



Chairman's Statement

FINANCIAL RESULTS

Adhering to its prudent yet proactive development strategy, Shanghai Zendai Property Limited (the "Company", which together with its subsidiaries, the "Group") achieved satisfactory results for the year under review. For the year ended 31 December 2006, the Group's turnover was approximately HK\$1,401,553,000, a 2% decrease from approximately HK\$1,430,834,000 in 2005. Profits attributable to shareholders increased by 14% to HK\$230,481,000 from last year's of around HK\$201,884,000. Basic earnings per share were HK4.6 cents (2005: HK4.2 cents). During the year under review, the Group derived revenue and profit mainly from:

- sale and delivery of residential units in the northern area of Phase III of "Zendai Jia Yuan"
- sale and delivery of 12 "Mandarin Palace" villas
- sale of entire share capital of an associate
- negative goodwill arising from acquisition of additional share capital of Zendai Delta Land Company Limited ("Zendai Delta Land")

DIVIDENDS

The board (the "Board") of directors of the Company (the "Directors") does not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: Nil).

BUSINESS REVIEW

During the year under review, after its subsidiary Shanghai Zendai Real Estate Company Limited ("Shanghai Zendai Land") acquired an additional 51% interest in Zendai Delta Land, the Group's indirect interest in Zendai Delta Land increased from about 44% to 85%. The Group has succeeded in positioning itself as an integrated property developer who focuses on both quality residential and commercial property projects. Zendai Delta Land holds a premium residential property project – the "Mandarin Palace" villas, and two quality commercial property projects namely "Zendai Cube Tower" and the "Wu Dao Kou Financial Centre". The acquisition has not only enlarged the Group's assets base, but is expected to also enhance its overall financial performance in the future while putting it on track for dual-focus development.

In 2006, the Central Government of the People's Republic of China (the "PRC") announced a new series of financial, lending, and land and taxation related austerity measures. The purpose of these measures was to cool down the over-heated property market by stabilising property prices and optimising structure of the property market. In the long run, such government initiatives are expected to bring about healthy, stable and regulated growth of the property market and speed up market consolidation as small developers are ousted.



Chairman's Statement *(Continued)*

During the year under review, with finger on the pulse of the market and the help of effective sales strategy, stringent cost control measures, and detailed project planning and capital management, the Group reported a steady growth. The Group also actively pursued potential residential and commercial property projects in Shanghai and a number of second-tier cities in the PRC to expand market coverage.

RESIDENTIAL PROJECTS

During the year under review, "Mandarin Palace" villas was the main high-end residential property project going on sale in Shanghai. With limited supply of similar property projects in Shanghai, sales of "Mandarin Palace" villas have been satisfactory. Drawing from the successful experience in handling development projects in Shanghai, the Group has extended its reach to second-tier cities in the PRC. For example, sale started during the year for "Zendai-Dong Zhou Mansion" in "Zendai Garden-Riverside Town" Phase One, which is a large-scale residential and commercial property project of the Group in Haimen, Jiangsu Province. The Group also decided to develop major residential projects in Changchun and Jilin to satisfy the enormous demand for residential properties in those areas. In addition, paving the way to capture future business opportunities in Haimen, the Group made progress regarding the acquisition of a parcel of land in the city for a residential project.

RESIDENTIAL PROPERTY PROJECTS IN SHANGHAI

Zendai Jia Yuan

Development of the residential property project "Zendai Jia Yuan" is divided into four phases. Units in Phase I, II and the southern area of Phase III were sold out and had been delivered to buyers. As for the 994 units in the northern area of Phase III, a cumulative 991 units (including the 6 sold during the year under review) of total area 114,053 square metres were sold, generating RMB830,878,000 (equivalent to approximately HK\$814,586,000) in terms of contract value for the Group. During the year under review, construction of the northern area of Phase III was completed. A substantial portion of these apartments was delivered and revenue from sales was booked.



