

## Chairman's Statement



### FINANCIAL RESULTS

2004 was a fruitful year for the Group. Thanks to the concerted efforts of the Group's staff, the Group recorded satisfactory annual results and achieved impressive growth in profit. For the year ended December 31, 2004, the Group's turnover was HK\$47,842,000. Profits attributable to shareholders amounted to about HK\$115,826,000, surging 240% from last year's approximately HK\$34,089,000. Basic earnings per share in 2004 increased 212.5% to HK\$2.5 cents (2003: HK0.8 cents).

During the year under review, the Group further consolidated its brand equity. Riding on the outstanding sales performance of its premium property projects, the Group also expanded its profit base successfully. The Group's profit contribution mainly derived from the delivery of Shui Qing Mu Hua projects which was under Shanghai Zendai Delta Land Company Limited ("Zendai Delta Land"). As the Group's interest in Zendai Delta Land was 44.2%, the sale from the delivery of Shui Qing Mu Hua had no contribution to the Group's turnover. During the year, the Zendai Jia Yuan project which was under Shanghai Zendai Real Estate Company Limited ("Shanghai Zendai Land"), in which the Group has 80% interest, received significant sales performance. However, its room delivery is scheduled to be made in 2005 and 2006. According to the accounting principles in Hong Kong, sales revenue and profit of property development corporations have to be booked after delivery of the sold projects. Therefore, its sales performance had no contribution to the Group's turnover and profit in 2004.

## Chairman's Statement



### DIVIDENDS

The Board does not recommend the payment of final dividends for the year ended December 31, 2004 (2003:nil).

### BUSINESS REVIEW

Since March last year, the PRC government has been implementing economic austerity measures to further optimize the structure of the property market, ridding the unfit while allowing competent players to grow and develop in a healthy environment. The Group, which is engaged in the development of mid to high-end properties supported by its solid foundation and abundant experience in the PRC property market, sees the austerity measures beneficial to both the development of the economy and the property market in the long run, in the sense that they ensure the healthy development of the market and bring more growth opportunities to the Group. Ahead of others, the Group persisted on developing mid to high-end properties in Shanghai and exploring business in other cities, including Changchun, Tianjin, Nantong, Haimen, Yangzhou, Chengdu, etc, to establish itself as a composite property development corporation with systematic management, high operational efficiency as well as a renowned brand name. In addition, the management implemented aggressive strategies for consolidation of its business and effective cost control policies. As a result, the Group's overall business performance advanced markedly, translating into the excellent annual results in 2004, new business developments and also the augmented scale of operation.

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### Change of Company Name

To strengthen the property development business of the consolidated Zendai Group through the listed company, the Company officially changed its name to "Shanghai Zendai Property Limited" on July 7, 2004, achieving the ultimate goal of injecting Zendai Group's entire assets into itself. Leveraging the making of Shanghai Zendai Real Estate Company Limited ("Shanghai Zendai Land") into the "Top 50 Fundamental Property Developing Corporations in Shanghai" named by Shanghai Real Estate Association in the PRC for two consecutive years, 2003 and 2004, and its renowned "Zendai" brand in the Shanghai property market, the Group hopes to further enhance its own corporate brand image.

### Acquisition of Assets

The Group increased its stakes in different companies in 2004, including the acquisition of a further 15% interest in Shanghai Zendai Land in May 2004. The transaction was completed in July of the same year. Together with the 65% interest acquired in early 2003, the Group is now holding 80% interest in Shanghai Zendai Land. Of the aggregate consideration of RMB36,000,000 (equivalent to approximately HK\$33,962,000), RMB18,000,000 (equivalent to approximately HK\$16,981,000) was settled in cash while the balance was settled by the transfer of the Group's 91% interest in Shanghai Shui Qing Mu Hua Hotel Management Company Limited.

In July 2004, at a consideration of RMB81,000,000 (equivalent to approximately HK\$76,415,000), the Group purchased a further 24% interest in Shanghai Zendai Delta Land Company Limited ("Zendai Delta Land") through Shanghai Zendai Land, in which it owns 80% interest. The transaction was completed at the end of September of the same year. After that, the Group's interest in Zendai Delta Land was increased from 25% to 44.2%. The acquisition was financed by the Group's internal resources.

In addition, in December 2004, the Group, through Shanghai Zendai Land in which it has a 80% stake, acquired Conference & Exhibition Center of Wen Jiang New Town of Chengdu and its surrounding commercial and residential complex with an area of 666,000 sq. m. This project becomes the first large-scale convention center complex developed by the Group. Apart from the dome of the National Flower Expo and the corresponding hotel and office projects that will open in September this year, the Group also develops a residential project there with an area of approximately 480,000 square metres ("sq. m."). The location will become a hot spot of Chengdu which is undergoing urbanization.

