



MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL OPERATING CONDITIONS

In 2005, the effect of property operations remained stable. As one of the Group's principal businesses, property operations bring stable annual operating and rental returns to the Group under increased management efforts. Turnover of that business segment amounted to HK\$250,000,000, with a profit contribution of HK\$135,000,000 and a total asset value of \$3,567,000,000.

In addition, other non-property projects recorded an Turnover of HK\$470,000,000, with a profit contribution of HK\$25,000,000 and a total asset value of HK\$2,030,430,000.

After a series of acquisitions made during the year, it is expected that the profit contribution from property projects will be significantly increased in 2006.

REVIEW OF PROPERTY INVESTMENT OPERATIONS

The Group currently has four main continued operating property investment projects, namely Poly Plaza, White Rose Hotel, Shanghai Stock Exchange Building and 25/F, Admiralty Centre:

Project	Owned by the Group	Floor Area	Category
Poly Plaza	75%	94,000 sq. m.	Office building, hotel and theatre
White Rose Hotel	100%	33,000 sq. m.	Hotel
Shanghai Stock Exchange Building	46%	100,000 sq. m.	Office building
25/F, Admiralty Centre Tower 1	100%	1,888 sq. m.	Office building

1. Poly Plaza

Subsequent to its being voted the "most preferred hotel by the Beijing citizens" in 2004, the Plaza signed the "Service Agreement of Accommodation and Reception" during the 2008 Olympic Games in 2005 to provide 250 guest rooms to the Olympic Committee from 26th July to 31st August, 2008 at a rate of \$US250-290 per room/day.

In 2005, the turnover of Poly Plaza amounted to RMB131,000,000; gross profit from operations increased from RMB58,800,000 in 2004 to RMB59,010,000.

The guest room occupancy rate of 2005 was 76.41%; the average revenue per room increased from \$444 per day last years to \$472 per day this year; the average revenue per room increased 6.2% from the same period last year.



MANAGEMENT DISCUSSION AND ANALYSIS

2. White Rose Hotel

In January 2005, the Group completed the acquisition of 100% equity interests in the White Rose Hotel. The revenue of the hotel amounted to RMB 64,800,000; gross profit from operations was RMB 20,000,000, representing an increase of 12% from 2004.

In 2005, the average occupancy rate of the White Rose Hotel was 78%, which ranked third in Wuhan in terms of occupancy rate; the average room rate was \$414, higher than the industry average and the average revenue per room increased from \$315 per day last year to \$323 per day this year, with the average revenue per room increased 2.5% from the same period last year.

3. Shanghai Stock Exchange Building

In the beginning of 2005, the Group completed the acquisition of 60% equity interests in Shanghai Puly Real Estate Development Company Limited. The Group currently holds 100% equity interests of Puly ("Puly"). The Group holds a total floor area of 46,000 sq. m. in the Shanghai Stock Exchange Building through Puly and six floors directly held by the Group, representing 46% of the gross area of the building.

In 2005, the rental income from the area held by the Group amounted to RMB 50,720,000, representing an increase of 7.4% from RMB 47,240,000 of 2004; profit from operations was RMB 42,520,000, representing an increase of 20% from 35,420,000 of 2004. The annual occupancy rate remained at 98% and the occupancy rate at the end of the year was 100%, with an average rental rate of 0.52USD/day/sq. m.

4. Admiralty Centre

The 25th floor of Admiralty Centre Tower 1 has a floor area of 20,318 sq. feet, of which 9,438 sq. feet is for self-use and 10,880 sq. feet is for rental purpose. In 2005, income from the rental elements amounted to HK\$2,500,000, representing an increase of 6.5% from 2004. Occupancy rate reached 100% at the end of 2005.

REVIEW OF THE PROPERTY DEVELOPMENT BUSINESS

The Group has two large-scale commercial property projects under construction in 2005:

1. The Guangzhou Westin Hotel and office building project

An increase in equity interests in the Guangzhou Westin Hotel and office building project was completed in February 2005 and new shareholders were successfully introduced. Upon reorganization, the Group has 51% equity interests in the hotel and office building restructuring project. The project has a gross floor area of 129,000 sq. m.

The superstructure wall was completed in the end of 2005 and glass walls, mechanical engineering facilities installation and internal decoration are underway. The hotel is expected to be completed and open for business in early 2007.



