

Management Discussion and Analysis

REVIEW OF OPERATIONS

During the year, the Group focused on its property development business in Shanghai and its surrounding areas, and established its leadership status as a property developer in the PRC. The result for the year is mainly attributable to the sales of Shui Qing Mu Hua and Zendai Jia Yuan projects. Since the launch of Shui Qing Mu Hua and Zendai Jia Yuan, the Group's mid to high-end residential development in Pudong District in Shanghai, market response was good and the sales were satisfactory. The high-rise apartments project of Shui Qing Mu Hua is developed in two phases with a total of 855 units. Phase One comprises 432 units, which is already on sale, has recorded satisfactory sales during the year. Meanwhile, the project of Shui Qing Mu Hua individual villas has commenced its development on schedule in July 2003 and is expected for sale in the mid of 2004. In addition, Zendai Jia Yuan is developed in four phases. Phase One and Two, total 1,600 units, have already been sold out. Phase Three's construction started in June 2003, and have already been put on sale.

Based on good prospects for the property market in Shanghai, and a large number of major international infrastructural projects are being carried out, including the Shanghai World Expo 2010 and the Shanghai Universal Studio. These will stimulate the demand for high-end property, which is conducive to the development of the Group's property business. Hence the management is very optimistic about the sale of Phase Two of Shui Qing Mu Hua, Phase Three and Phase Four of Zendai Jia Yuan, and Shui Qing Mu Hua's individual villas which are now under construction. It is hoped that these projects will bring sustained and stable profit contributions to the Group's property business in the coming two financial years.

LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND GEARING

At December 31, 2003, the Group had a healthy financial position with net assets amounted to approximately HK\$172 million (2002: HK\$138 million). Net current assets increased from approximately HK\$92 million in 2002 to approximately HK\$431 million, with current ratio of approximately 1.95 times (2002: 356 times).

The Group adopts relatively prudent financial policy and closely monitors its cash flow. At December 31, 2003, the Group has consolidated bank loans of approximately HK\$245 million (denominated in Renminbi), in which HK\$151 million is repayable within one year and HK\$94 million is repayable more than one year but not exceeding two years. The Group also has shareholder's loan of HK\$30 million, amount due to a related company and a director of approximately HK\$4.9 million and HK\$2 million, respectively. At December 31, 2003, the Group's bank balances and cash are approximately HK\$98.8 million, in which 72% was denominated in Renminbi, with the others denominated in Hong Kong dollars.

The gearing ratio of the Group was 1.64 times (basis: total of amount due to a related company, amount due to a director, shareholder's loan and bank loans divided by shareholders' funds). The Group did not have any borrowing as at December 31, 2002. The increase in gearing reflected the Group's financing requirement to match the accelerated development pace.

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SEGMENTAL INFORMATION

For the year ended December 31, 2003, over 90% of the Group's revenue and assets are attributable to the development and sales of properties in the PRC.

FOREIGN CURRENCY EXPOSURE

As most of the Group's monetary assets and liabilities are denominated in Renminbi, the exchange rate risks of the Group is considered to be minimal.

EMPLOYEES

As at December 31, 2003, the Group employed approximately 200 employees in Hong Kong and the PRC. They were remunerated according to the nature of the job and market conditions. Other staff benefits include a mandatory provident fund scheme, local Municipal Government retirement scheme, insurance and medical insurance.

MAJOR ACQUISITION

On February 28, 2003, the Group's acquisition of 65% of the issued capital of Shanghai Zendai Real Estate Company Limited, for cash consideration of approximately HK\$66.8 million had been completed. The identifiable net assets acquired was approximately HK\$143.9 million and negative goodwill of approximately HK\$77.1 million was created from the acquisition.

CHARGES ON ASSETS

At December 31, 2003, the Group's properties for sale of approximately HK\$409.6 million has been pledged to banks to secure bank loans granted to the Group.

CONTINGENT LIABILITIES

At December 31, 2003, the Group had no significant contingent liabilities or outstanding litigation.