

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND OPERATION REVIEW

The Board announced that the unaudited turnover of the Group for the six months ended 30 June 2002 was approximately HK\$12,236,000, representing a decrease of 62% as compared with that for the same period of the previous year. During the period, provision for Fuzhou property development projects and other non-core businesses amounted to HK\$134,868,000, and consolidated loss amounted to HK\$151,447,000.

Based on the overall development strategy for the year 2002 of the Board, the first half of year 2002 was an integration period for the Group's business. During that integration period, the Group had conducted an in-depth review on investment and evaluated its future prospects.

The Group's property projects in Fuzhou are relatively small, its marketing prospect is so uncertain, together with the Group's other businesses such as Chinafortunes network, Cangshan Hightech Industrial Park, Fuzhou, etc. had not been able to generate income to the Group. Having considered that the prospect of these operations was not optimistic, and that in order to avoid diversion of resources and slowdown of the Group's progress in the premier property business, the Board decided, after cautious review, to make a one-off provision for the operation of these businesses during the period as the prospect of them are not promising.

As the Group's newly injected premier residential property "The Genesis" in Hong Kong is still under redevelopment and has not yet available for sale and the Shanghai Shimao Lakeside Garden project has only been offered for sale in this September, the returns of these projects are not readily reflected in the first half of year 2002. Therefore, the Group has recorded a relatively substantial loss during the period.

BUSINESS REVIEW

Property Development

The PRC

Shanghai Shimao Lakeside Garden

After analyzing the overall prospect of the real estate market of the PRC, the Board made the following decision upon prudent consideration: the Group determined to develop the premier residential property market in Shanghai and Beijing. The project of Shanghai Shimao Lakeside Garden represented the milestone of the Group's access to the property market of Shanghai, it also formed an important part of the overall development strategy of the Group in 2002.

In early 2002, through a wholly owned subsidiary, the Group formed a sino-foreign joint venture company Shanghai Shimao Hubin Real Estate Company Limited, with a subsidiary of Shanghai Shi Mao Co., Ltd, an A share listed company in Shanghai, in which each of the two parties held 50% stake. The joint venture company acquired a parcel of premier land at 上海市浦東金洋生活園區 Jinyang Shenghuoyuanju, Jin Qiao, Pudong, Shanghai (also known as 上海市金橋出口加工區金洋生活園區) to develop a large-scale up-market lakeside residential property project "Shanghai Shimao Lakeside Garden". In May this year, a total of 40 units were launched to the market with an over-subscription of 30 times.

The formal pre-sale of the Shanghai Shimao Lakeside Garden starts in September this year. Until now, Block 1 with more than 200 units has been fully sold out, bringing in a sale revenue of about HK\$400 million. It is expected that the project will generate substantial revenue which will be reflected in the second half of year 2002 and the financial year of 2003. The project is scheduled for completion in mid-2004 with a total investment of about HK\$420,000,000. It is anticipated that the project will contribute nearly HK\$1,000,000,000 for the Group by the end of 2002.

Dong Fang Hong Shopping Centre in Lanzhou, Gansu Province and Epoch Centre in Beijing

In order to further strengthen the Group's capital structure, enhance earning capabilities and broaden its income sources, the Group, through Sparkle Talent Limited, a wholly owned subsidiary, acquired Dong Fang Hong Shopping Centre in Lanzhou, Gansu Province and 3 shop units at Epoch Centre of Beijing in July 2002.

Dong Fang Hong Shopping Centre is a 3-storey underground commercial building with a total gross floor area of about 20,000 sq.m. which contributed rental income to the Group of approximately HK\$6 million per annum.

The 3 shop units at Epoch Centre of Beijing are up-market properties with a total area of about 5,000 sq.m. which contributed rental income to the Group of approximately HK\$5 million per annum.

The above 2 properties will provide stable rental income for the Group of about HK\$11 million each year with an average investment return of 7%.

Fuzhou Property Development and Investment

The Group's property development in Fuzhou is unsatisfactory due to historical factors. With the rising of living standard, people tend to demand for high-quality property. However, our Group's properties in Fuzhou fall short substantially of meeting the overall market demands, resulting in decreasing sales. In addition, the construction of certain properties of our Group in Fuzhou fell behind schedule, creating unforeseeable risk to the Group's overall development.

To focus on developing high-quality and high-end real estate projects in Shanghai and Beijing, the Group decided to make full provision for the properties under development and for sale in Fuzhou. The Group incurred significant loss as a result of this provision.

Hong Kong

Luxury Property "The Genesis" on The Peak, Hong Kong

The Group has been looking for opportunities to develop the Hong Kong luxury property market. In December 2001, the Group acquired "The Genesis" at No.23 Severn Road, The Peak at a total consideration of HK\$230,000,000.

