limited	100%	70.6%	Property development
Shenzhen Vanguard Department Company Limited	72%	68%	Retailing
Shenzhen Vanke Financial Consultancy Company Limited	100%	100%	Investment trading & consultancy services
Shenzhen Vanke Trading Company Limited	100%	100%	Trading
Shenzhen Vanke Cultural Communications Company Limited	100%	100%	Production of video and films
Tianjin Vanke Shine (Group) Company Limited	100%	76.91%	Property development
Tianjin Vanke Property Management Company Limited (formerly known as Tianjin Vanshine Industrial Company Limited)	100%	76.91%	Property development
Beijing Vanke Enterprises Shareholding Company Limited	100%	100%	Property development
Shanghai Vanke Real Estate Company Limited	100%	100%	Property development
Shanghai Vanke City Garden Property Development Company Limited	100%	100%	Property development
Shenyang Vanke Real Estate Company Limited	100%	100%	Property development
Dalian Vanlin Properties Development Company Limited	100%	62.5%	Property development
Chengdu Vanke Xingye Company Limited	100%	42.8%	Property development

All the above companies' country of establishment and operation is the PRC.

14 Investments in associated companies

Details of principal associated companies at 31 December 1999 are as follows:

Name of company	*Percentage of interest held by the Group 1999*	*1998*	*Principal activities*
Shenzhen Color Splendor Graphics Limited	40%	40%	Production of colour graphic products
Shanghai Vansheng Real Estate Company Limited	50%	50%	Property development
Beihai Vanda Real Estate Company Limited	40%	40%	Property development
Beihai Vanda Property Management Company Limited	40%	40%	Property development
Anshan Vanshan Properties Development Company Limited	35%	30%	Property development
Tianjin Vansho Hotel Company Limited	50%	38.46%	Hotel operation

All the above companies' country of establishment and operation is the PRC.

15 Other investments

	1999 RMB	*1998* RMB
Unlisted investments	67,769,531	75,116,955
	=========	=========

During the year, the Group has sold certain of its unlisted investments. The disposal resulted in a profit of RMB9 million (1998: 11 million). This is included in other operating income as disclosed in note 4.

16 Deferred tax assets/(liabilities)

Deferred tax assets and deferred tax liabilities at 31 December 1999 and 1998 are attributable to the items detailed as follows:

	1999 RMB	*1998* RMB
Deferred tax assets:		
Reversal of profit recognised from sale of properties	4,142,438	3,563,885
Reversal of income from other investments	1,156,980	1,627,950
Provisions for accounting purposes	1,627,880	1,551,467
Others	544,367	1,124,794
Total deferred tax assets	7,471,665	7,868,096
Deferred tax liabilities:		
Profit recognised from sale of properties under development	1,301,247	1,218,000
Others	-	133,685
Total deferred tax liabilities	1,301,247	1,351,685
Net deferred tax assets	6,170,418	6,516,411

A deferred tax liability associated with investments in subsidiaries is not recognised as the Group is able to control the timing of the reversal of the temporary differences and does not expect the temporary differences to reverse in the foreseeable future. The temporary differences are immaterial.

Movement in net deferred tax assets/(liabilities):

	1999 RMB	*1998* RMB
Balance at 1 January	6,516,411	(842,249)
Transferred (to)/from consolidated profit and loss account (note 8(a))	(345,993)	7,358,660
Balance at 31 December	6,170,418	6,516,411

Unrecognised deferred tax assets:

	1999 RMB	*1998* RMB
Deductible temporary differences	12,003,378	9,776,006
Tax losses	42,414,000	68,628,000
	54,417,378	78,404,006

The tax losses will expire between 2000 to 2004. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

17 Inventories

	1999 RMB	*1998* RMB
Raw materials	4,307,472	5,455,626
Work in progress	1,532,268	1,678,422
Finished goods	278,880,943	184,061,785
	284,720,683	191,195,833
Inventories recognised as cost of sales for the year	826,963,638	692,545,254
Inventories stated at net realisable value	9,286,926	9,645,797

18 Trade and other receivables

	1999 RMB	*1998* RMB
Debtors, prepayments and other receivable	624,066,888	512,452,743
Amounts due from associated companies	24,295,952	16,810,659
Deposit with a security broker firm	14,103,022	128,102,854
	662,465,862	657,366,256

19 Marketable securities

	1999 RMB	*1998* RMB
Equity securities	813,410	2,378,479
Market value of equity securities	813,410	2,378,479

All equity securities are listed on stock exchanges in the PRC.

