

RESULTS

The Group recorded a turnover of HK\$36,990,000 for the year ended 31st December, 2004, which represented a decrease of approximately HK\$20,780,000 or 36% as compared with last year. The decrease in turnover is mainly due to not receiving any interest income from an associated company in this year whereas the interest income of HK\$13,000,000 was received in the year 2003.

The Group's loss attributable to shareholders in this year was HK\$174,081,000, as compared to loss of HK\$292,935,000 in last year. The loss of this year was mainly due to the loss on a property sale and the provision for the carrying value of the properties of an associated company in total of HK\$160,489,000.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

Hong Kong Business

Property

The Group's residential properties situated at Red Hill Peninsula (33.33% owned) and South Horizons recorded average occupancy levels of approximately 48% and 100% respectively, while the commercial properties situated at Harbour Crystal Centre recorded an average occupancy level of approximately 89%. During the year, the Group's net rental income from property leasing was more or less the same when compared with that in the last year.

This year the Group appointed an independent firm of professional surveyors, DTZ Debenham Tie Leung Limited ("Debenham Tie Leung") in place of Vigers Hong Kong Limited to revalue the investment properties in Hong Kong as suggested by the bank to which the investment property of Harbour Crystal Centre (portion) has been mortgaged. The valuation of Harbour Crystal Centre (portion) was adjusted downwards by HK\$207,600,000, or about 40%, despite the fact that the overall property market was improving in Hong Kong. The rental income generated from Harbour Crystal Centre (portion) in 2004 was approximately HK\$17,467,000 while that in 2003 was HK\$17,118,000, which indicated a stable rental income being received. However, the average occupancy rate in 2004 was 89% while that in 2003 was 61%, indicating that the rental rate in 2004 actually decreased. Further, significant floor space in Harbour Crystal Centre has been leased to tenants under relatively long leases of up to 10 years and therefore limits the ability of the property to benefit from the improving economy. Taking these factors into consideration, management has accepted the valuation performed by Debenham Tie Leung. The Directors are of the view that the adoption of Debenham Tie Leung's valuation can reflect the current and future value of Harbour Crystal Centre (portion).



Mr. Dai Xiaoming
Chairman & Chief Executive

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)**REVIEW OF OPERATION (Cont'd)****Beijing Business***The Wangfujing Project***Lot F1 (61.1% owned)**

On 26th April, 2004, the Group's wholly-owned subsidiary Turbo Dragon Limited ("Turbo Dragon") entered into a sale and purchase supplemental agreement with China Yintai Investment Company Limited ("China Yintai"). The sale and purchase supplemental agreement is supplemental to the sale and purchase agreement made between Turbo Dragon and China Yintai on 30th July, 2003 (collectively called "Sale and Purchase Agreement"), where Turbo Dragon agreed to sell its 61.1% interest in Beijing Lucky Building Company Limited ("Beijing Lucky") to China Yintai for a consideration of RMB134,070,000 (approximately HK\$126,481,000). On 9th May, 2004, the deposit of RMB25,000,000 (approximately HK\$23,585,000) was received from China Yintai.

The remaining balance of the consideration for the sale of the interest in the sum of RMB109,070,000 (approximately HK\$102,896,000), according to the Sale and Purchase Agreement, will be received by four installments before 7th November, 2006.

According to the Sale and Purchase Agreement, the Group's interest will be transferred to China Yintai in stages in proportion to the amount of consideration actually received. Among seven members of the board of directors of Beijing Lucky, currently two out of four seats representing the Group are recommended by China Yintai. In addition, China Yintai's staff are responsible to manage the business operations of Beijing Lucky and the Group only acts as a watchdog for that. Therefore the Directors are of the view that Beijing Lucky should be accounted for as a jointly controlled entity in this transitional period. Since 1st September, 2004, Beijing Lucky has not been dealt with in the consolidated financial statements as a subsidiary.

Dan Yao Building (85% owned)

In the year 2004, the rental income from Dan Yao Building was improved after improving the management of the building. The monthly rental income was approximately RMB280,000 (HK\$264,000). The total yearly rental income was approximately RMB3,400,000 (HK\$3,207,000).

