

Management Discussion and Analysis

BUSINESS REVIEW

Turnover of the Group amounted to approximately HK\$260.4 million for 2004, representing an increase of 36.6% as compared to \$190.7 million for 2003. Sales of residential and commercial properties and land sales amounted to approximately HK\$260.4 million (2003: HK\$154.9 million) and HK\$nil (2003: HK\$35.8 million), respectively. Gross profit of the Group amounted to approximately HK\$75.7 million, an increase of 10.4% as compared to HK\$68.6 million for the previous year. The Group's gross profit ratio for the year amounted to 29%, a decrease of 7% compared to 36% for 2003. Profit attributable to shareholders amounted to approximately HK\$15.4 million, 52.6% less compared to HK\$32.5 million for 2003.

During the year, the Group sold residential and commercial properties with a total GFA of 64,750 sq.m. (2003: 40,749 sq.m.), marking a year-on-year increase of 59%. Developed properties such as Prosperous Age Garden in Fenghua, Ningbo and Changchun Haoyuan in Changchun accounted for the majority of our sales. The increase in the Group's turnover was mainly attributable to revenue generated from the sales of Prosperous Age Garden, which amounted to HK\$209 million for the year. Prosperous Age Garden is a large-scale luxurious residential complex featuring about 130 villas and 26 townhouses, complemented by a full range of clubhouse facilities. The project had been ideally priced and had been approximately 65% sold, contributing to the growth in the Group's turnover.

The industrial property project in Changchun occupies a site of approximately 71,374 sq.m. with a gross floor area of approximately 23,000 sq.m. Pursuant to a lease agreement between a subsidiary of the Group and the lessee for a term of 15 years, the lessee shall pay a total rental amount of approximately HK\$189 million to the Group's subsidiary for the lease period. The project has been completed as scheduled and is currently occupied by the lessee.

Revenue from developed residential properties decreased in Changchun and Shanghai, and coupled with the deductions made in respect of minority interests in the Fenghua project which the Group held 37.5% interest currently, there was a decline in the Group's profit attributable to shareholders compared to the results for 2003.

MARKET REVIEW

According to National Statistics Bureau, PRC attained growth in excess of 9% for two consecutive years by registering a GDP growth of 9.5% in 2004, indicating that the nation as a whole is still in the course of rapid economic growth.

Foreign direct investment ("FDI") continued to grow in 2004 with a gross actual FDI amount of US\$60.6 billion, making PRC the largest recipient of FDI in the world. Meanwhile, PRC people continued to enjoy rising living standards with an average per capita disposable income of RMB9,422 for urban and township residents, exceeding the benchmark of US\$1,000. PRC residential property market sustained strong growth amid rapid economic development and increasing per capita income. Investment in real estate development marked a year-on-year increase of 28%, while a 30% growth was recorded in the sales of commodity houses, out of which individual home buyers accounted for 93.3%.

Figures from the Shanghai Statistics Bureau, Changchun Statistics Bureau, Ningbo Statistics Bureau and Qingdao Statistics Bureau indicate that these cities achieved local GDP growth of 13.6%, 13.5%, 15.5% and 16.8%, respectively, as compared to 2003. Continuous robust economic growth in these regions is set to provide a major driver to the prosperity of their real estate market.

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FINANCIAL REVIEW

Net assets

As at 31st December, 2004, the Group recorded total assets and total liabilities of approximately HK\$635,091,000 and HK\$315,435,000 respectively. The Group's net assets value per consolidated balance sheet as at 31st December, 2004 increased by approximately HK\$8,036,000 to approximately HK\$246,914,000 as compared to approximately HK\$238,878,000 as at 31st December, 2003.

Liquidity and financial ratios

The Group had total bank balances and cash of approximately HK\$88,010,000 as at 31st December, 2004 as compared with HK\$35,746,000 as at 31st December, 2003. As at 31st December, 2004, the current ratio was 1.8 as compared with 2.3 as at 31st December, 2003. The gearing ratio was 49.7% as at 31st December, 2004 as compared with 42.7% as at 31st December, 2003. The bank borrowings to equity was recorded at 29.8% as at 31st December, 2004 as compared with 3.6% as at 31st December, 2003.

Borrowings

The Group had interest bearing borrowings of approximately HK\$73.7 million as at 31st December, 2004 (31st December, 2003: HK\$39.4 million), representing an increase of approximately 87% over the amount as at 31st December, 2003. The increase is mainly due to the development of Prosperous Age Garden in Ningbo. All borrowings were denominated in Renminbi ("RMB"). Approximately 60.3% of the borrowings is repayable within one year.

Foreign currency exposure

Although significant portions of the Group's borrowings, turnover and construction costs are primarily denominated in RMB, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of the RMB. The Directors also consider that there will be sufficient cash resources denominated in both HK\$ and RMB for the repayment of its borrowings. During the year, the Group did not use any financial instrument for hedging purposes and the Group did not have hedging instrument outstanding as at 31st December, 2004.

MATERIAL ACQUISITION AND DISPOSAL

There is no material acquisition and disposal of subsidiary and assets during the year ended 31st December, 2004.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2004, the Group employed approximately 86 full time staffs in PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing market price while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidised educational and training programmes as well as share option scheme. During the year, no share options were granted to any staff.

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OUTLOOK

Macroeconomic-control measures implemented by the PRC Government in 2004 were positively rated by the market in terms of the effectiveness of policies concerned and the relevant impact. In other words, the measures succeeded in halting overheated growth in the economy while avoiding a drastic downturn. These policies are expected to remain in force in 2005, aiming primarily at ensuring stable economic growth. In view of this, the Group will pursue business growth by adhering to the strategy of active acquisition of land reserves, with a particular focus on new projects in the Yangtze River Delta. The Group plans to develop a commercial property project in Ningbo with a total GFA of approximately 33,000 sq.m. in 2005.