## Chairman's Statement

After the above-mentioned transactions have been completed, the Group can further optimize its capital structure and broaden its revenue stream. Recognizing the positive prospects of the Shanghai property market, the management believes the transactions will enhance the Group's profitability and strengthen its position as a leading property developer in Shanghai.

### Sale of Residential Projects

The Group's major mid to high-end residential projects, Shui Qing Mu Hua apartments and villas and Zendai Jia Yuan in Putong, Shanghai, received encouraging market response and recorded very satisfactory sales performance.

At a superb location and in close proximity to the Century Park and Lujiazui district, accumulatively 845 out of the 855 units of the Shui Qing Mu Hua apartments with an aggregate saleable area of 137,507.79 sq. m. were sold during the year, generating total cash of approximately RMB1,389,666,000 (equivalent to approximately HK\$1,311,006,226). The average selling price amounted to approximately RMB10,106.09 per sq. m.. All the 845 flats were delivered, while the remaining 10 flats were reserved for own purpose. Among all the flats delivered, 269 with total saleable area of 41,281.14 sq. m. were sold during the year, generating total cash of approximately RMB478,560,600 (equivalent to approximately HK\$451,472,264). The average selling price amounted to RMB11,592.72 per sq. m. and 744 flats was delivered in the same year.

Mandarin Palace (the individual villa of Shui Qing Mu Hua), the premium residential project adjacent to the Shui Qing Mu Hua apartments, commenced construction in mid 2003. It is a rare project approved for development of low-density high-end villas in the inner ring of Shanghai. Characterized by the architectural design of modern Chinese gardens, Mandarin Palace is located at a prime site to the east of the Century Park. It takes three years to develop and 50 individual villas are going to be built.

Occupying a gross area of 105,000 sq. m., Mandarin Palace has a gross saleable area of approximately 27,200 sq. m.. It comprises 21 individual villas in phase one and 28 in phase two, as well as a grand clubhouse occupying an area of 2,000 square meters.

Reservation of the first lot consisting of 12 individual villas, ranging from over 600 sq. m. to 1,200 sq. m., commenced in December last year. The selling price of area overground was approximately RMB55,000 per sq. m.. Market response was exceptionally good and the 12 units were all reserved. Because of the unique location of Mandarin Palace, which is a masterpiece of outstanding designers from Hong Kong, Taiwan and Japan in addition to its scarce supply, the management is confident that this project will generate impressive profit contributions to the Group.

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Phase three of Zendai Jia Yuan is under development. There are 2,278 flats in total, with the southern part containing 1,258 flats while the northern part has 1,020 flats. For the year ended December 31, 2004, accumulatively 1,881 flats with a saleable area of 206,809.35 sq. m. were sold, generating RMB1,265,696,500 (equivalent to approximately HK\$1,194,053,302). The average selling price is RMB6,120.11 per sq. m.. During the year, 1,296 flats with a saleable area of 146,101.75 sq. m. were sold, generating RMB949,471,700 (equivalent to approximately HK\$895,728,019). The average selling price is RMB6,498.70 per sq. m.. Room delivery of the southern part of phase three of Zendai Jia Yuan was made in March 2005 while that of the northern part is scheduled for March 2006.

### Awards

Besides securing satisfactory performance in property sales, the Group also won a number of awards in various significant contests and had particularly outstanding performance in the 2004 CIHAF "Famous Person, Famous Enterprise and Famous Project" in Shanghai. Of the seven major awards, the Group took six and became the enterprise winning the most awards among over 100 participating property developers. **Mr. Dai Zhikang, Chairman of the Group, was also honored as one of the "Man of the year in Shanghai Real Estate Industry".**

Since 1999, the Group has devoted major efforts to property development in the Putong region, undertaking premium property projects in the market. The two major mid to high-end residential projects, Shui Qing Mu Hua and Zendai Jia Yuan, had impressive performance and secured two awards in the "Three Famed" promotion event. These awards affirmed that the Group's quality properties were well received by the community and that the Group has established its position as a leading property developer in Shanghai.

The Shui Qing Mu Hua apartments and individual villas, Mandarin Palace, were also recognized as the "CIHAF Renowned Property Project in Shanghai" and "CIHAF Excellent Villa" out of 4 winners in Shanghai respectively. Moreover, Shanghai Zendai Land, which the Group has 80% interest, was made one of the "Star Enterprises in the Property Market in Shanghai". The large-scale Zendai Jia Yuan project was honored as the "Best Community".

It is very encouraging that the show flats of the Mandarin Palace of Shui Qing Mu Hua, the masterpiece of the Group, won a grand award in the "show flat" category in the 2004 Asia Pacific Interior Design Awards Presentation Ceremony held in Hong Kong.