The Company and Beijing Dan Yao Property Co., Ltd. ("Dan Yao") were recently notified by the Second Intermediate People's Court of Beijing Municipality (the "PRC Court") that the PRC Court has accepted the Company's application to liquidate Dan Yao, a major subsidiary of the Company, on 10th March, 2005. According to the advice of the Company's PRC legal advisers, the PRC Court will commence review and hearing of the liquidation from the date it accepts the application and it will take at least four months before the PRC Court makes a decision on whether or not to grant an order for liquidation. Parties may apply to the PRC Court for settlement before the assets are distributed in the liquidation.



CHAIRMAN'S STATEMENT

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

REVIEW OF OPERATION (Cont'd)

Beijing Business (Cont'd)

The Wangfujing Project (Cont'd)

Dan Yao Building (85% owned) (Cont'd)

As disclosed in the Company's 2003 Annual Report, due to no fault of Dan Yao, Dan Yao was unable to obtain the property title certificate for Dan Yao Building for a long time. This has resulted in legal proceedings issued against Dan Yao for breach of contract as a result of the failure in obtaining the relevant property title certificate for the pre-sold property units in a timely manner. At the same time, most of the completed property units could not be sold as a result of the long term inability to obtain the relevant property title certificate, and the bank loans and project sums were unable to be paid in time. As a result of this, the Company has made advances to Dan Yao in the aggregate sum (including accrued interest) of approximately HK\$61,420,000. The Company has written to consult the relevant parties on this matter on many occasions, with a view that the above abnormal circumstances could be improved gradually with the lapse of time.

Although the relevant government department in Beijing in charge has investigated into this matter and has subsequently issued the property title certificate on 14th March, 2005, certain creditors have, by reason of the loss of Dan Yao in the legal proceedings, applied for preservation of most of the assets of Dan Yao to secure their debts. To protect the legal and proper interest of the Group in Dan Yao, and to enable that the interest of all creditors of Dan Yao can be dealt with fairly, openly and in accordance with law and that Dan Yao Building could be operated in a normal manner, the Company applied to the PRC Court for the liquidation of Dan Yao on 23rd December, 2004. Since the acceptance of the application by the PRC Court on 10th March, 2005, Dan Yao has ceased paying its debts in accordance with PRC law.

As the Company has made a full provision for the Group's investment in and advances to Dan Yao in the audited financial statements of the Group for the year ended 31st December, 2003, the Directors therefore consider that, irrespective of whether Dan Yao is liquidated or not and irrespective of whether the Company is able to obtain repayment for its advances to Dan Yao or not, the application for liquidation will not have financial impact on the Group.

The Company will make further announcement if there is progress on the application for liquidation.



CHAIRMAN'S STATEMENT

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

REVIEW OF OPERATION (Cont'd)

Beijing Business (Cont'd)

The Wangfujing Project (Cont'd)

The Xidan Project (29.4% owned)

In 2004, significant loss was shared by the Group in relation to the Xidan Project. During the year, the sale of Lot No. 4 recorded a loss. Management has made a provision for the Xidan Project over the carrying value of the remaining land lots (excluding the underground shopping mall) to the estimated recoverable amount.

In respect of the development of the underground shopping mall, Beijing Jing Yuan Property Development Co., Ltd ("Jing Yuan") needs co-operations with the property owners and the business operators of those properties located along both sides of Xidan North Avenue, and also huge funds raising arrangements are needed before development of the project can be made. As the conditions for its development cannot be fulfilled in the near future, the Group has made a provision for the remaining investment cost of the underground shopping mall.

As at the end of the year 2004, the building located at Lot No. 1 has been made suitable to accommodate China Telecom Group Beijing Company Limited. The accumulated sum of the sale proceeds of RMB391,669,000 (approximately HK\$369,499,000) was received. During the year 2004, an amount of RMB20,000,000 (approximately HK\$18,868,000) was received. The building located at Lot No. 2 has been checked and delivered. The construction works for the building located at Lot No. 4 have been carried out since April 2004 and that a sale and purchase agreement has been entered with Beijing New O Property Development Company Limited ("New O"), under the umbrella of China Management Group on 15th October, 2004 for the sale of the property for a consideration of RMB1,220,000,000 (approximately HK\$1,150,943,000). The sale of the property recorded a loss. In the year 2004, a deposit of RMB50,000,000 (approximately HK\$47,170,000) was received from New O. In respect of the Lot No. 5 project, the dispute with Beijing Tai Yun Plaza Co., Ltd. in respect of the allocation of the property area have been resolved by China International Economic Arbitration Committee on 4th March, 2005 that all the property area in dispute is in favour to Jing Yuan.