20 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks.

21 Share capital

Registered, issued and fully paid up capital consisted of A and B shares of RMB 1 each.

	A share RMB	*B share* RMB	*Total* RMB
At 1 January 1999	385,256,677	110,686,488	495,943,165
Capitalisation issue (note 22)	38,525,667	11,068,649	49,594,316
At 31 December 1999	423,782,344	121,755,137	545,537,481

The holders of A and B shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Company.

On 25 June 1999, an amount of RMB49,594,316 (1998: RMB45,085,742) standing to the credit of the retained profits was applied in paying up in full 38,525,667 (1998: 35,023,334) A shares and 11,068,649 (1998: 10,062,408) B shares of RMB1 each which were allotted and distributed as fully paid to existing shareholders in the proportion of 1 for every 10 shares then held.

22 Reserves

	Share premium RMB	*Foreign exchange reserve* RMB	*Statutory reserves* RMB (Note a)	*Retained profits* RMB (Note b)	*Total* RMB
At 1 January 1999	871,604,205	10,593,988	472,219,088	57,800,656	1,412,217,937
Capitalisation issue (note 21)	-	-	-	(49,594,316)	(49,594,316)
Profit for the year	-	-	-	227,474,751	227,474,751
Transfer to retained profits upon disposal of a subsidiary	-	17,021	-	(17,021)	-
Adjustment on translation of foreign subsidiaries	-	114,550	-	-	114,550
Proposed transfer from retained profits	-	-	114,571,144	(114,571,144)	-
Dividend proposed - 1999 (note 10)	-	-	-	(94,645,791)	(94,645,791)
At 31 December 1999	871,604,205	10,725,559	586,790,232	26,447,135	1,495,567,131
	=========	========	=========	==========	==========

Note a

Statutory reserves

Statutory reserves include the following items:

(i) Statutory surplus reserve

According to the PRC company law, the Company is required to transfer 10% of its profit after taxation, as determined under PRC Accounting Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

(ii) Statutory public welfare fund

According to the PRC company law, the Company is required to transfer 5% to 10% of its profit after taxation, as determined under PRC Accounting Regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company抯 employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than in liquidation. The transfer to this reserve must be made before distribution of a dividend to shareholders. The Directors have resolved to transfer 10% of the current year抯 profit after taxation to the fund.

(iii) Discretionary surplus reserve

The transfer to this reserve from the consolidated profit and loss account and its usage are subject to the approval of shareholders at general meetings.

Note b

Retained profits

According to the PRC company law, the reserve available for distribution is the lower of the amount determined under PRC Accounting Regulations and the amount determined under IAS. As of 31 December 1999 the reserve available for distribution was RMB26,447,135 (1998: RMB57,800,656), after taking into account the current year's proposed final dividend.

23 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign exchange risk (note 29).

	1999 RMB	*1998* RMB
Non-current		
Unsecured bank loans	55,000,000	20,000,000

At 31 December 1999, the bank loans were repayable as follows:

	1999 RMB	*1998* RMB
More than one year, less than two years	30,000,000	20,000,000
More than two years, less than three years	25,000,000	-
	55,000,000	20,000,000

	1999 RMB	*1998* RMB
Current		
Secured bank loans	62,400,000	13,000,000
Unsecured bank loans	813,834,400	586,723,114
Unsecured other borrowings	19,000,000	-
	895,234,400	599,723,114

The bank loans of RMB62 million (1998: RMB13 million) are secured on the Group's fixed assets with a carrying value of RMB140 million (note 11) (1998: fixed assets of RMB17 million).

The Group's total loans and borrowings outstanding at the end of 1999 and 1998 are denominated in the following currencies:

	Share		*Average nominal Interest rate*	
	1999	*1998*	*1999*	*1998*
RMB	93%	81%	7.09%	8.67%
USD	7%	19%	8.76%	10.55%
	100%	100%	7.21%	9.02%

