MANAGEMENT DISCUSSION AND ANALYSIS

ANNUAL RESULTS

During the year under review, the Group's turnover and net loss for the year amounted to approximately HK$2,609,000 (2002: HK$2,658,000) and HK$65,494,000 (2002: HK$102,826,000) respectively. The basic loss per share for the year was 24.1 HK cents (2002: 37.8 HK cents).

FINANCIAL REVIEW

To prepare for the sale of China Securities Plaza, full scale development work for this project was not carried out till October last year. Accordingly, an amount of approximately HK$6,622,000 (2002: HK$4,216,000) and borrowing costs of approximately HK$16,198,000 (2002: HK$20,736,000), being the direct administrative and finance cost attributable to the China Securities Plaza, were charged to the income statement.

The improvement in the current year's result over that of last year's were mainly because of the revaluation surplus of investment properties booked for the year amounted about HK$662,000 (2002: Deficit of HK$55,745,000) and the decrease in allowance for accounts receivable and loan receivable of HK$9,190,000. (2002: Increase of HK$9,190,000)

Loss on disposal of 49% interest in a subsidiary holding indirectly the Group's property under development in Beijing, Tong Sun Limited in June 2003 amounted to HK$382.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING REQUIREMENTS

As at 31 December 2003, the Group's bank borrowings amounted to HK$371,995,000 (2002: HK$337,597,000), that are interest-bearing, of which HK$91,621,000 (2002: HK$337,496,000) are repayable within one year.

The gearing ratio (total debts/ total assets of the Group) was 0.49 as at 31 December 2003 (as at 31 December 2002: 0.32). The liquidity of the Group as at 31 December 2003 has been improved, the cash and bank balances increased by approximately HK$44 million, and the current ratio (current assets/ current liabilities) was 1 (as at 31 December 2002: 0.67).

The net current assets of the Group have improved primarily due to two long-term loans of HK$142,000,000 (interest free) and HK$45,000,000 (bearing interest at 6% per annum) with maturity date on 22 June 2005.

The majority of the Group's operations are located in the PRC and the main operational currencies are Hong Kong Dollars and Renminbi, there is no significant exchange rate fluctuation during the year under review. Therefore, it is not necessary for the Group to make any foreign currency hedging arrangement to minimize the foreign exchange risk and exposure.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As at 31 December 2003, the Group's property under development with aggregate carrying value of approximately HK$744 million (2002: HK$710 million) have been pledged to secure the bank loans granted and amounts payable in respect of land development cost totalling approximately HK$523 million (2002: HK$523 million). Certain investment properties and land and buildings have been frozen by the court in the PRC following the legal action taken by creditors of the Group.

CONTINGENT LIABILITIES

(a) During the year, a purchaser of a unit of the Group's property development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of approximately RMB15 million paid together with interest. The directors of the Group, based on the opinion of the legal advisers, considered that the claim made by the purchaser is not valid and are of the opinion that the claim will not cause any material loss to the Group. No provision for the loss in the financial statements is necessary.

(b) In October 2002, one of the creditors of the Group filed a notice of arbitration against the PRC subsidiary holding the property for development for sale for a total amount of approximately RMB290 million, which relates to certain land development cost for the property of approximately RMB222 million and interest penalty of approximately RMB68 million. A court order against the PRC subsidiary was issued on 22 October 2002 either to freeze its bank deposits or to attach its assets for an amount up to RMB50 million. The Group was then at the final stage of finalizing the terms of the settlement and rescheduling of the outstanding amounts payable to the creditor, which terms would form part of the master standstill agreement. The directors were confident that the creditor would sign the agreement. Under the agreement, the Group was not liable to pay the aforesaid interest penalty of approximately RMB68 million.

    During the year, the Group entered into the master standstill agreement with its creditor and bankers under which the aforesaid interest penalty was waived. The waiver is subject to the condition that the Group is able to repay the land development cost in accordance with agreed repayment schedule. Should the Group be unable to comply with repayment schedule, the interest penalty will become payable. The directors consider that the Group has sufficient funds to comply with the repayment and accordingly no provision for the penalty is necessary.

MANAGEMENT DISCUSSION AND ANALYSIS

(c) During the year ended 31 December 2002, a purchaser of an unit of the Group's property under development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of RMB30 million paid together with interest and applied to freeze the bank balances or equivalent assets of the Group to the extent of RMB30 million. On 8 January 2003, the PRC court ordered that the Group is liable to refund the deposits together with interest to the purchaser. On 31 March 2003, the Group appealed to the court to object the decision based on the fact that the evidence provided by the purchaser are not valid. The directors of the Group, based on the opinion of the independent legal advisers, considered that the claim from the purchaser will be overruled and no provision for the loss in the financial statements is necessary.