MANAGEMENT DISCUSSION AND ANALYSIS

2. Beijing Netcom Building

The Group holds 49% equity interests in this project and has disposed of the entire to China Network Communications Group Corporation ("Netcom").

The works of the projects went smoothly and the foundation works were basically completed by the end of 2005. The installation of glass walls is close to completion and the escalators have completed installation and tests and are ready for use. It is expected that all works can be completed by the first half of 2006 and be delivered to Netcom.

REVIEW OF NON-PROPERTY OPERATIONS

1. Cogenerations

The Group holds equity interests in 5 cogenerations in the Jiangsu Province. The cost of coal and charcoal is the main expense of the cogenerations. Coal price stood high in 2005, bringing undue pressure to the operating effectiveness of the cogenerations. The total profit of the 5 cogenerations amounted to RMB 49,250,000, of which RMB 32,460,000 was attributable to the Group's profit.

2. Other manufacturing operations

Polystar digidisc project: ("Polystar") in 2005, the turnover of Polystar remained at RMB 91,190,000.

The business in Oils & Grains and Port business project: turnover of 2005 was RMB 1.45 billion and loss attributable to the Group was RMB 25,000,000.

REVIEW OF ACQUISITION AND INVESTMENT ACTIVITIES

1. Acquisition of the entire equity interests of Poly Shanghai (later renamed "Poly Realty" for a consideration of RMB 585,000,000 (equivalent to HK\$560,000,000). The acquisition price was at a discount of 5.2% of the revalued value of Poly Realty. It is expected that the whole transaction can be completed by July 2006.

The principal assets of Poly Realty are investment properties located in Beijing, Shanghai, Suzhou, Wuhan and Chongqing, PRC and land held for development (including at the parcels of land at Shang Liang Ba Ku, Riviera office building, Lujiazui, Pudong, Shanghai and the parcels of land at White Rose phase 2, Hong Shan Plaza, Wuchang, Wuhan). Such investment properties and lands to be developed have an gross floor area of approximately 1,000,000 sq. m., of which 80% and 20% respectively are or are planned to be for residential and commercial use, and approximately 400,000 sq. m. are attributable to the interests of Poly Realty.



MANAGEMENT DISCUSSION AND ANALYSIS

An analysis of the geographical distribution of the actual and planned gross floor area of investment properties and lands to be developed are as follows:

Land	Total		Interests attributable to Poly Realty	
	Planned gross floor area (sq. m)	Percentage	Planned gross floor area (sq. m)	Percentage
Chongqing	729,691	74%	160,532	41%
Shanghai	60,804	6%	60,804	16%
Wuhan	99,092	10%	99,092	26%
Suzhou	72,859	7%	45,226	12%
Subtotal	962,446	97%	365,654	94%
Investment properties	Actual gross		Actual gross	
	floor area (sq. m)	Percentage	floor area (sq. m)	Percentage
Beijing	8,745	1%	4,460	1%
Shanghai	17,852	2%	17,852	5%
Wuhan	628	0%	628	0%
Subtotal	27,225	3%	22,940	6%
Total	989,671	100%	388,594	100%

2. Increased shareholding in the office building elements of Guangzhou Westin Hotel project

The increased in shareholding in the office building elements of Guangzhou Westin Hotel was completed in February 2005 and new shareholders were introduced. Upon reorganization, the Group owns 51% of the entire project.

3. Acquisition the North Tianhe project in Guangzhou

The project is situated between Tianhe North Road and Tiyu East Road, Tianhe, Guangzhou, with an area of 7,217 sq. m. and the area for construction is 84,150 sq. m. which is planned to be constructed into a serviced apartment complex and hotel. The total investment amount is expected to be \$1,200,000,000.

In July 2005, the Group successfully acquired the project and subsequently sold 49% of its equity interests to Skyfame Realty in November 2005 at profit of \$4,570,000. It is currently undergoing project planning and is expected to commence construction in 2006 and to be completed in 2008.



MANAGEMENT DISCUSSION AND ANALYSIS

4. Acquisition of luxury residential land in Zhoutouzui, Guangzhou

The project occupies an area of 103,000 sq. m. and is situated between Huandao Lu, Haizhu District, Guangzhou; it is planned to be built into a small, luxury integrated district with commercial, office and residential elements and can build at least 230,000 sq. m. of floor space. The Group indirectly holds 49% equity interests in the project company and is currently undergoing project planning. It is initially expected that total investment will amount to approximately \$2 billion.