Chairman's Statement *(Continued)*

The Mandarin Palace

On a 105,000-square-metre site, the "Mandarin Palace" villas in Pudong, Shanghai, near the Century Park, comprises 49 individual villas of total saleable area of 37,690 square metres, including 24,537 square metres above-ground and 13,153 square metres under-ground. As at the end of the year under review, a cumulative 28 individual villas with total floor area of 19,339 square metres (13,552 square metres above-ground and 5,787 square metres under-ground) were sold, generating RMB701,010,000 (equivalent to approximately HK\$687,264,000) in terms of contract value for the Group. In the year under review, 13 individual villas of total floor area 8,469 square metres (5,942 square metres above-ground and 2,527 square metres under-ground) were sold, generating RMB306,550,000 (equivalent to approximately HK\$300,539,000) in terms of contract value for the Group. 12 villas (saleable area 8,975 square metres) out of the 28 villas were delivered and sales revenue of RMB324,846,000 (equivalent to HK\$318,476,000) in terms of contract value was booked during the year under review. Since there is an enormous market demand for villas not met by supply, the Group will continue to adopt a tempered sale strategy to maximise revenue.

RESIDENTIAL PROJECTS IN OTHER CITIES

Zendai Garden-Riverside Town

The Group's large-scale residential and commercial property project in Haimen, Jiangsu Province – "Zendai Garden-Riverside Town" – is developed in two parts. The first is the "Zendai-Dong Zhou Mansion" on a 253,313-square-metre site to be developed in three phases. Phase I includes 52 detached houses with total saleable floor area of approximately 17,131 square metres. As at 31 December 2006, a cumulative 34 units of total floor area of 11,674 square metres were sold, generating RMB52,184,000 (equivalent to HK\$51,161,000) in terms of contract value for the Group. During the year under review, 10 units with a floor area of 3,650 square metres were sold, generating RMB18,463,000 (equivalent to HK\$18,101,000) in terms of contract value for the Group. Construction of Phase I of "Zendai-Dong Zhou Mansion" was completed. Total revenue of RMB50,131,000 (equivalent to HK\$49,148,000) from the sales of 33 detached houses (saleable area 11,304 square metres) was booked during the year under review. Phase II and III of "Zendai-Dong Zhou Mansion" are in the final planning stage.

The second part – "Zendai Garden-Riverside Town" – is an integrated residential property project of approximately 324,172 square metres with low-density town houses to be built in four phases. Phase I of approximately 84,000 square metres will include 200 units with total saleable floor area of approximately 45,947 square metres, and construction of 39 units (with saleable floor area of approximately 21,100 square metres) has started in August last year. The other three phases are in planning stage.



Chairman's Statement *(Continued)*

In the second half of 2006, the Group acquired a parcel of land with total floor area of approximately 810,000 square metres in Haimen for residential use.

Changchun Project

The Group holds 80% interest in 長春証大置業有限公司, which owns a parcel of residential land of around 800,000 square metres in Changchun, the PRC. The Group plans to develop in phases on the site a major integrated project comprising residential and retail properties with total floor area of approximately 1,050,000 square metres. Construction of the first phase of approximately 110,000 square metres is expected to begin in mid-2007. The other phases are in planning stage.

Jilin Project

The Group plans to develop a large-scale residential property project of total floor area of approximately 196,000 square metres in Jilin. Preliminary planning of the project was completed during the year under review. To be developed in three phases, the first phase of the project will include 11 villas and 118 town houses of total floor area of approximately 34,000 square metres. Construction and presale of Phase I has begun last June and November respectively. During the year under review, a total of 34 units with cumulative saleable floor area of 24,616 square metres were sold, generating RMB90,264,000 (equivalent to HK\$88,494,000) in terms of contract value for the Group. Construction of Phase I is expected to be completed by the end of 2007. Phase II of approximately 79,000 square metres will comprise 11 residential towers with 600 units. Construction of Phase II will begin in the first half of 2007 and is expected to be completed by the end of 2008. The third phase is still in planning stage.

