

BOARD OF DIRECTORS OF DAN FORM HOLDINGS COMPANY LIMITED



Front Row (from left to right) : **Mr. Dai Xiaoming** (Chairman & Chief Executive),
Mr. Xiang Bing

Back Row (from left to right) : **Mr. Edward Shen**, **Mr. Kenneth Hiu King Kon**,
Mr. Jesse Nai Chau Leung

CHAIRMAN'S STATEMENT

RESULTS

The Group recorded a turnover of HK\$57,770,000 for the year ended 31st December, 2003, which represented a decrease of approximately HK\$9,326,000 or 14% as compared with last year. It is mainly due to the reduction in services income from estate management and rental income of HK\$5,653,000 and HK\$4,252,000 respectively.

The Group's loss attributable to shareholders in this year was HK\$292,935,000, as compared to profit of HK\$1,019,000 in last year. It is mainly due to loss provisions in respect of properties held under development and for sale of HK\$214,995,000 and HK\$46,559,000 respectively, the loss provision of HK\$28,816,000 resulting from the civil actions against the Group's subsidiary, and an increase in share of loss of an associated company as a result of a loss provision of HK\$64,183,000 from revaluation of properties.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

PRC BUSINESS

The Wangfujing Project

Lot F1 (61.1% owned)

Partly as a result of the SARS, the business operation of the temporary shopping mall surrounding the boundary of Beijing Wangfujing Lot No. F1 has not been satisfactory, leading to a reduction in rental income.

Beijing Lucky Building Company Limited ("Lucky Building") has to repay the bank loan which is overdue as at 31st December, 2003. At present, negotiation with several investors on the sale of the property is in progress. However, the negotiation involves modification of the function of the Lucky Theatre and the overall design of the Lucky Building that requires the approval by the government authorities. Nevertheless, the Group will participate in it in a reasonable and practical way.

Due to the uncertainties as stated above and the downward revaluation of the property, a net loss provision of HK\$150,195,000, representing the net asset value of Lucky Building attributable to the Group (comprising a provision of HK\$214,995,000 against properties held under development net of an adjustment to minority interest of HK\$64,800,000), was made in the financial statements.



Mr. Dai Xiaoming
Chairman & Chief Executive

CHAIRMAN'S STATEMENT

Lot B3 (85% owned)

Lot B3 is another piece of land at Wangfujing where the building known as "Dan Yao Building" is located. At the beginning of the year 2003, the business operation in the commercial area of the building was seriously affected by SARS. Only one floor of the building can continue to operate. The sales and leases of the apartments and commercial area of the building were also affected. After the SARS being under control, the Group has adjusted the strategy and direction of the business in order to reduce the loss in operation. These include : (1) adjust the operation environment of the commercial area and change of management company. At the end of the year 2003, the business operation at the first and second floors of the building has been improved; (2) speed up the process in applying for the Property Rights Certificates to ensure the remaining balances of the property sales can be received; and (3) secure the existing apartment tenants. At the end of the year 2003, six apartments were leased out.

The Group deeply regrets on the civil actions against Beijing Dan Yao Property Co. Ltd. ("Dan Yao") taken by the buyer of a property, which cannot be controlled. It is hoped that all the parties concerned can reach a sensible and legal agreement. The Group has also carried out some defensive actions, including an appeal against the first judgement. Meanwhile a provision of HK\$28,816,000 has been made in the financial statements to reflect the Group's losses resulting from the claim, including the penalty which is required to pay and a reversal of the profit previously recognised on the sale of the property concerned.

The above-mentioned civil action has resulted in significant current liabilities which Dan Yao will be required to settle if its appeal is not successful. In the opinion of the Directors, the future of Dan Yao is dependent on the outcome of the appeal. In view of the uncertainties involved, a provision of HK\$46,559,000, representing the net asset value of Dan Yao attributable to the Group, was made in the financial statements.

The Xidan Project (29.4% owned)

At the end of the year 2003, other than municipal works at Da Mu Chang South Lane and a small part of remaining municipal works, which will be carried out in the year 2004, most of the municipal works have been completed.

As at the end of the year 2003, the building located at Lot No. 1 has been delivered to China Telecom Group Beijing Company Limited, which has begun to use. The buildings located at Lot No. 2 and Lot No. 5 have been in use. The interior facilities installation of the building at Lot No. 9 have been completed, and the interior decoration, which has begun in the first half of the year 2004, is expected to be completed in the third quarter of the year 2004. The name of the building located at Lot No. 9 is called "Jing Yuan International Mansion". The development of the building at Lot No. 4 is at the design stage and the temporary shopping mall has been demolished; the land is ready for carrying out construction works in the first half of the year 2004. The design plan for the building at Lot No. 10 is being examined and it is expected the construction works will begin before the end of the year 2004.

