

Chairman's Statement

On behalf of the Board of Directors of Shanghai Century Holdings Limited ("the Company"), I am pleased to present the annual report for the Company and its subsidiaries ("the Group") for the year ended 31 December 2002. 2002 signified an important milestone in the Group development history. Not only did it represent a change in the Company's shareholding and the Board of Directors, but it also incorporated new business strategies and opportunities for the Group. During the year, the Group successfully defined and identified its new business development focus to commit its efforts to the development of the property market in Shanghai and its surrounding areas as well as travel-related businesses in the PRC and to emerge as a leading developer in the real estate market. Through this annual report, I hope all our shareholders will gain a better understanding on the Group's new management and business development strategies.

FINANCIAL PERFORMANCE

For the year ended 31 December 2002, the Group recorded an increase in turnover of 28.28% from HK\$677,767,000 in 2001 to approximately HK\$869,439,000 this year. Despite the continuing weak market sentiment, the Group managed to turn around to profit. These positive results are mainly attributable to the Group's active business reform and its effective cost control policy. During the year under review, profit attributable to shareholders amounted to approximately HK\$11,801,000, in contrast to approximately HK\$56,664,000 loss recorded in the previous year. Basic earnings per share were HK0.3 cents.

DIVIDENDS

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2002. (2001: nil)

CHANGE IN COMPANY NAME

To accurately and effectively reflect the Group's new business strategies and development focus, the Company's directors passed a special resolution on 18 July 2002 to change the Company's name to "Shanghai Century Holdings Limited". It is hoped that the name "Shanghai Century" will rapidly develop into a brand name which represents superior and prestigious properties in the PRC and to pave the way for the Group's future development in the mainland property market, leading the Group to achieve its ultimate goal of becoming a market leader in the PRC's superior property market.

BUSINESS REVIEW

2002 was a period of corporate restructuring within the Company. During the year, the Group has been actively undertaking a series of business reforms to identify the Group's core business strategies of developing the property market in Shanghai and its surrounding areas as well as the travel-related business, in addition, it has also evaluated the investment value and commercial prospects of the Fourseas travel businesses. As the management considered these Fourseas travel businesses were incompatible with its current business focus and business performance of these travel businesses was unsatisfactory, the Group decided to proceed with a comprehensive and thorough restructuring of its assets and business. As such, the Group also actively explores suitable opportunities to inject high-quality property development projects with high growth potential and strong profit-generating capabilities so as to lay solid foundations for the Group's capital structure and maximize the returns to our shareholders.

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Shui Qing Mu Hua

To cope with the Group's plans to evolve into a premier PRC property company, Best East Developments Limited ("Best East"), a wholly owned subsidiary of the Company injected RMB20,000,000 (equivalent to approximately HK\$18,692,000) as additional capital into 上海新世紀水清木華房地產開發有限公司 ("Shui Qing Mu Hua") (now known as 上海証大三角洲置業有限公司) pursuant to a capital injection agreement dated 25 March 2002. The Group now owns a 25% interest in the registered capital of Shui Qing Mu Hua after the completion of the capital injection in August 2002. As Shanghai is one of the fastest-growing financial centres within the Asia Pacific region, the Directors believe the investment in Shui Qing Mu Hua will help the Group seize business opportunities brought about by the robust growth in Shanghai's property market. As Shui Qing Mu Hua Garden, a deluxe residential properties development project of Shui Qing Mu Hua, is located at a prime location in Shanghai, equity investment in this project would enable the Group to enjoy the potential benefits of the project development.

Shui Qing Mu Hua Garden is located in Pudong, Shanghai, comprises both high-rise apartments and villas and is fine-tuned to become the most luxurious residential development in the vicinity of Century Park. Development of the apartments commenced at the end of 2001 and is expected to be completed by the end of 2004, to provide 856 units in total. Exceptional market response has been received since the apartments commenced sales in June last year and over 30% of the apartments had been sold.

The Group wishes to share the promising returns brought about by such development projects with shareholders while at the same time, building solid foundations for the Group's future development in the mainland luxury property market.

