FINANCIAL RESULTS

Although the property market in Shanghai was affected by the economic austerity measures implemented by the People's Republic of China ("PRC") government in 2005, the Company overcame the challenges in the market and achieved satisfactory results. For the year ended 31 December 2005, the Group's turnover was HK$1,430,834,000, a surge of 29 times from the approximately HK$47,842,000 last year. Profits attributable to shareholders also increased from approximately HK$115,826,000 last year to HK$201,884,000 this year, representing an increase of 74%. Basic earnings per share was HK4.2 cents (2004: HK2.5 cents).

DIVIDENDS

The Board of Directors does not recommend the payment of final dividends for the year ended 31 December 2005 (2004: nil).

BUSINESS REVIEW

In 2005, the PRC government implemented economic austerity measures to promote healthy development of the property market in Shanghai and rational investment. After the measures were introduced, speculative activities in the market decreased, in turn property prices stabilised and the property market saw stable and healthy development. During the year under review, the Group continued to record business growth, with particularly impressive sales performance in the first quarter. However, in the second quarter of the year, the PRC government tightened control on the property industry and potential buyers decided to adopt a wait-and-see approach. Thus the Group's property sales in Shanghai slowed down. Despite this, as the rationale behind the economic austerity measures on the property markets gained wider understanding and their impact was digested over the past months, the number of property transactions gradually picked up and investment has become more rational and orderly.

During the year under review, the Group derived its profits from mainly the following three projects:

- Sales and delivery of apartments and retail premises of phase III of southern Zendai Jia Yuan, with turnover amounting to RMB827,203,000 (equivalent to HK$787,812,000);

- The completion of the construction of the main hall of the 6th China Flower Expo in Chengdu, Sichuan Province, with a contract value of RMB488,800,000 (equivalent to HK$465,524,000); and

- Sales and delivery of remaining Shui Qing Mu Hua apartments.

Chairman's Statement

SALES OF RESIDENTIAL PROJECTS

During the year under review, three mid-to high-end residential projects of the Group went on for sale, including the remaining Shui Qing Mu Hua apartments, individual villas of Mandarin Palace and Phase III of Zendai Jia Yuan, which were all well received by the market and reported very satisfactory sales performance.

Shui Qing Mu Hua apartments, which is adjacent to the Century Park and Lujiazui Financial District, has a total of 855 flats. All of the last ten reserved apartments, with saleable floor area of 2,334 square metres were sold during the period, generating for the Group RMB34,659,000 (equivalent to approximately HK$33,008,000) in terms of contract value, which had been booked in 2005.

Regarding Mandarin Palace, it is a premium residential project with a site area of 105,000 square metres and adjacent to the Shui Qing Mu Hua apartments. It has taken three years to develop and contains 50 individual villas (including a club house) with saleable above ground floor area and saleable under-ground floor area of 28,181 square metres and 12,078 square metres respectively. The first batch of 12 individual villas was open for sale in December 2004 and aroused very encouraging market response. During the year under review, 15 individual villas with total saleable floor area of 10,869 square metres (in which 7,609 square metres are above the ground while the under-ground floor area is 3,260 square metres) were sold, generating RMB394,460,000 (equivalent to approximately HK$375,676,000) in terms of contract value for the Group and as at 31 December 2005, RMB347,441,000 (equivalent to approximately HK$334,078,000) was received.

As for the Zendai Jia Yuan project, its development is divided into four phases and the first and second phases were already sold out. The southern and northern areas of phase III with 2,278 units are currently open for sale. 1,257 out of the 1,258 units in the southern area were sold in aggregate up till 31 December 2005, including the 14 units sold during the year under review. The total accumulative floor area sold was 135,785 square metres and approximately RMB781,352,000 (equivalent to approximately HK$744,145,000) in terms of contract value was generated. The revenue from sales had been booked during the year under review. As for the northern area, 985 units of the total 1,020 units (including 26 units of retail premises) were sold in aggregate, including the 347 units sold during the year under review. The total accumulative floor area sold was 113,776 square metres, and approximately RMB846,706,000 (equivalent to approximately HK$806,387,000) in terms of contract value was generated and as at 31 December 2005, RMB811,040,000 (equivalent to approximately HK$779,852,000) was received. These units are scheduled to be delivered in the first half of 2006 and the revenue from sales will be booked in the same period.