COMMERCIAL PROPERTY PROJECTS

As commercial activities grow in the PRC, demand for offices and retail properties, especially in metropolises like Shanghai, will continue to surge. Taking that promising trend into account, apart from boosting its rental property profile hence expanding income-base through acquisition of "Zendai Thumb Commercial Plaza" ("Zendai Thumb Plaza") in Shanghai, the Group also continues to increase the proportion of investment in commercial property development. Currently, it holds two commercial property development projects in Shanghai, namely "Zendai Cube Tower" and "Wu Dao Kou Financial Centre". Expecting the 2010 Shanghai World Expo to fuel demand for quality commercial properties, the Group is developing a large-scale integrated commercial project called "Himalaya" close to the venue of the global event. During the year under review, the Group also actively participated in the development of the commercial property market in other cities including a commercial plaza project in Yangzhou with preliminary work commenced.



Chairman's Statement *(Continued)*

COMMERCIAL PROPERTY PROJECTS IN SHANGHAI

Zendai Thumb Plaza

The Group entered into an agreement in relation to the acquisition of part of the shopping mall of "Zendai Thumb Plaza" in Shanghai on 30 June 2005. At a superb location in Lian Yang new district, Pudong, Shanghai, close to the Century Park and Lujiazui Financial District, "Zendai Thumb Plaza" is a modern commercial complex with a large shopping mall, a five-star hotel named "Zendai Radisson Hotel" and an underground car park.

Opened in 2005, the shopping mall of "Zendai Thumb Plaza" was 90% leased in construction area as at 31 December 2006. During the year under review, the Group strengthened the tenant mix of the property by adding more world renowned brands such as Pizza Hut, Haagen-Dazs, Watsons and local brands such as Freedom Bar on top of the existing reputable brands including the Bank of China, the Shanghai Pudong Development Bank, the Agricultural Bank of China, McDonald's, Starbucks and Carrefour. The move has enhanced the presence and popularity of "Zendai Thumb Plaza" in Shanghai.

The acquisition added a prime project with much growth potential to the Group's commercial property portfolio, diversified the Group's business and widened its assets base. It has also boosted the Group's recurring income from property rental.

Zendai Cube Tower

The Group commenced construction of the "Zendai Cube Tower" in 2005. On a site of approximately 5,492 square metres, the 21-storey commercial building neighbours the Century Park and Lujiazui. Including a 2-level underground car park, the gross construction area of the project is approximately 40,940 square metres. Topping completed in July last year, the entire project will be completed in the second half of this year. Pre-sale started in October last year. As at 31 December 2006, 34 units with total estimated area of 6,817 square metres were sold, generating RMB112,012,000 (equivalent to approximately HK\$109,816,000) in terms of contract value for the Group.



Chairman's Statement *(Continued)*

Wu Dao Kou Financial Centre

Also in the vicinity of the Century Park and Lujiazui, the "Wu Dao Kou Financial Centre" is another premium commercial property project of the Group in Pudong, Shanghai. On an approximately 16,000-square-metre site, the project comprising grade A offices and premium retail premises has a gross construction area of approximately 105,900 square metres. It will have two office towers, namely the north tower and south tower. The planned gross construction area of the 25-storey north tower will be approximately 51,100 square metres and the construction area of the 2-level car park thereunder will be approximately 15,800 square metres. As for the 12-storey south tower, the total planned construction area of the offices and the underground car park will be approximately 26,200 square metres and 8,400 square metres respectively. The project will also include a 4-storey shopping complex of planned construction area of approximately 3,200 square metres, which will be serviced by a 2-level underground car park of planned construction area of approximately 1,200 square metres. Groundwork of the project was completed in September last year. The entire project is expected to be completed in early 2008.

Sale of the south tower of "Wu Dao Kou Financial Centre" (excluding the two levels of underground car parking spaces) is expected to complete this year. The Group will retain the office spaces of the north tower, shopping complex and underground car parking spaces for lease to generate stable rental income.

Himalaya – An Integrated Commercial Property Project

The Group plans to develop an integrated commercial property project named "Himalaya" near New International Expo Centre in Pudong, Shanghai. On a 28,900-square-metre site, the project will entail a gross construction area of 150,000 square metres. The project will house a five-star hotel with 450 guest rooms, an art museum, a multi-function conference centre which has a theatre where movies of Shanghai International Film Festival will be shown, and offices and related commercial facilities. The Group expects the "Himalaya" project to become a new landmark in Pudong, Shanghai. Construction is expected to commence in 2007 and be completed in 2010.