Placement of shares

To enhance its investment potential and enlarge its capital base, Shanghai Century offered a placement of 350,000,000 new shares with no less than six places at HK\$0.32 per share on 24 May 2002. Net proceeds were approximately HK\$111,000,000, HK\$ 20,000,000 of which had been used as the Group's operating capital, while the remaining portion of approximately HK\$91,000,000 would be used for investment in projects with high growth potential.

Shanghai Zendai Golf

During the year, the Group has also been actively expanding its travel-related businesses in the PRC in addition to the development of its superior Shanghai residential projects. In August 2002, the Group's wholly owned subsidiary, Victory Gateway Limited ("Victory Gateway") entered a joint venture with 上海濱海高爾夫俱樂部有限公司 with a capital investment of RMB18,200,000 (equivalent to approximately HK\$17,009,720) for a 91% shareholding in the joint venture company. This sino-foreign equity joint venture, named as 上海証大高爾夫旅遊度假村有限公司 ("Shanghai Zendai Golf"), is principally engaged in the development of travel-related businesses in the PRC, including tourist resorts, hotel management and operations as well as villa project in the golf course's surrounding areas. The Group believes the establishment of Shanghai Zendai Golf would definitely enable it to capture the tremendous business opportunities to expand its travel-related businesses. In the future, the Group will continue to identify opportunities to cooperate and co-invest with well-established institutions which possess hotels, travel resorts and networks in the PRC to jointly develop and invest in the travel-related businesses.

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Zendai Jia Yuan

In September 2002, the Group acquired a 65% interest in 上海証大置業有限公司 (“Shanghai Zendai Land”) from Mr Huang So Dong, Mr Zhu Nan Song and Mr Dai Zhi Feng through its wholly-owned subsidiary, Ample Century Limited (“Ample Century”) at a total consideration of RMB70,000,000 (equivalent to approximately HK\$65,422,000). Shanghai Zendai Land is principally engaged in property development and has been developing a mass residential project named “Zendai Jia Yuan” in the PRC. The Directors believe this acquisition is in line with the Group’s business strategies in the Shanghai property market and that it will further enhance the Group’s reputation and strengthen its foothold in the market.

Zendai Jai Yuan is a large-scale residential development project with social facilities, which is located in the northern Pudong in Shanghai and in the middle of 外高橋保稅區金橋出口加工區. It comprises both apartments and terrace-houses targeting the middle and high-end markets.

As this 65% acquisition of Shanghai Zendai Land has not been completed until February 2003, revenue generated in the Zendai Jai Yuan project has therefore not been fully reflected in this financial year.

Disposal of entire interest in Fourseas.com

In view of the uncertain prospect of the travel business under Fourseas.com, the Group disposed of 51% of the issued shares in Fourseas Travel to Full Sino Profits Limited in December 2002 to consolidate its asset and financial structure.

PROSPECTS

Looking ahead, the Group is optimistic with regard to the future development of the property market in the PRC. Following the sustained growth of the PRC’s economy, coupled with the comprehensive and unrelenting commercial support provided by the state government, the introduction of open-mortgage policies as well as various packages to stimulate the property market, added to rising living standards, the property market in the PRC is experiencing robust growth. This superior environment is beneficial to the Group’s goal of expanding and developing the high quality property projects in the PRC, therefore the Group will capture every opportunity to develop luxurious properties and actively develop middle to high-end property projects which are well-received by the market such as Shui Qing Mu Hua Garden and Zendai Jia Yuan.

The development project of Shui Qing Mu Hua Garden commenced at the end of 2001, while construction of the villa development commenced in March 2003. The 55 villa buildings are scheduled for sale in the coming June. The entire project of Shui Qing Mu Hua Garden is expected to be completed by the end of 2004. As overwhelming market responses have been received, this project is anticipated to generate good revenue for the Group.

Another large-scale residential project, Zendai Jia Yuan, is scheduled for completion in three phases. Strong sale performances have been achieved after the apartments in the first phase were opened for sale. The second phase of the project will commence development in June 2003 with sales commencing this year while the entire Zendai Jia Yuan project is due for completion in October 2006.