CHAIRMAN'S STATEMENT

HONG KONG BUSINESS

Property

The Group's residential properties situated at Red Hill Peninsula (33 $\frac{1}{3}$ % owned) and South Horizons recorded average occupancy levels of approximately 44% and 85% respectively, while the commercial properties situated at Harbour Crystal Centre recorded an average occupancy level of approximately 61%. During the year, the Group's net rental income from property leasing was less than that in the last year mainly because of the decrease in rental levels in properties.

GROUP ASSETS POSITION AND CHARGE ON GROUP ASSETS

The total assets of the Group, as a result of downward revaluation and loss provision of the Group's property portfolio, have decreased from HK\$2,548,120,000 in the last year to HK\$2,159,224,000 this year. The net assets of the Group have also decreased from HK\$1,938,483,000 to HK\$1,570,653,000. The amount of the Group's bank borrowings where the property assets and bank deposits are pledged has decreased from HK\$351,497,000 in the last year to HK\$308,659,000 in the current year.

GROUP FINANCIAL POSITION, LIQUIDITY AND FINANCIAL RESOURCES

The total liabilities (including minority interests) of the Group have slightly decreased from HK\$609,637,000 as at 31st December, 2002 to HK\$588,571,000 as at 31st December, 2003. The Group had cash at banks and in hand of HK\$8,328,000 as at 31st December, 2003 (2002: HK\$36,621,000). The ratio of total liabilities to total assets was approximately 27% (2002: 24%). As at 31st December, 2003, the aggregate amount of bank loans and bank overdrafts was HK\$308,659,000 (2002: HK\$351,497,000) and the amount of shareholders' funds was HK\$1,570,653,000 (2002: HK\$1,938,483,000), and therefore the capital gearing ratio was 20% (2002: 18%). Since 18th February, 2000, arrangement has been made with a bank in Hong Kong for overdraft facilities of HK\$100,000,000 of which HK\$49,828,000 has been utilised as at 31st December, 2003. Of the total borrowings, HK\$120,158,000 is repayable within one year and HK\$188,501,000 is repayable on demand.

As at 31st December 2003, the Group's current liabilities, amounting to HK\$513,000,000, exceeded its current assets by HK\$303,404,000. A significant portion of the Group's current liabilities is attributable to Lot F1 and Lot B3. Given the provision made in respect to Lot F1 and Lot B3 as mentioned above, the other operations of the Group can generate sufficient cash flows to enable the settlement of its remaining liabilities as and when they fall due. The Directors are of the view that no further provision is necessary to reflect the Group's net current liability position.

CHAIRMAN'S STATEMENT

For the year ended 31st December, 2003, the Group has no exposure to fluctuation in exchange rates and related hedges and there were no contingent liabilities except for the tax dispute with the Inland Revenue Department in respect of an associated company, the amount of our share of the potential tax liability is HK\$6,231,000 (2002: HK\$4,685,000).

EMPLOYEES

As at 31st December, 2003, the Group, excluding associated companies, employed 73 people of which 44 were employed in Hong Kong.

In addition to basic salaries and the provision of mandatory provident fund scheme, employees are provided with medical insurance and some of them are included under a defined contribution provident fund scheme.

PROSPECTS

Following the outbreak of SARS which was subsequently under control, Hong Kong economy has regained its momentum towards a recovery stage. The rental generated from Hong Kong properties will continue to contribute recurrent and stable income to the Group. On the other hand, the uncertainty of the world's political and economic environment will bring risks in investment, operation and foreign exchange in a long run.

The Group will continue to adopt prudent financial and operation strategies, which will be adjusted according to the changing environment, including to build up the momentum in operation and the assets liquidity. The Group will also re-organise the asset base and is well positioned to capture investment opportunities for business development.

Finally, I would like to take this opportunity to express my sincere thanks to my fellow Directors for their guidance and support and to all members of the staff for their loyalty and dedication during the year.

Dai Xiaoming

Chairman

Hong Kong, 19th April, 2004

XIDAN AND WANGFUJING PROJECTS



Jing Yuen International Mansion erected on Lot No. 9
of the Xidan Project

XIDAN AND WANGFUJING PROJECTS



Danyao building erected on Lot No. B3
of the Wangfujing Project

INVESTMENT PROPERTY



Harbour Industrial Centre,
Ap Lei Chau, Hong Kong



Harbour Crystal Centre,
Tsimshatsui East Kowloon

INVESTMENT PROPERTY



The Red Hill, Tai Tam, Hong Kong



Oceanic Industrial Centre,
Ap Lei Chau, Hong Kong