"Himalaya" is another rental property project of the Group. Neighbouring Shanghai's 2010 World Expo venue, the hotel will be able to provide services that complement the event. The Group will seize the huge opportunity that come with the mega event through this project.



Chairman's Statement *(Continued)*

COMMERCIAL PROPERTY PROJECTS IN OTHER CITIES

Yangzhou Commercial Project

During the year under review, the Group also commenced initial stage development of a commercial centre with construction area of 90,000 square metres in the city centre of Yangzhou. To be developed in three phases, the commercial centre will include a shopping mall, a museum and historical architecture. Construction and presale of Phase 1 with total floor area of approximately 19,000 square metres will begin in the second half of this year and early 2008 respectively.

LAND APPRECIATION TAX ("LAT")

On 28 December 2006, PRC State Administration of Taxation issued a circular, which will take effect on 1 February 2007 to request real estate developers to settle the final LAT for their projects. Although local implementation details have not yet been issued, the Group has taken this issue seriously and prudently. For the year under review, the Group has made provision of HK\$193,740,000 for the LAT.

ISSUE AND EXERCISE OF CONVERTIBLE NOTES

The Group entered into an agreement with Penta Investment Advisers Limited ("Penta Investment") in February 2006 in relation to the issue and subscription of three-year convertible notes in an aggregate principal amount of HK\$150,000,000. Holders of the convertible notes shall have the right to convert the convertible notes into shares of the Company, up to a total of maximum 625,000,000 new shares, at the initial conversion price of HK\$0.24 each (subject to adjustment), representing approximately 12.73% of the then issued share capital of the Company or approximately 11.29% of the then enlarged issued share capital of the Company. With Penta Investment joining it as a shareholder upon the exercise of the conversion rights attached to the convertible notes, the Company will have a broadened shareholder base, reflecting the strong confidence of institutional investors in the Group's business and prospects. The net proceeds from the issue of the convertible notes amounting to approximately HK\$149,600,000 will be used for future investment and development of suitable property projects to create yet more business opportunities for the Group.

On 15 December 2006, Value Partners Limited, holder of the convertible notes issued by the Company in 2005, exercised the conversion rights attached to the convertible notes in the principal amount of HK\$16,200,000 at the conversion price of HK\$0.24 per share. An aggregate of 67,500,000 shares of the Company were issued pursuant thereto.



Chairman's Statement *(Continued)*

ACQUISITION OF ASSETS

In May 2006, the Group's 80% owned subsidiary Shanghai Zendai Land entered into an agreement to purchase 51% interest in Zendai Delta Land at a total consideration of RMB248,000,000 (equivalent to approximately HK\$238,462,000, calculated at the then exchange rate of HK\$1 to RMB1.04). Zendai Delta Land was owned as to 51% by Shanghai Zendai Investment Development Limited immediately prior to the completion, which in turn is owned as to approximately 65.67% by Mr. Dai Zhikang, an executive Director and chairman of the Company. The acquisition was completed in July 2006, which increased Shanghai Zendai Land's share in Zendai Delta Land from 24% to 75%, while Best East Developments Limited, the Group's wholly-owned subsidiary, owns the remaining 25%. Principally engaged in property development and investment in the PRC, Zendai Delta Land and its subsidiaries are currently developing three major high-end residential and commercial property projects in Shanghai, the PRC. They are the premium residential project "Mandarin Palace" villas and the two premium commercial property projects namely the "Zendai Cube Tower" and the "Wu Dao Kou Financial Centre". Since its launch, "Mandarin Palace" has been well received by the market and the transaction price has been rising consistently. The two commercial property projects will be completed by the end of 2007 and in early 2008 respectively, adding 147,000 square metres of grade A offices, shop and car park spaces to the commercial property supply in Shanghai. The acquisition will expand the Group's profit base and fortify the Group's position as a quality integrated property developer.