It is expected that in the year 2005, the remaining balance of the sale proceeds of RMB87,504,000 (approximately HK\$82,551,000) from the building located at Lot No. 1 will be received. The construction works for the building located at Lot No. 2 have been completed. The project located at Lot No. 4 will be transferred and the amount as specified in the sale and purchase agreement will be received. The allocation of property area in respect of the building located at Lot No. 5 has been basically resolved and it is planned that the remaining balance of the sale proceeds of RMB69,244,000 (approximately HK\$65,325,000) will be received from China United Telecommunication Corporation. The building located at Lot No. 9 will be completed and will start to be sold out.



CHAIRMAN'S STATEMENT

GROUP ASSETS POSITION AND CHARGE ON GROUP ASSETS

The total assets of the Group, as a result of the re-classification of the assets of Beijing Lucky where the sale and purchase agreement for the transfer of interest in this subsidiary has been signed and a downward revaluation of properties, have decreased from HK\$2,159,224,000 in last year to HK\$1,827,869,000 in this year. The net assets of the Group have also decreased from HK\$1,570,653,000 to HK\$1,495,387,000. The amount of the Group's bank borrowings where the property assets are pledged has decreased from HK\$308,659,000 in last year to HK\$98,935,000 in the current year.

GROUP FINANCIAL POSITION, LIQUIDITY AND FINANCIAL RESOURCES

The total liabilities (including minority interests) of the Group have decreased from HK\$588,571,000 as at 31st December, 2003 to HK\$332,482,000 as at 31st December, 2004. The Group had cash at banks and in hand of HK\$17,154,000 as at 31st December, 2004 (2003: HK\$8,328,000). The ratio of total liabilities to total assets was approximately 18% (2003: 27%). As at 31st December, 2004, the aggregate amount of bank loans and bank overdrafts was HK\$98,935,000 (2003: HK\$308,659,000) and the amount of shareholders' funds was HK\$1,495,387,000 (2003: HK\$1,570,653,000), and therefore the capital gearing ratio was 7% (2003: 20%). As from 20th April, 2004, the bank overdraft facilities have been reduced from HK\$100,000,000 to HK\$75,000,000 and as from 12th January, 2005 to HK\$60,000,000, of which HK\$49,030,000 has been utilised as at 31st December, 2004. Of the total borrowings, HK\$8,962,000 is repayable within one year and HK\$89,973,000 is repayable on demand.

As at 31st December, 2004, the Group's current liabilities, amounting to HK\$293,274,000, exceeded its current assets by HK\$67,415,000. Given that Dan Yao has been in liquidation as disclosed above and no further payments except for a small amount of liquidation expenses are required for Dan Yao, 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 a view that no further provision is necessary.

For the year ended 31st December, 2004, the Group has no exposure to fluctuation in exchange rates and related hedges and there were no contingent liabilities.

EMPLOYEES

As at 31st December, 2004, the Group, excluding associated companies, employed 51 people of which 39 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.



CHAIRMAN'S STATEMENT

PROSPECTS

Within the next two years, the political and economic environments in the world and in Hong Kong are still going to be uncertain. In these few years, the Group has adjusted the mode of its operation so as to make it continue to operate, that is, from expanding its operations by investing in property development in Beijing, to retreating the property development projects in Beijing in order to improve the liquidity and safety in operations of the Group. The Group is actively seeking risk averse investments when opportunities arise and is also upgrading its corporate governance as a foundation, so as to bring the Group to enter into the economy which is informative, global and highly technological.

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, 2005

XIDAN AND WANGFUJING PROJECTS



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



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



The Red Hill,
Tai Tam, Hong Kong



Harbour Crystal Centre,
Tsimshatsui East Kowloon



Oceanic Industrial Centre,
Ap Lei Chau, Hong Kong



Harbour Industrial Centre,
Ap Lei Chau, Hong Kong