23 Interest-bearing loans and borrowings (continued)

Type	*Currency/face value*	*Carrying amount*		*Effective interest rate*		*Fixed/floating*		*Maturity*
		1999	*1998*	*1999*	*1998*	*1999*	*1998*	*1999 and 1998*
Bank loan	RMB	398,900,000	87,200,000	7.64%	8.91%	Fixed	Fixed	1 to 6 months
Bank loan	RMB	411,100,000	394,800,000	6.57%	8,69%	Fixed	Fixed	7 to 12 months
Bank loan	RMB	30,000,000	-	7.23%	-	Fixed	Fixed	1 to 2 years
Bank loan	RMB	25,000,000	20,000,000	7.23%	7.23%	Fixed	Fixed	2 to 5 years
Bank loan	USD	49,675,800	-	9.45%	-	Fixed	-	1 to 6 months
Bank loan	USD	16,558,600	16,558,600	8.525%	7.4%	Floating	Floating	1 to 6 months
Bank loan	USD	-	101,164,514	-	11.07%	-	Fixed	7 to 12 months
Other borrowings	RMB	19,000,000	-	6.44%	-	Fixed	-	7 to 12 months
		950,234,400	619,723,114					
		=========	=========					

24 Deferred income

	1999	*1998*
	RMB	RMB
Deferred income at cost	23,619,665	11,655,395
Accumulated amortisation	(14,048,249)	(9,324,316)
	9,571,416	2,331,079
	=========	========
Movement in deferred income:		
Balance at 1 January	11,655,395	11,655,395
Accumulated amortisation	(9,324,316)	(6,993,237)
	2,331,079	4,662,158
Addition during the year	11,964,270	-
Amortisation	(4,723,933)	(2,331,079)
Balance at 31 December	9,571,416	2,331,079
	=========	========

25 Trade and other payables

	1999	*1998*
	RMB	RMB
Accounts payable - trade	739,067,421	371,017,252
Amounts due to associated companies	1,308,073	8,766,119
Deposits received in advance	189,282,386	212,711,963
Other payables and accrued expenses	535,881,338	703,700,587
	1,465,539,218	1,296,195,921
	==========	==========

26 Related parties

Reference should be made to the following notes regarding related parties:

Associated companies (note 14, 18, 25, 27(c))

During the year, the Group entered into a number of transactions with its associated companies. The directors are of the opinion that these transactions were conducted on normal commercial terms.

27 Capital commitments and contingent liabilities

(a) Operating lease commitments

Minimum lease payments under non-cancellable operating leases can be specified as follows:

	1999	*1998*
	RMB	RMB
Not later than one year	31,458,000	32,583,000
Between one and five years	176,558,000	116,841,000
Later than five years	494,704,000	278,303,000
	702,720,000	427,727,000
	=========	=========

Total rental expense for all operating leases was RMB33 million (1998: RMB35 million). The operating lease relate to the rental payments for offices and retail outlets space.

(b) Capital commitments

Capital commitments outstanding at 31 December 1999 not provided for in the accounts were as follows:

	1999	*1998*
	RMB	RMB
Contracted for	787,686,000	838,148,165
	=========	=========

(c) Contingent liabilities

As at 31 December 1999, there were contingent liabilities in respect of guarantees given by the Group to banks to secure banking facilities granted to an associated company. As at 31 December 1999, the balances due from the associated company to banks amounted to RMB70.4 million (1998: RMB95 million). The guarantees given were approximately RMB70.4 million (1998: RMB95 million).

28 Notes to cash flow statement

Cash flows from operating activities

		1999		*1998*
	RMB	RMB	RMB	RMB
Operating profit		307,182,103		261,580,941
Adjustments for:				
Depreciation	44,602,944		58,019,673	
Amortisation of pre-operating expenses	11,132,531		10,560,508	
Profit on disposal of marketable securities	(10,585,716)		(7,916,594)	
Profit on disposal of Investments	(9,209,720)		(11,244,000)	
Profit on disposal of fixed Assets	(727,707)		(3,104,074)	
Profit on disposal of a Subsidiary	(170,440)		(1,469,833)	
Provision for diminution in value of Investments	-		12,850,067	
Provision for debt and doubtful debts	8,643,445		6,063,938	
Write back of provision for bad and doubtful debts	(1,500,000)		(9,078,155)	
Provision for inventories losses and obsolescence	796,407		1,183,866	
Write back of provision for inventories losses and Obsolescence	(431,168)		(683,866)	
Provision for completed properties for sale	-		4,045,271	
Write back of provision for completed properties for sale	-		(13,301,140)	
Provision for properties under development	8,000,000		-	
Recognition of deferred Income	(4,723,933)		(2,331,079)	
Amortisation of goodwill	4,714,285		5,123,679	
Interest income	(14,884,696)		(26,516,792)	
Interest expenses	64,301,446		77,002,916	
Dividend income	(2,634,000)		-	
		97,323,678		99,204,385
Operating profit before working capital changes		404,505,781		360,785,326