ACQUISITION OF ASSETS

Zendai Garden-Riverside Town

The Group entered into a sale and purchase agreement with Zendai Investment Developments Limited on 29 April 2005 to acquire the entire issued share capital of Myway Developments Limited ("Myway") at an aggregate consideration of HK$100,000,000. The amount was satisfied half by cash and half by issue of 288,350,634 new shares. The new issue represented approximately 6.24% of the then issued share capital of the Company as at the date of the sale and purchase agreement or approximately 5.87% of the enlarged issued share capital of the Company upon completion. The acquisition was completed before 30 June 2005.

Myway is an investment holding company owning approximately 90.91% interests in the registered capital of Haimen Zendai Riverside Real Estate Limited ("Haimen Zendai"). Currently, Haimen Zendai owns a parcel of land in Haimen, Jiangsu Province for the development of a residential and commercial property project named "Zendai Garden-Riverside Town" (濱江新城•証大花園). Zendai Garden-Riverside Town consists of two phases, the first being Zendai-Dong Zhou Mansion of site area of 253,313 square metres and comprises all detached houses to be built in three batches. Pre-sale permits were already obtained on 11 April 2005 for the first batch of 53 houses with total saleable floor area of approximately 17,131 square metres. As at 31 December 2005, 24 houses with a saleable floor area of 8,024 square metres were sold, generating RMB32,721,000 (equivalent to approximately HK$31,163,000) in terms of contract value for the Group and RMB24,200,000 (equivalent to approximately HK$23,269,000) was received. These units are expected to be delivered in the first half of 2006 and the revenue from sale will also be booked in the same period. Construction of the second batch of 78 houses with a total saleable floor area of approximately 23,663 square metres will begin in early 2007, and the final batch is currently being planned. Meanwhile, occupying a total site area of approximately 324,172 square metres, phase two of the project will be developed into an integrated residential area comprising low-density town houses to be built in four batches. The first batch will have approximately 200 houses which construction will begin in the second half of 2006. The second to the fourth batches are still under planning. Besides, Haimen Zendai planned to increase its land reserve by tendering for a plot of land of approximately 900,000 square metres residential use in the first half of 2006.

This acquisition not only presented the Group with a valuable opportunity to explore the enormous Haimen market and exploit the huge potential in Jiangsu property market, but also increased the Group's land reserve for future development, allowing the Group to enlarge business coverage and diversify its income sources.

Zendai Thumb Plaza

On 30 June 2005, Shanghai Zendai entered into an agreement to acquire commercial properties at the Zendai Thumb Plaza (証大大拇指商業廣場) at RMB680,000,000 (equivalent to approximately HK$653,846,000). The acquisition will be completed before 30 June 2006. The gross construction area of the acquired properties is 41,685.34 square metres. On a site of approximately 50,300 square metres with total construction area approximately 112,200 square metres, Zendai Thumb Plaza is superbly located in Lian Yang new district, Pudong, Shanghai, close to Century Park and Lujiazui Financial District. It is a modern commercial complex with a large shopping mall of gross construction area of approximately 56,200 square metres, a 31,000-square-metre five-star hotel named "Zendai Radisson Hotel" (証大麗笙大酒店) and a 25,000-square-metre underground car park.

Construction of the plaza commenced in October 2003. The commercial property opened in July 2005, and the "Zendai Radisson Hotel" has started business in March 2006. More than 90% of the construction area of Zendai Thumb Plaza has been leased out as of 31 December 2005. Its major tenants include renowned brands such as the Bank of China, the Shanghai Pudong Development Bank, the Bank of Shanghai, the Agricultural Bank of China, McDonald's, KFC, Starbucks, Pizza Hut, Zendai Art Centre, and also the internationally renowned supermarket Carrefour. Its prominent tenants fully reflect the high investment value of the property.

This acquisition presented the Group with prime commercial projects that promise potential capital gains, diversified its business and widened its assets base. The acquisition also contributed to the Group growing recurring income from property rental. The anticipated rate of return before tax from rental is at an encouraging level of above 7.3% per annum.

ISSUE OF CONVERTIBLE NOTES

The Group entered into an agreement with Value Partners Limited ("Value Partners") in February 2005 in relation to the issue and subscription of three-year convertible notes in an aggregate principal amount of HK$80,000,000. Holders of the convertible notes shall have the right to convert the convertible notes into shares of the Company at the initial conversion price of HK$0.24 each. A maximum of up to 333,333,333 new shares can be issued based on the conversion price, representing approximately 7.21% of the then issued share capital of the Company or approximately 6.73% of the enlarged issued share capital of the Company as at the date of the subscription agreement. The issuance of the convertible notes generated net proceeds of approximately HK$79,600,000 for the Group. As at 31 December 2005, no conversion has been made by Value Partner to convert any of the convertible notes into the ordinary shares of the Company.

