

Management Discussion and Analysis

FINANCIAL REVIEW

For the six months ended 30th June 2004, the Group achieved a turnover of HK\$906,390,000, a 102% increase compared with the same period last year. The increase was mainly due to the turnover from the paint business which was accounted for in the current period after the completion of acquisition of a 63.07% equity interest in COSCO Kansai Companies in January 2004. The sale of Phase II of Fragrant Garden in Shanghai also accounted for the increase in turnover during the period under review. The gross profit increased by 223% to HK\$194,101,000. The increase was mainly due to the contribution of the gross profit of the newly acquired COSCO Kansai Companies and the increase in selling prices of Phase II of Fragrant Garden in Shanghai.

The Group achieved an operating profit of HK\$96,466,000, a 270% increase compared with the same period last year.

The Group attained a profit attributable to shareholders of HK\$43,297,000 for the period, increased by 51 times compared with the same period last year.

FINANCIAL RESOURCES AND LIQUIDITY

For the six months ended 30th June 2004, shareholders' funds of the Group increased by 5.9% to HK\$939,600,000 resulting from the profit generated during the period under review. For the corresponding period last year, the shareholders' funds increased by 0.1% to HK\$1,005,112,000.

The net increase in bank loans amounted to HK\$30,604,000 (2003: net decrease of bank loans HK\$8,150,000) during the period under review. As at 30th June 2004, total banking facilities available to the Group amounted to HK\$1,386,619,000 (31st December 2003: HK\$1,296,897,000), of which HK\$965,724,000 (31st December 2003: HK\$935,120,000) was utilised. The increase in utilisation of banking facilities was mainly attributable to the drawdown of bank loans to finance a property development project in Shenyang and the inclusion of the bank loans of the newly acquired COSCO Kansai Companies. The gearing ratio, which represents total bank loans over total assets, was approximately 32% (31st December 2003: 40%).

As at 30th June 2004, the Group's borrowings were denominated in Hong Kong dollar, United States dollar and Renminbi and carried at interest rates calculated with reference to Hong Kong Interbank Offered Rate, London Interbank Offered Rate and the Base Rate announced by the People's Bank of China respectively. During the period under review, the Group had no material exposure to exchange rate fluctuation and did not have any financial instruments for hedging purpose.

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The maturity and currency profiles of the outstanding bank loans as at 30th June 2004 are analysed as follows:

	30th June 2004		31st December 2003	
	HK\$'000	%	HK\$'000	%
Maturity profiles:				
Bank loans repayable				
— Within one year	227,992	24	257,220	28
— In the second year	51,759	5	19,230	2
— In the third to fifth year	685,973	71	658,670	70
	965,724	100	935,120	100
Secured	736,696	76	697,130	75
Unsecured	229,028	24	237,990	25
	965,724	100	935,120	100
Currency profiles:				
Hong Kong dollar	775,628	80	916,330	98
United States dollar	124,426	13	—	—
Renminbi	65,670	7	18,790	2
	965,724	100	935,120	100

As at 30th June 2004, investment properties in Hong Kong of HK\$242,034,000 (31st December 2003: HK\$242,034,000), other properties in Hong Kong of HK\$714,418,000 (31st December 2003: HK\$722,549,000) and certain projects under development in China Mainland of HK\$75,869,000 (31st December 2003: nil) were pledged as securities to banks in respect of certain banking facilities granted to the Group.

Cash and bank balances amounted to HK\$498,769,000 (31st December 2003: HK\$554,930,000) as at 30th June 2004 and accounted for 31% (31st December 2003: 56%) of the current assets of the Group. In addition to the above, there is no bank balance (31st December 2003: HK\$4,392,000) restricted for the purpose of granting banking facility to the Group.

*Management Discussion and Analysis***EMPLOYEES**

As at 30th June 2004, excluding associated companies and jointly controlled entities, the Group had approximately 637 (31st December 2003: 269) employees of whom 126 (31st December 2003: 134) staff was employed in Hong Kong. During the period under review, staff costs including directors' emoluments, net of amount capitalised in construction contract in progress of HK\$9,669,000 (2003: HK\$11,460,000) totalled to HK\$33,947,000 (2003: HK\$16,516,000). All the staff employed in Hong Kong participated in the Mandatory Provident Fund Scheme.

On 26th November 2003, the directors and employees of the Group were granted certain share options to subscribe for a total of 44,800,000 shares at a price of HK\$0.57 per share. The share options are exercisable at any time from 23rd December 2003 to 22nd December 2008.