

Management Discussion and Analysis

BUSINESS ENVIRONMENT

During the year under review, the Mainland's economy has continued to experience robust growth while demand in the property market has remained strong. However, bottleneck issues have emerged in the energy and raw materials sectors due to excessive growth in certain industries.

In the first half of 2004, the Chinese Central People's Government ("Central Government") launched a series of macro-economic policies for stable development of the economy and prevention of vigorous fluctuations. The measures include the increase of capital ratio of real estate project from 30% to 35%, doubling the bank reserve ratio, tightening of bank loans to property developers, and control of land supply to name but a few. The economy is now starting to see the effects of such policies, with prices for raw materials such as steel and cement gradually decreasing, together with month on month decrease in the rate of real estate development investment and a decrease in the total area for land development. All these point to the real estate market being back on track.

Despite the Central Government's macro-economic policies, which affected some enterprises engaging in real estate development, the impact on the Group has been minimal due to its:

- *lower finance costs;*
- *efficient operations;*
- *solid capital base;*
- *development projects located at prime locations; and*
- *steady recurring revenue from investment properties.*

The Group is expected to face better opportunities as the property market remains active and adverse effects of the macro-economic policies subside. The Group is committed to focusing on the implementation of the following development strategies to achieve better results:

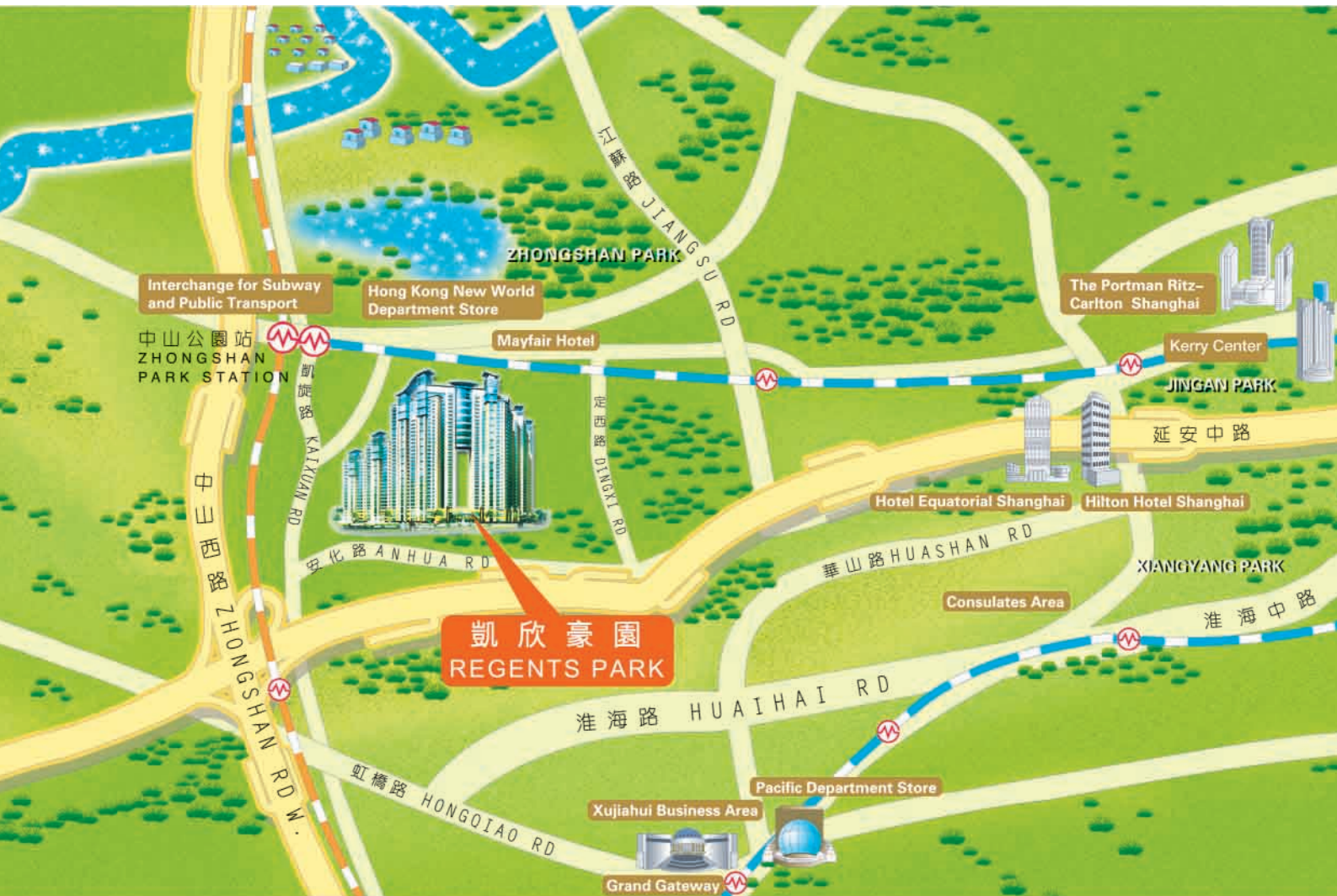
- *Raise the quantity and quality of its land bank prudently through participating in various formats of open trading of land, including public and private tendering and bidding.*
- *Actively identify new investment opportunities in cities featuring high economic growth, including but not limited to Shanghai, Guangzhou and Zhongshan. The Group is now in a better position to increase its land bank in prime locations as excessive premiums have been reduced by macro-economic policies.*
- *Adjust product mix and optimise the Group's investment portfolio to further enhance performance.*