Chairman's Statement

Apart from its focus on the luxury property development business in Shanghai, the Group is also engaged in travel-related businesses in the PRC through the establishment of its joint venture company, Shanghai Zendai Golf, last year. Leveraging its extensive experience in property development and exploration, complementary travel-related facilities and services as well as its professional management skills, the Group hopes to expand and consolidate its travel-related businesses, including the development of commercial shopping centres, arts and cultural centres, hotels and tourist hot spots, to enable it to establish a solid foundation with comprehensive businesses to generate stable and diversified income streams for the Group.

Apart from being the Chairman of Shanghai Century, I am also chairman of the Zendai Group, therefore a primary focus is being placed on the synergies created as a result of business development of Shanghai Century and the Zendai Group. In view of the robust growth of the Zendai Group, with property development projects surging ahead, the establishment of solid foundations as well as our extensive experience in property development in the region, the Group will continue to cooperate with the Zendai Group to develop high quality projects with high growth potential, to join hands with the Zendai Group to accomplish its objective to realize the concept of 'investment-operation properties' in five years. In addition to exploring property projects, the Zendai Group will also acquire, operate and manage property investment projects with growth potential, hence changing its role of being solely a property developer to one which develops, invests and manages, eventually transforming these projects into chain operations to gradually improve the Shanghai Century's revenue base.

To realize its vision for developing 'investment-operation properties', the Zendai Group continues to further consolidate its foundation of developing residential properties and actively engages in the development of a comprehensive project which comprises offices, shopping centres, hotel and travel-related business so as to turn the Group's mission of developing an extensive travel and property idea, focusing on hotel development, into reality. It can in turn bring a diversified and stable income source for the Group.

With the favorable macro environment created as a result of China's accession to the World Trade Organization, gaining of hosting right for the 2008 Summer Olympics and 2010 World Expo as well as the Universal Studios theme park which is currently being developed, it is expected to see a consistently stronger demand for high-end residential properties from overseas arrivals, and therefore poses high growth potential in the Shanghai property market. Coupled with strong internal consumption power, these projects will also create a strong impetus in the property and travel industries in the PRC as overseas arrivals will fuel enormous demand for hotel accommodation, hence providing strong room for growth in the hotel industry. Shanghai Century and Zendai Group will tap this market and actively speed up its development of high-end properties and the hotel-chain related business.

Following the disposal of its entire interest in the Fourseas Travel business which was proving unsatisfactory and the development of its new luxury property projects which will gradually bring in promising returns, the Group's capital structure has been further enhanced. Coupled with sufficient cash flow, the Group's overall financial position is very healthy. Looking ahead, we have every confidence in the Group's future. The new Board of Directors will tap this market and capture every opportunity to make Shanghai Century to become one of the leading property developers, operators and management companies in China.

Chairman's Statement

APPOINTMENT OF NEW DIRECTORS AND OFFICERS

During the year, the composition of the Board of Directors changed following the Group's business reforms. I was appointed by the Board as executive director and chairman of the Group in March and November 2002 respectively. Mr Zuo Xuan Feng was appointed as deputy chief executive officer of the Group in June 2002. Mr Tso Shiu Kei Vincent was appointed as company secretary in September 2002. In September 2002, Mr Hui King Wai and Mr Lo Mun Lam, Raymond were appointed as independent non-executive directors.

With the management's extensive experience in sales and marketing in the PRC property market, the Board of Directors have every confidence that the new appointment will not only enhance overall management, sales, marketing and operational efficiencies, but also drive a growth to bring the Group's property business to new highs.

Besides, both Mr Zhou Teng and Mr Wong Hing Kwok resigned as executive directors in June 2002 while Mr Ku Wai Kwan resigned as executive director in November 2002. Mr Chan Wai Dune and Mr Gon Gen Cheung also resigned as independent non-executive directors in August and September 2002 respectively. Mr He Xue Chu resigned as deputy chairman and executive director in April 2003. I would like to extend my sincere gratitude to the Board of Directors for their commitment and contribution to the Group.

APPRECIATION

I would like to take this opportunity to express my appreciation to the management and the staff of the Group for their wholehearted commitment and dedicated performance during the year. I also wish to extend my sincere thanks to our shareholders for their continuous support. I look forward to leading all staff members to working together wholeheartedly in the best interests of the Group.

Dai Zhi Kang
Chairman

Hong Kong, 23 April 2003