5. Increased shareholding in cogenerations and acquisition of 51% equity interests in Jia Xing Co-generation

At the beginning of 2005, the Group exercised the share options under the Guarantee Agreement, is to acquire an additional equity interest of 1.1% Peixian Mine-Site Environment Cogen-Power Co., Ltd. and Dongtai Suzhong Environmental Protection Co-generation Company Limited, at a total consideration of HK\$1 respectively, leading the Group to become the 50.1% Controlling Shareholder in the above 2 cogeneration companies. In addition, the Group also entered into an agreement in October, 2005 to acquire 51% equity interests of a co-generation under construction in Jia Xing, Zhejiang at a consideration of US\$4,488,000 and the acquisition is expected to be completed in the first half of 2006.

FINANCIAL REVIEW

Liquidity and Capital Structure

As at 31st December, 2005, the shareholders' funds of the Group amounted to HK\$2,776,000,000 (2004: HK\$2,518,000,000 (restated)), while the net asset value per share was HK\$3.10 (2004: HK\$2.81 (restated)). As at 31st December, 2005, the Group's gearing ratio (on the basis of the amount of total liabilities divided by the amount of total assets) was 38.1% (2004: 30.9%).

As at 31st December, 2005, the Group had an outstanding bank loans of HK\$1,199,592,000. In terms of maturity, the outstanding bank loans can be divided into HK\$624,317,000 (52%) to be repaid within one year, HK\$406,952,000 (34%) to be repaid after one year but within two years, HK\$168,323,000 (14%) to be repaid after two years but within five years. In terms of currency denomination, the outstanding bank loans can be divided into HK\$506,654,000 (42%) in Renminbi and HK\$692,938,000 (58%) in Hong Kong dollars.

42% of the bank borrowings of the Group are subject to fixed interest rates and the remaining 58% are subject to floating interest rates. Therefore, under circumstances of interest rates uncertainty or fluctuations or otherwise as appropriate, the Group will consider the use of hedging instruments (including interest rates swaps), in order to manage interest rate risks.

As at 31st December, 2005, the Group had a net current liabilities of HK\$236,696,000 total bank balances of HK\$296,155,000 (2004: net current assets of HK\$211,761,000 and HK\$471,879,000 respectively).



MANAGEMENT DISCUSSION AND ANALYSIS

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, Renminbi and US dollars. The Group maintains a prudent strategy in its foreign exchange risk management, where foreign exchange risks are minimized via balancing the monetary assets versus monetary liabilities, and foreign exchange revenue versus foreign exchange expenditures. Besides as the Hong Kong dollar is pegged to the US dollar, and the exchange rate between Hong Kong dollar and Renminbi also fluctuates slightly, the Group believes that its exposure to foreign exchange risks is not material.

Pledge of Assets

As at 31st December, 2005, bank deposits of the Group amounted to HK\$21,749,000 (2004: HK\$25,178,000), certain of the Group's investment properties and land reserve of approximately HK\$773,742,000 (2004: approximately HK\$1,015,618,000), other plant and equipment with an aggregate net book value of approximately HK\$638,819,000 (2004: HK\$683,901,000) and shares in certain subsidiaries and an associate were pledged to secure credit facilities granted to the Group.

Contingent Liabilities

As at 31st December, 2005, the Group had given guarantees to certain banks in respect of credit facilities granted to certain subsidiaries of the Company and the amount utilised was approximately HK\$80,000,000 (2004: HK\$60,000,000).

As at 31st December, 2004, the Group had given guarantees of approximately HK\$14,300,000 to a bank in respect of credit facilities granted to prospective purchasers of properties developed by a jointly controlled entity of the Group.

STAFF

As at 31st December, 2005, the Group employed about 2,000 staff with remuneration for the year amounted to HK\$84,212,000. The Group provides its staff with various benefits including year-ended double-pay, discretionary bonus, contributory provident fund, share options and medical insurance. Staff training is also provided as and when required.

PROSPECTS

The management of the Group is still confident in the economic development of the PRC and the prospects of the Group's PRC projects. The Group will continually adopt an active but prudent operating strategy, strengthen its corporate governance, reduce the operating costs in order to further develop its principal business of property operations, optimize the business structure, enhance effectiveness and maximize the return to shareholders.