



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

For the year ended 31 December 2003, the Group recorded a turnover of approximately HK\$8,662,000 (2002: HK\$9,625,000), representing a decrease of 10% as compared with the previous year. The decrease is mainly due to the unfortunate saga of Severe Acute Respiratory Syndrome ("SARS") in the first half of the fiscal year and the consequential slowdown of the Group's business activities in the PRC and Hong Kong. The decrease in the Group's turnover is also due to a 36% decrease in rental income received as compared with previous financial year.

The net loss from ordinary activities attributable to shareholders was approximately HK\$14,235,000 (2002: HK\$8,803,000), representing an increase of 61% over the previous year. The loss widened in the current fiscal year as the turnover received from rental income was hit by the SARS saga while the Group incurred extra financial resources for the development of property investment projects in the PRC. In addition, the Group had disposed of a property in Hong Kong which brought a loss from disposal of approximately HK\$6.7 million to the Company.

During the year under review, the turnover of the Group was derived from rental income and interest income, each of which accounted for 55% and 45% of the Group's turnover respectively. For the year ended 31 December 2003, there was no turnover or profit derived from securities trading (2002: Nil).

BUSINESS REVIEW

The principal activities of the Group are property investments and securities trading. The analysis of each business operations is set out as follows:

Securities Trading

For the year under review, due to the fluctuation in the stock market, the Directors decided not to resume the securities trading operation. As a result, there was no turnover or profit derived from the securities trading operation during the year. The main objective for such minimisation of securities trading operation was to bring a more stable performance in the future. The result of this business strategy was quite promising. The Group successfully escaped the downturn of the stock market as a consequence of the outbreak of SARS in Hong Kong. The Directors will closely monitor the market situation in Hong Kong and capture the investment opportunity should it arise.

BUSINESS REVIEW (cont'd)

Properties Investments

Hong Kong

For the year ended 31 December 2003, all of the Group's investment properties are located in Hong Kong. During the year under review, the Group's rental income generated from leasing of properties was approximately HK\$4,730,000 (2002: HK\$7,452,000), representing a decrease of 36% when compared to the previous year. During the first half of the year under review, there was no clue of economic recovery and the setbacks of deflationary environment dampened consumers' sentiment to historical low level. Moreover, the outbreak of SARS exacerbated the sluggish economy and exerted disastrous impact on all business sectors. In order to match with rentals charged by counterparts and to avoid vacancy, the Group lowered the asking rental. As a result, the Group successfully stabilized the plunge of the revenue and profit of the property leasing operations. As at 31 December 2003, all of the Group's investment properties were mostly rented out. During the second half of the year under review, the local economy had gradually stabilized and the property market had shown sign of recovery, the Directors believed that the properties investments operation will continue to bring positive returns and healthy cashflows to the Group.

Considering the continuous downturn of the local economy and the volatility of the local property market, the Group had disposed of a heavy interest bearing property investment situated at the Far East Finance Centre, Admiralty, Hong Kong during the year through private offer and realized HK\$14.2 million which had been used to repay the bank loan.

Shanghai, the PRC

Subsequent to the disposals of property investment projects in Shanghai in 2002, the Group still possessed of an investment property project with investment deposits of HK\$58,720,000. This property investment project was a commercial building construction project in Shanghai. It was agreed that upon completion of the project, the developer would transfer the legal titles of certain number of units to the Group and allow the Group to acquire other units at a discount of the market price. Although the outbreak of SARS disordered the normal operation of the society and puzzled the economic prospects, the project was nearly completed at the end of 2003. The Directors expect that the legal title of a number of commercial units will be transferred to the Group in 2004. Considering the Shanghai property market is seemingly reaching the plateau, the Directors plan to dispose of all of the investment properties. The Directors are of the opinion that the proposed disposal will be in the best interests of the Group.

Xian, the PRC

As at 31 December 2003, the Group had two property development projects of high-class villa-type residential district in Xian. The first property development project commenced in 2001 of which the Group established a joint venture with a reputable and independent local property developer in Xian. As at 31 December 2003, the total investment costs of the project were approximately HK\$46,768,000. The profit sharing ratio between the Group and the joint venture partner was on a 30:70 basis. Due to the outbreak of SARS, the construction progress lagged. With the Group's efforts and the cooperation of the joint venture partners, the construction progress accelerated in the second half year of 2003 and caught up the construction schedule. The Directors estimated that the aforesaid project could be completed in the second half of 2004.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

BUSINESS REVIEW (cont'd)

Properties Investments (cont'd)

Xian, the PRC (cont'd)

The second project commenced in 2002. As at 31 December 2003, the total costs of development of the project were approximately HK\$115 million. This project was ranked as the second key project of Xian by the local government in 2002. The construction progress of the project was also hit by the outbreak of SARS. As a result, the construction work took longer than expected. In order to catch up with the construction schedule, the Directors frequently traveled to Xian and closely monitored the construction progress. As at 31 December 2003, the Directors were satisfied about the progress of construction.

INVESTMENTS

In view of capturing the rapid economic growth in Shanghai, the PRC, in 2002, the Group acquired certain percentage of equity interests in various PRC companies. During the year under review, the Directors reviewed the performance of these investee companies and were pleased to note that most of them experienced a rapid growth in both results and operations. The Directors are of the opinion that these investments are promising and will bring positive returns to the Group in the foreseeable future. As such, the Group further acquired a number of equity interests in two investee companies. As at 31 December 2003, the total investments increased to HK\$308,466,000, which grew from HK\$216,467,000 in 2002.

