

## CHAIRMAN'S STATEMENT

On behalf of the board of directors of the Company and its subsidiaries (the "Group"), I am pleased to present the audited annual report of the Group for the year ended 31 December 2005 to the shareholders.

### FINANCIAL RESULTS

For the year ended 31 December 2005, the Group's turnover decreased by 92.9% to HK\$9.8 million and recorded a profit attributable to shareholders of HK\$3.0 million when compared to last year's turnover of HK\$138.6 million and profit attributable to shareholders of HK\$40.6 million. No geographical analysis is presented for the year ended 31 December 2005 as all the Group's turnover and results were substantially derived from property business in the PRC. The decrease in turnover was largely due to no sales recorded from sales on investment properties and on properties held for development in 2005 in comparison of sales of HK\$8.8 million and 97.6 million respectively last year. Faced with decrease in turnover and profit attributable to shareholders, the Group exercised a more stringent control over the cost elements such as distribution costs, administrative expenses and finance costs and successfully kept such cost elements down by 56%, 23% and 55% to HK\$2.8 million, HK\$12.7 million and HK\$3.0 million respectively compared to last year.

### BUSINESS REVIEW

With the continuing implementation of a series of macroeconomic measures by the PRC government in 2005 aiming to suppress the property market from over-booming, the Shenzhen property market was inevitably subject to adjustments in land, taxation and financial policies such as stringent land and properties sales administration, the levy of Land Appreciation Tax ("LAT") upon sale of commercial properties, the tightening of grant of loans by financial institutions and, in result, the Shenzhen property market price turned out to be reasonably upward in 2005.

Given the concurrent macro-environment and keen competition, the Directors took a more prudent view to maintain its leading image in the district and profit margin and it is more appropriate to put forward a more conservative marketing approach rather than to engage in price competition. In addition to adopting conservative marketing approach, the Group was upholding its existing resources for future suitable development opportunities and therefore there was no new property project under development in 2005.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group's cash and bank deposits were approximately HK\$1.4 million (2004: HK\$15.1 million) and the percentage of cash and cash equivalent denominated in Hong Kong Dollar ("HKD") and Renminbi ("RMB") were 53% and 47% respectively (2004: 22% and 78%).

The Group had total current assets of approximately HK\$68 million (2004: HK\$113 million) and total current liabilities of approximately HK\$49 million (2004: HK\$73 million). The Group recorded total assets of approximately HK\$376 million (2004: HK\$412 million) and total bank loans and borrowings of HK\$31.7 million (2004: HK\$39.8 million). As at 31 December 2005, the Group's total interest-bearing borrowings amounted to HK\$31.7 million, of which HK\$26.8 million was repayable within 1 year (2004: HK\$32.6 million), HK\$2 million was repayable from 1-2 years (2004: HK\$2.8 million), HK\$2.9 million was repayable from 2-5 years (2004: HK\$3 million), nil was repayable after 5 years (2004: HK\$1.4 million). All the Group's borrowings were denominated at RMB and at interest rates ranged from 7.25% to 11.4% (2004: 6.9% to 11.4%).

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The gearing ratio for 31 December 2005, which was defined to be total interest-bearing borrowings over shareholders' equity, was 10% (2004: 12%).

The Group's major operations are located in the PRC and the main operational currencies are HKD and RMB. There was an exchange rate appreciation of RMB against HKD for more than 2% from the middle of 2005 and the movement of such was acting favourable to the Group. Therefore, it is not necessary for the Group to make any foreign currency hedging arrangement to minimize the foreign exchange risk and exposure.

### CHARGE OF ASSETS

Pledged bank deposits of the Group amounted to HK\$5.2 million (2004: HK\$5.5 million) have been acting as a security for the mortgage loans made available from the banks to the buyers of the Group's properties.

Investment properties of the Group amounted to HK\$24 million (2004: HK\$18 million), Properties held for sale of the Group amounted to HK\$8.5 million (2004: HK\$8.4 million) and the buildings of the Group amounted to HK\$4.9 million (2004: HK\$5 million) have been pledged to banks to secure bank loans and facilities granted to the Group.

### SIGNIFICANT INVESTMENT

There is no investment activity by the Group during the years ended 31 December 2005 and 2004.

### MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the years ended 31 December 2005 and 2004.

### CONTINGENT LIABILITIES

The Company has given corporate guarantees to a bank in respect of fully utilized general banking facilities granted to a subsidiary amounting to HK\$4 million as at 31 December 2005 (2004: HK\$4 million).

During the year ended 31 December 2005, the local tax authorities of Shenzhen, the PRC commenced to levy LAT on property developers effective from 1 November 2005. In the opinion of the Directors, the total LAT related to the properties sold during the years ended 1999, 2000 and 2001 in the amount of HK\$17,254,000 has not yet been levied by the tax authorities of Shenzhen, the PRC and the Directors consider that there is low possibility that LAT will be levied. Should the levies applied to the properties sold in 1999, 2000 and 2001, then additional LAT attributable to the Group would amount to HK\$17,254,000 (2004: HK\$17,254,000).

## EMPLOYEES

As of end of 2005, the Group employed 62 employees (2004: 42) and the staff cost for the year amounted to HK\$3.8 million (2004: HK\$4.1 million). The Group's emolument policies are formulated such that the emoluments are made by reference to the performance of individual employees and will be reviewed every year. Apart from basic salary and statutory provident fund scheme, employees will also be offered discretionary bonus based on the results of the Group and their individual performance.

## PROSPECT

In 2005, the PRC economy in terms of gross domestic product ("GDP") continued its strong growth at a rate of over 9% than last year and such growth will certainly uplift the housing demand in the years ahead.

More specifically in Pearl River Delta region of the PRC, with the speed up of economic co-operation between Hong Kong and the Pearl River Delta region and the changes of housing subsidizes policies from the state-owned companies in the PRC, the demand on properties will further be strengthened surrounding the area. In turn, the Group's properties portfolio with its existing land related resources is highly likely to be benefited in appreciation of asset values within the area.

Looking ahead, the Group shall commence a preliminary plan on a project site located in Buji city of Shenzhen, the PRC for properties development into residential and commercial uses from a land with site area of approximately 26,000 sq.m. of which the Group already paid up the land premium and is awaiting for the issue of land title certificate by Land Bureau of Shenzhen, the PRC. A substantial contribution to the Group shall be anticipated upon successful development of this property project.

Besides the development of the above project, the Group is also actively to explore development opportunities in the PRC.

## APPRECIATION

On behalf of the Board, I would like to extend our wholehearted gratitude to the Group's employees for their dedication and efforts in servicing the Group for the year as well as to our customers, suppliers, bankers and shareholders for their continued valuable supports.

**Tsang Wai Lun, Wayland**

*Chairman*

Hong Kong, 26 April 2006