

Chairman's Statement and Management's Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2004, the Group's turnover decreased by approximately 7.0% to approximately HK\$14,386,000 (2003: HK\$15,470,000). Profit for the year ended 31 December 2004 increased by approximately 190.0% to approximately HK\$82,583,000 (2003: HK\$28,481,000). Basic earnings per share was approximately HK8.92 cents (2003: HK 3.34 cents).

On 13 February 2004, the Board of Directors of the Company (the "Directors" or "Board") declared to distribute a special dividend to be satisfied by the distribution in specie of the Group's entire shareholding of approximately 31.02%, representing 371,029,995 shares in an associate, Shougang Concord Technology Holdings Limited ("Shougang Technology"), to the Company's shareholders on a pro-rata basis (the "Distribution"). The Distribution was completed on 23 March 2004 and market price of Shougang Technology's share at that date was HK\$1.01 per share. Total special dividend distributed amounted to approximately HK\$374,740,000, represented approximately HK39.9 cents per share. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2004.

The decrease in turnover for the year ended 31 December 2004 was mainly due to the disposal of certain investment properties during the year while the significant increase in profit for the year ended 31 December 2004 was largely attributable to the gain on distribution of an associate arising from the distribution in specie of the Group's entire shareholding in Shougang Concord Technology Holdings Limited ("Shougang Technology"), a company listed on the main board of The Stock Exchange of Hong Kong Limited, during the year.

BUSINESS REVIEW AND OUTLOOK

PROPERTY INVESTMENT AND MANAGEMENT

Hong Kong Investment Properties

In line with the recovery of the economy and the property market in Hong Kong, the rental market has shown improvement during the year under review. The property market in Hong Kong has experienced a significant downturn since the Asian financial crisis in 1997. Although the property market has improved since the beginning of 2004, the improved market conditions apply, to a large extent, to newly constructed residential projects. The difficult market conditions in local property market have caused the Group to take a fresh look at its core business in Hong Kong. During the year, the Group has disposed of certain of its industrial investment properties, which are relatively old with high maintenance costs, and the Directors believe that the Group's resources could be better applied in other investments that offer better return. In this regard, the Group has been exploring new business opportunities with a view to diversifying its existing business.

Beijing Dongzhimen International Apartment Co., Limited ("Beijing Dongzhimen")

The Group beneficially owns a 44% interests in Beijing Dongzhimen which is principally engaged in the leasing of East Lake Villas in Beijing, the PRC, which comprise a variety of garden villas, high-rise apartments and office building, club housing, shops, restaurants and numerous sports facilities.

As a result of the severe competition in Beijing property leasing market and performance of Beijing Dongzhimen for the past few years, an impairment loss in respect of the Group's share of net assets and goodwill in Beijing Dongzhimen amounted to approximately HK\$90 million in aggregate was made for the year ended 31 December 2004.

FINANCIAL SERVICES BUSINESS

Financial Leasing Business

The Group has acquired 40% and 20% interests of South China International Leasing Company Limited ("South China Leasing") in September 2004 and March 2005 respectively. South China Leasing is a Sino-foreign equity joint venture established in the PRC and is principally engaged in the financial leasing business, including the leasing of machinery, equipment, electrical equipment, meters, motor vehicles and the leasing of immovable properties in the PRC.

The Directors consider the financial leasing market in the PRC presents a lot of opportunities due to the improved economy in line with the continuous industrial and business growth in the PRC. Through South China Leasing, which has an existing and valid business license, could shorten the Group's initiative in establishing a financial leasing business in the PRC.

Possible investment in China Life Insurance (Overseas) Company Limited ("China Life (Overseas)")

On 28 January 2005, the Group entered into a memorandum (the "Memorandum") with China Life (Overseas) in respect of a proposed subscription (the "Proposed Subscription") of shares in China Life (Overseas) that will represent 40 per cent. of the capital of China Life (Overseas) as enlarged by the Proposed Subscription. The initial subscription price is proposed to be HK\$800,000,000 which will be adjusted with reference to a valuation of China Life (Overseas) to be mutually agreed. The Memorandum gives the Group an exclusive right for a period of up to 30 June 2005 to consider the Proposed Subscription. China Life (Overseas) is principally engaged in the provision of life insurance business in Hong Kong, Macau and Singapore.

CULTURAL MASS MEDIA BUSINESS

The Directors believe that the cultural mass media business, especially animation business in the PRC, offers promising prospects. Given the recent success of various animation films globally and the increasing disposable income of PRC citizens, the Group has considered to invest in certain projects in this sector and has set up a film production company in the PRC.