SHARE PREMIUM REDUCTION

During the year under review, the Company proposed a share premium reduction of approximately HK\$249,314,000 to offset the approximately HK\$91,999,000 accumulated losses of the Company as at 31 December 2005. The balance of approximately HK\$157,315,000 had been credited to the contributed surplus account of the Company. With the relevant resolutions approved by shareholders of the Company, the share premium reduction was completed in August 2006. The Group has greater flexibility in declaring dividends in the future. The share premium reduction is in the overall interest of the Group and its shareholders.



Chairman's Statement *(Continued)*

PLACING

In December 2006, Shanghai Zendai placed 800,000,000 shares of the Company (aggregate nominal value being HK\$16,000,000) to more than 6 places who were independent third parties and not connected persons of the Group by way of top-up placing. The placing shares (at the placing price of HK\$0.315 per share, representing a discount of approximately 8.70% to the closing price of HK\$0.345 per share as quoted on the Stock Exchange on 29 November 2006) accounted for 14.01% of the then enlarged issued share capital of the Company. The net price per subscription share amounted to approximately HK\$0.305. The placing not only brought about HK\$244,000,000 net proceeds, which the Group may use to fund future land acquisitions in the PRC and for expansion of business, but has also broadened its shareholder base.

AWARDS

During the year under review, the Company obtained the following awards:

- the first batch of property development enterprises in Shanghai named "Advanced Units Committed to Operating with Integrity" presented by the Shanghai Real Estate Trade Association (上海市房地產行業協會)
- "Top ten strongest influential integrated property development company in Shanghai" awarded by the Association of China Property Developers
- The Group was also awarded the "Renowned Brand" by Shanghai Administration for Industry and Commerce. This is a strong proof of the Group's leading position in the industry

PROSPECTS

The economic austerity measures implemented by the PRC government in the past few years have steered the country's property market on to a steady development path. To ensure continuous healthy adjustment of the market, the authority has introduced new economic austerity measures at the beginning of 2007. Against that backdrop and anticipating persistently strong economic growth of the country, improving living standard and purchasing power of the Chinese people, the demand for mid- to high-end housing is expected to rise. The impending 2010 World Expo in Shanghai and 2008 Beijing Olympics will also attract more enterprises from around the world to set up bases in the PRC, which will translate into rise in value and rental of offices and other commercial premises, making them choice of investment properties for investors. The country's commercial property market, especially that in Shanghai, will benefit from the trend. Furthermore, the probable continual appreciation of the Renminbi is expected to keep attracting capital into the property market, which will benefit long term development of the market as well as presenting the Company with opportunities it is poised to grasp.



Chairman's Statement *(Continued)*

During the year under review, the Group increased its interest in Zendai Delta Land, which marked the shift of its focus from developing merely residential properties to undertaking integrated commercial and residential property projects. Looking forward, the Group will focus on developing high-end residential and commercial property projects in first tier cities such as Shanghai in the PRC, and retain part of the commercial property projects for lease to increase rental income and capture future capital gains. It will also develop forcefully and in progressing scale mid- to high-end residential and commercial property projects in second tier cities including Changchun and Jilin to satisfy increasing demand for quality housing. During the year under review, the Group acquired two parcels of residential land of 810,000 square metres and 800,000 square metres in Haimen and Changchun respectively. Moreover, the Group will look for and acquire one to two residential and commercial property projects in Shanghai this year to speed up business development. Looking ahead, the Group will adopt a dual-business model putting equal weight on residential and commercial property development to perform a better role as an integrated property developer.

As for rental properties, the Group has set a clear goal to increase the proportion of rental income to 50% of its total profit and the proportion of investment properties to approximately half of the Group's total assets within the next three to five years. Currently, the Group is considering reserving some of the commercial areas of projects for rental. These include a portion of the "Wu Dao Kou Financial Centre" and the entire floor area of "Himalaya" project, which begins construction this year and is expected to be completed in 2010. This strategic move will help widen the Group's asset base and generate stable profits, which is in line with its business goals.

Looking into the future, the Group will strive to capture opportunities arising in the consolidating property market. Armed with years of experience in property development, abundant resources and effective strategic deployment capability, the Group is committed to pursuing promising integrated residential and commercial property projects in Shanghai and other cities. The Group will keep on enhancing its overall competence and push for continuous growth so as to bring satisfactory returns to shareholders.