Projects focused at prime locations

Management Discussion and Analysis

Shanghai



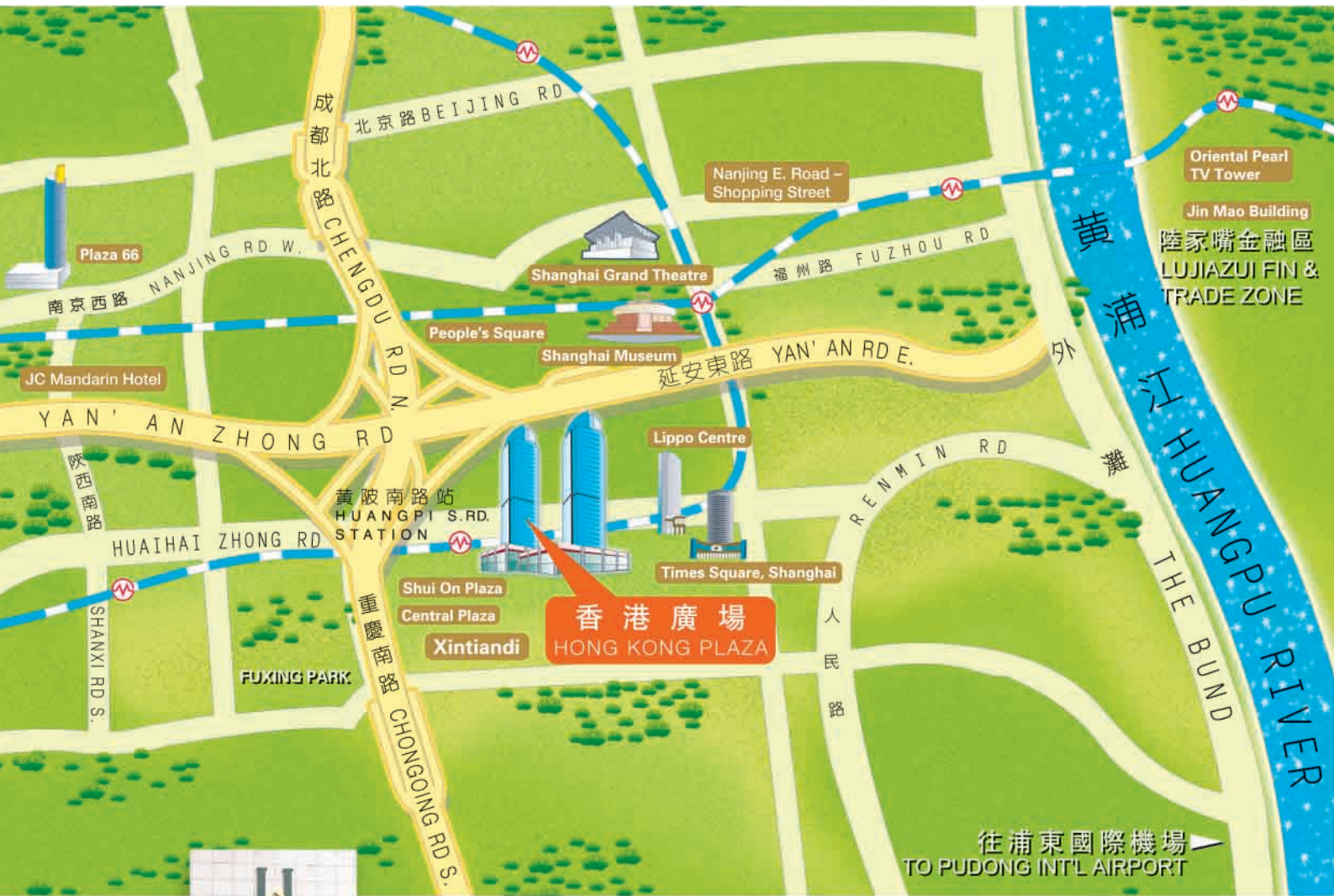
Regents Park — sales office



Regents Park, Changning District

During the year, the Shanghai Municipal Government implemented a series of policies targeting the property market, with a view to optimising the demand and supply structure, controlling excessive growth in market price and improving industry operations. The two most significant real estate policies launched in April 2004 are “online filing and registration of sales contracts” and “transfer restriction on uncompleted flats”. These policies are aimed at improving the transparency of property transactions and reducing short-term speculation. As a result, the general market sentiment remained optimistic even though Shanghai property prices rose at a slower pace.

PROJECT REVIEW



Hong Kong Plaza — service apartment



Hong Kong Plaza — shopping arcade



Hong Kong Plaza — office tower entrance



Hong Kong Plaza, Luwan District