Furthermore, on 19 November 2004, the Group has announced a voluntary conditional offer to acquire all the issued share capital of and cancel all the outstanding options of Global Digital Creations Holdings Limited ("GDC"), which is listed on the Growth Enterprise Market operated by The Stock Exchange of Hong Kong Limited (the "Voluntary Offer"). Headquartered in Hong Kong, GDC provides an integrated value chain in digital content business which encompasses computer graphics creation and production ("CG"), distribution and exhibitions of digital content, and training of Computer Graphic artists in the Asia Pacific region. GDC is also a CG house capable of producing

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CG to international standards with CG artists principally trained in-house. The Voluntary Offer had been approved by shareholders of the Company by a special general meeting held on 31 January 2005, became unconditional in all respects on 14 February 2005 and was closed on 1 March 2005. There were valid acceptances received in respect of 658,466,023 shares of and 22,631,615 options of GDC, representing approximately 82.2% of its issued share capital and all of its outstanding options. The Company had issued approximately 197,540,000 shares, represented approximately 17.4% of the enlarged issued capital of the Company, and paid approximately HK\$226,000 under the Voluntary Offer subsequent to 31 December 2004.

OTHER INVESTMENTS/BUSINESS

Shougang Technology

During the year, the Directors declared a payment of a special dividend to be satisfied by the distribution in specie of the Group's entire shareholding of approximately 31% in Shougang Technology to its shareholders (the "Distribution"). The Distribution not only enables the Group to return the appreciation in its investment to its shareholders but also provides its shareholders and investors with the opportunity to directly invest in the Group's core businesses, other than those of Shougang Technology. The Distribution represents an important step of the Group in diversifying its business.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The shareholders' fund of the Group amounted to approximately HK\$342.3 million as at 31 December 2004 (2003: HK\$632.0 million). The decrease was mainly arisen from the Distribution made during the year. During the year, the Company allotted and issued 81,448,753 new shares upon the exercise of share options with proceeds of approximately HK\$60,287,000 which was applied as general working capital of the Group.

The Group had bank balances and cash and pledged bank deposits of approximately HK\$185.2 million as at 31 December 2004 (2003: HK\$51.7 million) which were mainly denominated in Hong Kong dollars and Renminbi. The increase was mainly because of the proceeds from the disposal of certain of its industrial investment properties and proceeds from the issue of shares pursuant to the exercise of share option during the year.

The Group's bank borrowings amounted to approximately HK\$105.8 million as at 31 December 2004 which comprised approximately HK\$15.8 million and HK\$90.0 million repayable within one year and repayable more than one year as at 31 December 2004 respectively. There was no gearing level (calculated as bank borrowings less bank balances and cash and pledged bank deposits divided by shareholders' fund) presented as the Group had a net cash position as at 31 December 2004. Except bank borrowings of approximately HK\$0.8 million, the Group's bank borrowings were secured by pledged bank deposits, investment properties and land and buildings with carrying value of approximately HK\$65.5 million, HK\$92.4 million and HK\$2.5 million as at 31 December 2004 respectively. As at 31 December 2004, the Group did not have any material contingent liability.



The routine business operation and investment of the Group are in Hong Kong and the PRC, with revenue and expenditure denominated mainly in Hong Kong dollars and Renminbi. The Renminbi income from the PRC is mainly remitted to Hong Kong at the prevailing official exchange rate. Given the stable official exchange rate of Renminbi to Hong Kong dollars, the Directors believe that it will not be subject to any significant exposure associated with fluctuation in exchange rates under foreseeable circumstances.

DISPOSAL OF INVESTMENT PROPERTIES

During the year, the Group has disposed certain of its investment properties at proceeds of approximately HK\$139.4 million to independent third parties with loss of approximately HK\$1.4 million and the proceeds was applied as general working capital of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2004, there was 16 employees (2003: 28) (excluding those under the payroll of the associates and the jointly-controlled entity of the Group) for the Group. Remuneration packages are reviewed either annually or by special increment. In addition to basic salary, other staff benefits include medical and hospitalization subsidies, and mandatory provident fund scheme.

OUTLOOK

Looking into the future, the continuous healthy improvement in the economy of both the PRC and Hong Kong, the accession to the World Trade Organization and the Beijing hosting of 2006 Olympic Games in the PRC, provide good and optimistic business environment and opportunities to the Group. Following the aforesaid various restructuring which signify a meaningful step and solid platform towards the Group's diversification direction, especially in the financial services and cultural mass media sectors, the Directors are confident of the prospects of the Group in the coming years.

APPRECIATION

On behalf of the Board, I would like to extend my most sincere gratitude to shareholders for their supports and all the colleagues for their contribution and dedication to the successful development of the Group.

By Order of the Board

Cao Zhong

Vice-chairman

Hong Kong, 18 April 2005