28 Notes to cash flow statement (continued)

Cash flows from operating activities (continued)

		1999		*1998*
	RMB	RMB	RMB	RMB
(Increase)/decrease in trade and other Receivables	(8,055,383)		79,248,997	
Increase in inventories	(93,890,089)		(57,073,777)	
Increase in properties under Development	(10,625,171)		(142,601,577)	
Increase in completed properties for sale	(220,081,422)		(212,954,852)	
Increase in properties held for development	(11,594,571)		-	
Increase/(decrease) in trade and other payables	172,835,069		(133,897,930)	
		(171,411,567)		(467,279,139)
Cash inflow/(outflow) from Operations		233,094,214		(106,493,813)
Interest paid	(64,301,446)		(77,002,916)	
Income tax paid	(48,518,436)		(46,988,725)	
		(112,819,882)		(123,991,641)
Net cash inflow/(outflow) from operating activities		120,274,332		(230,485,454)
		==========		==========

29 Financial instruments

Financial assets of the Group include cash, listed and unlisted investments and trade receivables. Financial liabilities of the Group include loans and borrowings and trade payables.

(a) Interest rate risk

The interest rates and terms of repayment of bank loans of the Group are disclosed in note 23 to the accounts.

(b) Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter-parties failed completely to perform as contracted.

Substantially all of the Group's cash and cash equivalents are deposited with banks except a deposit of RMB14,103,022 (1998: RMB128,102,854) is deposited with a security broker firm at 31 December 1999. The Group generally does not require collateral from its customers and is exposed to credit-related losses in the event of non-performance by customers. However the Group does not have significant unwarranted concentration of exposure to individual customers.

29 Financial instruments (continued)

(c) Foreign exchange risk

Foreign exchange risk is defined as transaction risk, i.e. the risk of the Group's commercial cash flows being adversely affected by a change in exchange rates for foreign currencies against RMB, and balance sheet risk, i.e. the risk of net monetary assets in foreign currencies acquiring a lower value when translated into RMB as a result of currency movements.

Substantially all the Group's cash flows are denominated in RMB except the foreign currency denominated bank loans as disclosed in note 23.

The Group has no material balance sheet exposure in respect of subsidiaries' net monetary assets denominated in foreign currencies.

(d) Fair value

The fair values of cash, trade receivables, trade payables, loans and borrowings are not materially different from their carrying amounts.

30 Comparative figures

The presentation and classification of items in the accounts have been changed due to the adoption of the requirements of International Accounting Standard IAS 1 (revised) "Presentation of Financial Statements" and IAS 14 (revised) "Segment Reporting". As a result, additional line items have been included on the face of the consolidated profit and loss account as required by IAS 1 (revised), such as other operating income, net financing income/(expenses) and analysis of expenses. Furthermore, the segmental information has included geographical segments information and additional line items have been included in the note 2 "Segment Reporting" as required by IAS 14 (revised), such as segment assets, segment liabilities, segment capital expenditure and segment depreciation and amortization. Comparative figures have been reclassified to conform with the current year's presentation.

Other Relevant Information

1) Company 's information

a. First Registration Date of the comany: 30 May 1984
Location: Shenzhen

b. Industry and Commerce Registration Code: 4403011019092

c. Taxation Registration Code
Local taxation registration code: 440303192181490
State taxation registration code: 440301192181490

d. The Authorized Institution in charge of the Company 's Non-transferable Share: Shenzhen Securities Registration Company Limited

e. The major sponsor of the rights issue during the reporting period:
[CITIC Securities Company Limited]

f. The Name and address of the Certified Public Accountants Engaged by the Company:
Name: Zhonghua (Shekou) Certified Public Accountants
Address: Nos. 103-203, Zhaoshan Bldg., Shekou, Shenzhen
Name: KPMG Certified Public Accountants
Address: 8th Floor, Prince Bldg., 10 Charter Avenue, Central, Hong Kong

2) Directory of the Articles Reviewed

a, The Account's Report with stamp and signatures of the Company 's Legal person representative, financial controller and finance manager.

b, Original Auditors ' Report enclosed stamp of the accountant firm, stamp and signature of the Certified Public Accountant.

c, Disclosed all of the Company 's original documents and announcements on the China Securities Rgulatory Commission assigned newspaper.