PLACEMENT OF NEW SHARES

In order to support the daily operation and to strengthen the cash flow position of the Company for capturing unusual investment opportunities, the Group made two share placements during the year under review. The details of the placements of new shares are set out as follows:

On 24 January 2003, the Company announced the placing of 250,000,000 new shares of the Company at the subscription price of HK\$0.13 per share. The proceeds from placing of new shares have been remitted to the Company's subsidiary as working capital for the Group's Xian property development project and operations in Hong Kong.

On 17 February 2003, the Company announced the placing of 300,000,000 new shares of the Company at the subscription price of HK\$0.14 per share. The proceeds from placing of new shares have been used as the general working capital of the Group.

PROSPECTS

Subsequent to the SARS saga, the directors decided that the Group must expand its business scope and geographical coverage to better equip itself for future events. With the end of the SARS and along with the launch of the Closer Economic Partnership Arrangement, the Group expects the PRC to continue to grow rapidly. The Group is set to further expand its investments in the PRC and will continue to broaden its business spectrums in order to improve its profitability. It also intends to look for investment and acquisition opportunities in related business with growth potential and to expand its geographical presence by forming strategic and business alliances with leading property development companies and business partners in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

PROSPECTS (cont'd)

The PRC is poised to become a strong country in the world, and its economy is expected to continue its robust growth momentum. The average annual growth rate of the country's GDP can potentially reach 7% or above. Xian is the focus of the whole country since the PRC government has designated it as a landmark development and it will be the powerhouse of the national economic development. In light of the accelerating urbanization of Xian, improvements in municipal facilities and expansion of traffic network, the development potential of Xian property market is immense. The positioning of the Group, together with its development strategies, caters for the needs of the market and is instrumental to the Group's future developments. In view of this, the Group will closely monitor the construction progress of its Xian's investment projects. The Group is keen to complete all the projects on time for capturing the economic boom of the PRC property market and to accelerate the profit generating power of the Group. The Board is confident that the Group will enter into the period of harvest in the next two years.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2003 (2002: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finance its operation with internally generated cash flow and remaining portion of the net proceeds from fund raising activities. During the year under review, the Group recorded a net cash outflow of approximately HK\$1,041,000 (2002: HK\$2,759,000). In the opinion of the Board, the cash outflow for the year did not have material effect on the Group's liquidity position.

The Group expresses its gearing ratio as a percentage of bank borrowing over total shareholders' equity. As at 31 December 2003, the gearing ratio was 0.08 (2002: 0.12).

The Group is of good liquidity and sufficient solvent ability. Current ratio decreased from last year's 6.91 to 6.52 for the year ended 31 December 2003. Despite the decrease of current ratio, the directors are of the opinion that the Group maintains strong liquidity position which is able to meet its liabilities when they fall due.

The debt to equity ratio was 0.10 while it was 0.15 last year. The ratio was calculated by dividing the total liabilities of HK\$71,961,000 (2002: HK\$96,333,000) by the total shareholders' equity of HK\$684,199,000 (2002: HK\$624,019,000).

The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

CAPITAL STRUCTURE, FUNDING AND TREASURY POLICIES

As at 31 December 2003, shareholders' funds of the Group amounted to approximately HK\$684,199,000 (2002: HK\$624,019,000). Current assets amount to approximately HK\$200,362,000 (2002: HK\$260,779,000), of which approximately HK\$37,055,000 were cash and bank balances. Current liabilities of approximately HK\$30,706,000 (2002: HK\$37,750,000) mainly comprised of bank borrowings and other payables and accrued expenses.

During the year ended 31 December 2003, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. The Directors do not consider that the Group is significantly exposed to any foreign currency exchange risk. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. For the year ended 31 December 2003, the Group does not employ any financial instruments for hedging purposes and does not engage in foreign currency speculative activities.

BORROWINGS AND BANKING FACILITIES

The total bank borrowing of the Group as at 31 December 2003 was approximately HK\$55,161,000 (2002: HK\$73,764,000) which was denominated in Hong Kong dollar. The bank borrowing mainly consists of mortgage loan granted for the purpose of facilitating the acquisition of investment properties in Hong Kong. The mortgage loan is not at fixed interest rates and is secured by the investment properties of the Group.

CAPITAL COMMITMENTS

As at 31 December 2003, the Group had capital commitment of approximately HK\$24,950,000 in respect of a contribution for an property investment project in the PRC.

Saved as disclosed above, the Group does not have material capital commitments as at 31 December 2003.

CONTINGENT LIABILITIES

As at 31 December 2003, the Group had no material contingent liabilities (2002: Nil)

PLEDGE AND CHARGES OF GROUP ASSETS

As at 31 December 2003, properties with net book value of approximately HK\$102,620,000 (2002: HK\$101,520,000) had been pledged to secure mortgage loan.

HUMAN RESOURCES

As at 31 December 2003, the Group employed 85 full time employees. Employee remuneration packages are structured and reviewed by reference to the nature of the job, market condition and individual merits. The Group also provides other employee benefits which include year end double pay, mandatory provident fund and medical insurance. Total staff costs for the year ended 31 December 2003 were approximately HK\$7,223,000 (2002: HK\$5,900,000).

SUBSEQUENT EVENTS

As at 31 December 2003, the Group did not have any significant subsequent events.