

# Management Discussion and Analysis

## BUSINESS REVIEW

The Group recorded a turnover and net profit of HK\$152.9 million and HK\$17.1 million respectively for the period from 1 December 2003 to 31 December 2004. These results reflect an increase in turnover and net profit of HK\$135.2 million and HK\$1.5 million respectively compared with last year.

During the period, the Group acquired two subsidiaries for the purpose of acquiring certain properties interests situated at the central district in Macao at a total consideration of HK\$297.1 million. The property interests consist of a 50% interest in a substantial part of a commercial building situated at Avenida do Infante D. Henrique with an aggregate gross floor area of 45,453 square metres of retail, office and car parking spaces ("The Macau Square") and 70.5% interest in a parcel of properties which mainly comprises a substantial part of China Plaza situated at Avenida da Praia Grande with a gross floor area of 15,934 square metres of retail and office spaces. The turnover and result of the property activities were mainly attributable to the sale of some of the properties acquired during the period. Currently, the property related segment is the Group's main performance driver, contributing an operating profit of HK\$14.0 million and a net of tax property revaluation surplus of HK\$62.5 million. The Group also acquired, through the acquisition of a subsidiary, a 58% interest in a site situated at Lots TN25b and TN26d, near Estrada Coronel Nicolau de Mesquita, Taipa, Macao with a site area of 5,207.7 square metres for a consideration of HK\$78.3 million. The site will be developed into two residential buildings with a total gross floor area of 35,900 square metres and car parking spaces. The development is expected to be completed in 2007.

In November 2004, the Group has also acquired a leading crushed tube ice manufacturer in Hong Kong, namely The Hong Kong Ice & Cold Storage Company Limited ("HKICS"), which should provide a stable recurrent income to the Group. During the period, HKICS contributed an operating profit of HK\$2.0 million to the Group. Since the acquisition was only completed shortly before the period end, the full operating result of HKICS is effectively not reflected in the period.

During the period, the turnover derived from the investment and other activities was HK\$109.6 million, representing an increase of 5.2 times compared with last year, which generated an operating profit of HK\$16.4 million to the Group.

As at 31 December 2004, the total number of employees of the Group was about 70. The Group remunerates its employees by means of salary and bonus based on their respective performance, working experience, degree of hardship and prevailing market practice.

## FINANCIAL REVIEW

As at 31 December 2004, the Group had cash and bank balances of HK\$9.3 million and other liquid assets of HK\$75.6 million. The Group's gearing ratio, expressed as a percentage of its bank borrowings of HK\$99.8 million over the total equity of HK\$615.8 million, increased to 16.2% as compared with last year which had no external borrowings. The bank borrowings of the Group as at 31 December 2004 are repayable over 5 years by monthly instalments, denominated in Hong Kong dollars and bearing interest at the prevailing market rates.

# Management Discussion and Analysis

During the period, the Company completed a capital reorganisation scheme to facilitate the future dividend distribution of the Company. The capital reorganisation scheme involved:

- cancellation of the share premium and the capital reserve of HK\$118.8 million and HK\$59.8 million respectively;
- reduction of the par value of ordinary shares of HK\$0.01 in issue to HK\$0.005 each which gave rise a credit of HK\$30.5 million;
- application of the credit arising from the above to eliminate the accumulated losses of the Company; and
- consolidation of every 20 ordinary shares of HK\$0.005 each into one consolidated share of which par value is HK\$0.10 each in issue and every 10 unissued ordinary shares of HK\$0.01 into one unissued ordinary share of HK\$0.10 each.

Despite the fact that the issued capital of the Company has reduced from HK\$64.8 million immediate before the capital reduction to HK\$34.3 million upon completion of the capital reorganisation scheme, it would not affect any assets and liabilities positions of the Group or the shareholders' equity as a whole. A total credit of HK\$209.1 million was resulted from the capital reorganisation. After offsetting the credit with the accumulated losses, the Company had a retained profit of HK\$7.6 million as at 31 December 2004.

In order to strengthen the capital base, the Company also completed two rights issues during the period. For the first rights issue, the Company issued 304,953,621 ordinary shares at a subscription price of HK\$0.5 each on the basis of one rights share for every one ordinary share held by the shareholders on 28 May 2004 and, for the second rights issue, 609,907,242 ordinary shares at a subscription price of HK\$0.55 each on the basis of one rights share for every one ordinary share held by the shareholders on 9 November 2004. The total proceeds from the two rights issues of HK\$487.9 million, before related expenses, were received by the Company. The main purpose of the two rights issues was to finance the acquisition of The Macau Square and HKICS and the repayment of the loans due to the ultimate holding company of the Company and to provide additional working capital to the Group. After completion of the rights issues, the issued capital of the Company increased to HK\$125.8 million.

As at 31 December 2004, certain assets of the Group with an aggregate net book value of HK\$237.6 million were pledged to secure credit facilities granted to the Group.

As at 31 December 2004, the Group's capital commitment of HK\$3.6 million had been authorised of which HK\$1.0 million had been contracted for and HK\$2.6 million had not been contracted for and is expected to be financed by the Group's internal resource.

## PROSPECTS

In view of the booming of the Macao economy, the Group will continue to seek property projects with good returns in Macao. The Group will also explore new potential markets and other business opportunities to further broaden the income and asset base and to strengthen the growth potential of the Group and hence to continue to deliver high earnings and asset growth to the shareholders of the Company.