AWARD

During the year under review, the Group won the following awards:

- Shanghai Zendai was again elected as one of the "Top 50 Property Development Enterprises in Shanghai (上海市房地產開發企業50強)". This is the third consecutive year in which the Group made the ranking. The elected had to pass a three-month assessment by the Shanghai Real Estate Trade Association (上海市房地產行業協會). This is strong proof of the Group's professional and leading industry position;

- The brand "Zendai" was named a Shanghai famous trademark by the Shanghai Administration of Industry and Commerce.

CHANGE OF AUDITOR

The Group's auditor KLL Associates CPA Limited merged its practice with BDO McCabe Lo Limited in August 2005. The Group has appointed BDO McCabe Lo Limited as its auditor.

PROSPECTS

The PRC government implemented a series of economic austerity measures last year to cool down the overheated property market in Shanghai. As a result, property prices as well as the number of transactions both dropped. The property market in the region resumed healthy development after a few months when the market had adjusted to the changes. The price of property and land is expected to remain stable this year. Overseas investors are especially positive about the performance of the property market in the PRC and are actively seeking prime commercial complexes in first tier cities such as Shanghai and Beijing to capture promising returns. Buttressed by the strong demand of these investors, the development potential of the Shanghai property market is not to be ignored. The Group expects this market to remain stable during the year and grow gradually in 2007.

Guided by the three main principles of initiative, controllability and progressiveness, the PRC government continued to optimize the exchange rate mechanism of RMB last year to give greater flexibility to the country's currency market and speed up its alignment with the international market. With the managed floating rate system which can help to balance movements of property price, and the RMB is expected to appreciate again, property buyers have gained confidence in the property market and that in turn will benefit the middle to long term development of the Shanghai property market.

Chairman's Statement

The Chinese economy is booming, and Shanghai, being the financial hub of the country, has been developing at rocketing pace. The Chinese Government's economic austerity measures have proven to be effective in ridding uncertainties in the property market and also in carving for it a steady development path and bright prospects. The impending 2010 World Expo in Shanghai and the 2008 Beijing Olympics are expected to prompt many overseas investors to come to Shanghai to establish their debut presence in China. Holding these international events will not only benefit China's economic development, but will also drive the long term growth of the Shanghai property market.

The Group will not only actively look for land reserves in Shanghai, but will also broaden its geographic coverage and extend its business to other mainland cities such as Chengdu, Changchun, Jilin, Yangzhou, etc. It will also watch closely the property market in cities including Qingdao with the aim of strengthening and widening its income sources and profit base. In the meantime, the Group has proportionately increased its investment in commercial property development. During the year under review, the Group started the construction of the two commercial buildings – "Zendai – Wu Dao Kou Financial Centre" and "Zendai Cube Tower" to satisfy the huge demand for offices in Shanghai.

Armed with a sound business foundation and high growth potential, the Group entered into a subscription agreement with Penta Investment Advisers Limited in relation to the subscription and issue of the three-year convertible notes of aggregate principal amount HK$150,000,000. This once again demonstrates the confidence of institutional investors in the Group's management and their recognition of Shanghai Zendai's achievements in the property market in China. Holders of the convertible notes can convert the notes to shares of Shanghai Zendai at a conversion price of HK$0.24 each. The conversion price represents a premium of approximately 20.0% over the closing price of HK$0.20 per share on 23 February 2006, or a premium of approximately 18.9% over the average closing price of approximately HK$0.2018 per share for the last five consecutive trading days up to and including 23 February 2006. The issuance of the Convertible Notes has the advantage that it will further strengthen the Group's shareholder base but will not immediately dilute the shareholding of existing shareholders. The net proceeds of the issue is approximately HK$149,600,000, which will be partly used to increase the paid up capital of 2 subsidiary companies, namely Shanghai Zendai Real Estate Limited and 海門証大濱江置業有限公司, and partly in other investment and development of suitable property projects, Looking ahead, driven by robust economic development, the Shanghai property market will continue to grow steadily this year. The Group will strive to conduct more thorough analysis on the PRC economy and property market which will allow it to more accurate predict market trends and hence beat other players to grasp arising opportunities. The Group will also actively develop residential and commercial projects with great potential. In addition, through implementing effective project management, strict cost control and feasible sales plans, the Group is determined to optimize its capital management. Furthermore, the controlling shareholders of the Group are discussing with Shanghai Zendai about injecting additional assets so as to speed up inclusion of Zendai Group's entire assets into the listed company. Such injection of assets will definitely bring satisfactory returns to its shareholders.