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### Placement of Shares and Issue of Convertible Notes

On January 31, 2004, the Group signed a conditional agreement with Genuine Assets Limited to place 300,000,000 new shares at HK\$0.1333 per share to expand the Company's capital base and consolidate the Group's financial status. Of the net proceeds of approximately HK\$39,700,000, about HK\$9,700,000 will be used as the Group's working capital and the remaining HK\$30,000,000 for investment in potential property-related development projects.

In February 2005, the Group entered into an agreement with Value Partners Limited ("Value Partners") in relation to the issue and subscription of three-year convertible notes. Pursuant to the subscription agreement, the Group agreed to issue and Value Partners agreed to procure the funds to subscribe the convertible notes in an aggregate principal amount of HK\$80,000,000. Holders of the convertible notes can convert each share of Shanghai Zendai at a price of HK\$0.24, which represents a discount of approximately 4% to the closing price on February 1, 2005 or a discount of approximately 0.4 % to the average of the closing price per share for the 10 trading days prior to February 1, 2005. The net proceeds from the issue of the convertible notes, which amounted to approximately HK\$79,600,000, will be used for future investment in and development of appropriate property projects.

### PROSPECTS

Prompted by the steady growth of the Chinese economy, the ongoing urbanization in the country, and persistent rise in per capita income, the demand for properties will remain strong in the long run. The macroeconomic control measures will facilitate a healthier macroeconomic environment for long-term development, which will provide growth opportunities for property development corporations accordingly. Shanghai, the leading city of the Chinese economy, will show its distinctive charisma to be strengthened yet by the impending 2008 Olympic Games and the 2010 World Expo.

To strengthen its business foundation, since 2003, the Group has taken on a number of major quality development projects, including the high-end residential property in Shanghai, Shui Qing Mu Hua, as well as the large-scale project, Zendai Jia Yuan. In addition, with the management maintaining steady business development for the Group and actively looking for property projects with great potential over the past two years, the Group has laid a solid foundation for its business. Subsequent to the implementation of new listing rules on March 31, 2004, the Group put forward more precise policies, which it believes will help to accelerate its development in the coming year. The Group will inject more resources into its property projects, working towards achieving the ultimate goal of injecting Zendai Group's entire assets into the listed company.

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To lay a good foundation for the asset injection, the Group entered into an agreement with Value Partners in relation to the issue and subscription of three-year convertible notes. Value Partners is responsible for procuring the funds to subscribe the convertible notes in an aggregate principal amount of HK\$80,000,000. Value Partner's support to the Group is a clear demonstration of their confidence in the Group's management and recognition for the corporate development. Moreover, issuing convertible notes can raise immediate funds for the Group, yet will not cause instantaneous dilution of the interest of existing shareholders. It also helped to strengthen the shareholder base of the Company. This will bring positive impact to the Group's business development and financial structure in the long run.

### Projects scheduled for construction in 2005

In 2004, Shanghai Zendai Land and Zendai Delta Land also prepared effectively for their new projects scheduled for 2005 to ensure on-schedule commencement of construction, presales and room deliveries.

Developed by Shanghai Zendai Land, **Pu Xing Garden Residential Project**, occupying an area of 26,640 sq. m. is located in the new area in Pudong, Shanghai. With a construction area of 36,000 sq. m., the project will commence construction in 2005 and room delivery is scheduled for 2006.

Located in Pu Jiang Town, Minhang District, Shanghai, **Pu Jiang Town Residential Project** with an area of 300,000 sq. m. is also developed by Shanghai Zendai Land. The construction area is 220,000 sq. m. and construction work of the project is scheduled to commence in 2005.

Occupying an area of 666,000 sq. m., **Conference and Exhibition Center of Wen Jiang New Town of Chengdu and its surrounding commercial and residential complex** are located in Wenjiang District, Chengdu and developed by Shanghai Zendai Land. The company ensures that the venue for the National Flower Expo will be ready in July 2005 and tries to commence the residential project in the same year.

**Zendai-Wu Dao Kou Financial Center Project** is a commercial project with an area of 16,000 sq. m.. Located in Lian Yang new district, a new area in Pudong near the Century Park, Shanghai, the project with a construction area of 80,500 sq. m. is scheduled to commence construction work in 2005.

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**Tian Hai Building** (temporary name) is another commercial project in new area of Pudong near the government administration center and the Century Park in Shanghai. Developed by Zendai Delta Land, the project with a construction area of 41,200 sq. m. occupies an area of 5,500 sq. m. Its construction is expected to start in 2005 and its presale is scheduled for 2006.

As the leader in the property market in Shanghai, the Company will make the best use of its capability to grasp business opportunities during market consolidation and expand the scale of its operation. At the same time, riding on its renowned brand, quality property projects and flexible sale strategies, the Company is confident that it can rapidly grow and bring greater benefits to shareholders.