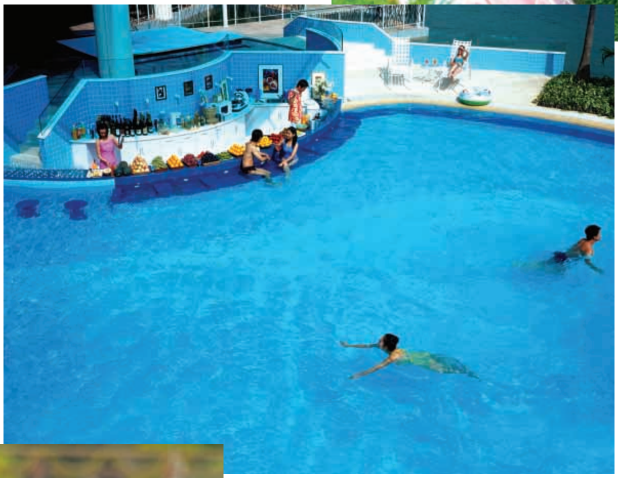
Since development of the land previously held by Zhongshan Li Shan was not commercially feasible and the remaining term of the joint-venture was short, the Group conceded the entitlement of its investment in 50% of Zhongshan Li Shan, and was compensated by a piece of land of approximately 55,000 sq.m. in Zhongshan. The land use rights certificates were issued to Zhongshan Bao Li, a wholly owned subsidiary of the Group, by the Zhongshan People's Government on 24th October, 2003.

That's life!



Relaxed & joyful lifestyle

Blissful childhood

Apart from this, Zhongshan Bao Li also acquired a new piece of land beside the above-mentioned land on 18th May, 2004. The size of this land is approximately 10,600 sq.m. The revised and combined land use rights certificates for these two pieces of land were issued to Zhongshan Bao Li on 10th June, 2004 and 20th July, 2004, respectively. On 30th September, 2004, Zhongshan Bao Li acquired a new piece of land which is also beside the above-mentioned site through a public auction. The size of the land is approximately 70,400 sq.m. Zhongshan Bao Li is also looking for other prime locations in order to increase its land bank in Zhongshan. The Group is working on the development plan.

CAPITAL STRUCTURE, LIQUIDITY AND DEBT MATURITY PROFILE

The Group has diverse sources of financing comprising internal funds generated from the Group's business operations, bank borrowings on project basis and general bank loan facilities on secured basis.

On 3rd June, 2004, the Company announced a rights issue of 1,174,591,295 right shares of HK$0.10 each at HK$0.10 per rights share in the proportion of one rights share for every four existing shares held on 23rd June, 2004 (the "Rights Issue"). A total of 1,174,591,295 shares were allotted and issued, representing approximately 25% and 20% of the original and enlarged issued share capital of the Company, respectively. The Directors consider that in view of the implementation of macro-economic policies in the Mainland in the first half of 2004 and the widely projected upward trend in interest rates, it is prudent to finance the Group's long term growth by long term funding, preferably in the form of equity. Furthermore, the Directors consider that it is in the interest of the Company to enlarge its capital base by way of the Rights Issue which will allow all Shareholders the opportunity to participate in the growth of the Group.

• solid capital base
• low gearing & finance costs
• stable recurring rental income

As at 31st July, 2004, the Group had a gross borrowings (inclusive of the loan of HK$11,324,000 (2003: HK$16,170,000) loan from Mr. Lim Por Yen) amounting to HK$1,194 million (2003: HK$1,138 million), representing an increase of HK$56 million over that of the preceding financial year-end. The consolidated net assets of the Group amounted to HK$5,275 million (2003 — restated: HK$5,077 million). The resultant debt to equity ratio was 0.23 (2003 — restated: 0.22).

During the year under review, the Group has repaid HK$4,846,000 to Mr. Lim Por Yen, a substantial shareholder of the Group. The aggregate outstanding balance of the loans from Mr. Lim as at 31st July, 2004 was HK$11,324,000.

Approximately 99.6% of the Group's gross borrowings were on a floating rate basis at the balance sheet date and the remaining 0.4% were interest-free. As at 31st July, 2004, approximately 41.2% of the Group's gross borrowings were denominated in Renminbi ("RMB") and 58.8% were denominated in United States dollars ("USD").

The Group's monetary assets, loans, and transactions are principally denominated in Hong Kong dollars (HKD), RMB and USD. Considering that the exchange rate between HKD and USD is pegged, and that there is insignificant fluctuation in the exchange rate between HKD and RMB, the Group believes its exposure to exchange rate risk is nominal. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations involving USD and RMB. However, the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in future as may be necessary.

The maturity profile of the Group's bank borrowings as at 31st July, 2004 was spread over a period of five years, with approximately

8% repayable within one year and 92% repayable between two to five years. Certain assets of the Group have been pledged to secure financing, including investment properties with carrying value amounting to approximately HK$2,642 million and properties under development with carrying value amounting to approximately HK$1,562 million, and bank balances amounting to approximately HK$7 million at the balance sheet date.

Taking into account cash held as at the balance sheet date, available banking facilities and recent improvements in the Group's operating activities, the Group believes it has sufficient liquidity to finance its existing property developments and investment projects. The Group will consistently maintain a prudent financial policy.

• extensive property development experience in the Mainland
• efficient operations
• projects focused at prime locations

CONTINGENT LIABILITIES

According to a practice common among banks in the Mainland when providing mortgage financing to property buyers, the bank will require the property developer to provide a buy-back guarantee to secure the due performance of borrowers. The Group is currently providing a number of buy-back guarantees to banks that have granted mortgage loans to buyers of office space and residential units in Hong Kong Plaza, Phase I of Regents Park, and Phase I to III of Eastern Place. The Group's obligations have been gradually relinquished along with the settlement of the mortgage loans granted by the bank to the end-buyers. As the Mainland property market is currently stable, the management does not expect such contingent liabilities to crystallise into a material extent in the near term.

EMPLOYEES AND REMUNERATION POLICIES

As the employer of approximately 490 staff, the Group recognises the importance of maintaining strong human resources in its continued success. Under the Group's existing policies, employee pay rates are maintained at competitive levels, whilst promotion and salary increments are assessed on a performance-related basis. Discretionary bonuses are granted to certain employees on a merit basis and in accordance with industry practice. Other staff benefits include a share option scheme, a mandatory provident fund, a free hospitalisation insurance plan, subsidised medical care and subsidies for external education and training programmes.

SHARE OPTION SCHEME

In order to provide the Group with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible employees (including executive and non-executive directors) and for such other purposes as the Directors may approve from time to time, a share option scheme was adopted by the shareholders of the Company on 21st August, 2003. On 19th September, 2003, a total of 92,124,800 share options were granted to two directors of the Company in respect of their services to the Group. These share options have an exercise price of HK$0.169 per share and an exercise period from 3rd October, 2003 to 2nd October, 2011. The closing price of the Company's shares at the date of grant was HK$0.161 per share. On 8th January, 2004, the 92,124,800 share options were exercised by the Directors. The closing price of the Company's shares at the date immediately before the date of exercise was HK$0.255 per share. There were no share options outstanding as at 31st July, 2004 (2003: Nil).