"The Genesis" is a prestigious super luxury property in Hong Kong with full views of Victoria Harbour. It consisted of a 4-storey detached house and a 3-storey pool house with a total gross floor area of 1,821.81 sq.m. and 721.57 sq.m. respectively.

The Group is now actively working on the redevelopment of "The Genesis" and the total investment for redevelopment would be approximately HK\$90,000,000, which includes a main block and 2 properties. The redevelopment commences in September and it is expected that the project will be completed and ready for sale by the end of 2003. The project is anticipated to generate considerable revenue for the Group.

Office Tower, Convention Plaza, Wanchai, Hong Kong

In line with the objective of expanding premier real estate business, the Group acquired an office premise at Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong as its head office in Hong Kong for a total consideration of HK\$49,098,000 in August 2002.

The office premise occupies a total area of 10,020 sq.m. with panoramic view of Victoria Harbour and is equipped with comprehensive office system, first class property management facilities, safety equipment system and other auxiliary facilities. It is the intention of the Group that this quality office premise, as the flagship of our future development, will provide a cosy working environment for our staff, and thus increasing their efficiency and paving the way for our future development.

Others

During the period under review, the property projects in Fuzhou, Cangshan Hightech Industrial Park, Fuzhou, Chinafortunes network, etc. progressed slowly and failed to contribute any return to the Group. Having regard to their unpromising prospect, the Group has made a one-off provision for these operations in the period.

PROSPECT

The entry of the PRC into the WTO leads to a vigorous economic environment throughout the territory, in particular, the major cities of Shanghai and Beijing see even busier trade activities. It is anticipated that major cities like Shanghai and Beijing will have a more systematic and market-based property market. With the full support from the PRC government towards business activities in China, including the implementation of various preferential policies aimed at pushing the property market forward, and people in mainland China seek for higher living standard, the PRC property market is extremely active. Demands for high-quality, high-class and first-rate property are increasing all the time. These favourable factors are in line with the Group's target of developing high-class and high-quality properties in the PRC. The Group will get hold of all opportunities of developing quality properties, and will actively develop those extremely popular high-class property projects like Shanghai Shimao Lakeside Garden.

As the Group has cleaned up part of its operation with unsatisfactory performance, while newly-developed high-class property project could contribute substantial amount of income to the Group in the near future, the Group is fully confident of its future prospect. Looking to the future, the Group will work harder and will apply stable and sufficient financial resources, experienced management and the brand name of "Shimao" which represents top-class property. The Group will also actively grasp opportunities in the property markets in the PRC and Hong Kong, and will develop its business conscientiously, with the ultimate aims of improving the results of the Group and of returning to the path leading to growth.

OPERATING CAPITAL AND FINANCIAL RESOURCES

Assets

As at 30 June 2002, the Group's total asset amounted to HK\$620,234,000 (31 December 2001: HK\$553,750,000), representing an increase of 12% over the end of last year. As at 30 June 2002, the net asset value of the Group was HK\$310,591,000 (31 December 2001: HK\$157,784,000), representing an increase of 96.8% over the end of last year. The increase in asset value was mainly attributed to the two successful rights issue exercises undergone during the period, enlarging the asset base of the Group. In the meantime, the Group's shareholdings structure was strengthened and its shareholders base was also broadened.

Pledge of Assets

As at 30 June 2002, the Group's assets representing an amount of HK\$327,758,000 of land and property were pledged to secure certain banking facilities granted to the Group.

Bank Borrowings

As at 30 June 2002, the bank borrowings of the Group amounted to HK\$256,409,000 (31 December 2001: HK\$263,146,000), representing a decrease of 2.6% compared to the end of last year. The decrease in bank borrowings was mainly attributed to the repayment of certain borrowings for financing the acquisition of investment properties during the period.

Financial Ratio

The Group, as at 30 June 2002, has a current ratio (i.e. current assets / current liabilities) of 0.55 (31 December 2001: 0.43) and debt-equity ratio (i.e. bank borrowings / shareholders equity) of 0.83 (31 December 2001: 1.67). The above two main financial ratios were improved compared with the year end of last year, indicating that the Group's financial status was sound.

Contingent Liabilities

The Group did not have any material contingent liabilities for the period ended 30 June 2002.

Financial Policies

The Group will continue to adopt a conservative approach in coping with financial risk and will, taking into account the financing needs of the Group, arrange for bank borrowings (interest of borrowings in Hong Kong dollars will be calculated based on floating interest rates). As the exchange rate of Hong Kong dollars against Renminbi is relatively stable, the Group's business in the PRC are not exposed to material foreign exchange risk.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2002, the Group has about 160 employees. They are remunerated according to the Group's current remuneration structure and bonus scheme having regard to the performance of the staff. Other staff benefits include the Mandatory Provident Fund, medical insurance, training programme and share option scheme.