

## Management Discussion and Analysis

### REVIEW OF OPERATIONS

During the year, the Group engaged in the development of mid to high-end properties 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. 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 of Shui Qing Mu Hua is developed in two phases. Phase One was completed and delivered to buyers in 2003 and Phase Two was delivered to buyers in current year. Zendai Jia Yuan is developed in four phases. Phases One and Two have already been sold out and the majority of the units were delivered to buyers in 2003, with several remaining units delivered to buyers in current year. The construction of southern part of Phase Three has been completed and room delivery was made in March 2005, while that of the northern part is scheduled for March 2006.

Mandarin Palace (the individual villa of Shui Qing Mu Hua), the premium residential project adjacent to the Shui Qing Mu Hua apartments, commenced construction in mid 2003. It is a rare project approved for development of low-density high-end villas in the inner ring of Shanghai. It takes three years to develop and 50 individual villas are going to be built. Reservation of the first lot consisting of 12 individual villas, ranging from over 600 sq.m. to 1,200 sq.m., commenced in December last year. Market response was exceptionally good and the 12 units were all reserved.

The Group persisted on developing mid to high-end properties in Shanghai and exploring business in other cities, including Changchun, Tianjin, Nantong, Haimen, Yangzhou, Chengdu, etc, to establish itself as a composite property development corporation with systematic management, high operational efficiency as well as a renowned brand name.

### LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND GEARING

As at December 31, 2004, the Group had a healthy financial position with net assets increased from approximately HK\$172 million in 2003 to approximately HK\$327 million. Net current assets amounted to approximately HK\$321 million (2003: approximately HK\$431 million) with current ratio of approximately 1.23 times (2003: 1.95 times).

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The Group adopts relatively prudent financial policy and closely monitors its cash flow. As at December 31, 2004, the Group had consolidated bank loans of approximately HK\$425 million (denominated in Renminbi), in which HK\$142 million was repayable within one year and HK\$283 million was repayable more than one year but not exceeding two years. The Group also had amounts due to related companies and a director of approximately HK\$0.2 million and HK\$4 million respectively. As at December 31, 2004, the Group's bank balances and cash are approximately HK\$271 million, in which 94% was denominated in Renminbi, with the others denominated in Hong Kong dollars.

The gearing ratio of the Group was decreased from 1.64 times in 2003 to 1.31 times (basis: total of amounts due to related companies, amount due to a director, shareholders' loan and bank loans divided by shareholders' funds).

### SEGMENTAL INFORMATION

#### Sales of properties

The turnover of this segment for the year amounted to HK\$4,220,000 (2003: HK\$317,533,000). It resulted from the decrease in properties available for delivery to buyers by the Group during the year.

#### Travel and related business

The turnover of this segment for the year reached HK\$43,622,000 (2003: HK\$18,686,000). It was attributable to the rapid recovery of the travel industries in Hong Kong during the year.

### 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, 2004, the Group employed approximately 230 employees (2003: 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.

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### MAJOR ACQUISITION

On May 15, 2004, the Group entered into an agreement to purchase a further 15% interest in the registered capital of a subsidiary, Shanghai Zendai Real Estate Company Limited, for a total consideration of RMB36,000,000 (equivalent to approximately HK\$33,962,000). The transaction was completed in July 2004.

On July 23, 2004, the Group entered into an agreement to purchase a further 24% interest in the registered capital of an associate, 上海証大三角洲置業有限公司, for a total consideration of RMB81,000,000 (equivalent to approximately HK\$76,415,000). The transaction was completed in September 2004.

### CHARGES ON ASSETS

As at December 31, 2004, the Group's properties for sale of approximately HK\$827 million had been pledged to banks to secure bank loans granted to the Group.

### CONTINGENT LIABILITIES

As at December 31, 2004, the Group had no significant contingent liabilities or outstanding litigation.