MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year under review, the successful disposal of all interests in New Rank (BVI 1) Limited has substantially reduced the net liabilities of the Group. With the financial support from Netcom under the agreement dated 23 December 2003 and the effective management of the Board, the Group managed to expand its business steadily and maintain the smooth progress of the construction of China Securities Plaza.

FINANCIAL REVIEW

Result

In the year of 2004, the Group's turnover mainly from rental income derived from the disposed PRC subsidiary amounted to approximately HK$2,651,000 (2003: HK$2,609,000). The Group's net profit for the year was approximately HK$136,993,000 (2003: net loss of HK$65,494,000) including a gain of approximately HK$171,978,000 on disposal of subsidiaries. The basic earnings per share for the year was 50.4 HK cents (2003: loss per share of 24.1 HK cents).

Administrative expenses and finance costs for the year 2004 were HK$34,171,000 and HK$7,491,000 respectively while the year 2003 were HK$42,788,000 and HK$27,241,000, representing a decrease of HK$8,617,000 and HK$19,750,000, the improvement was mainly due to full scale resumption of development work for the China Securities Plaza project, direct costs including borrowing costs attributable to the project were being capitalised. In addition, disposal of subsidiaries also reduced the administrative expenses and finance costs of the Group.

Liquidity, Financial Resources and Funding Requirements

The financial position of the Group has been improved during the year. As at 31 December 2004, the net liabilities of the Group decreased by 47% to HK$148,859,000 from HK$281,845,000 as at 31 December 2003.

Although the current ratio (current assets/current liabilities) as at 31 December 2004 was 0.89 (2003: 1.00), the Group had bank balances and cash of HK$100,014,000 (2003: HK$69,181,000).

As at 31 December 2004, the Group's bank borrowings amounted to approximately RMB300,000,000 equivalent to approximately HK$280,374,000 (2003: approximately RMB398,000,000 equivalent to approximately HK$371,995,000), that is secured and interest-bearing, of which approximately RMB300,000,000 equivalent to approximately HK$280,374,000 (2003: approximately RMB98,034,000 equivalent to HK$91,621,000) are repayable within one year.

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Other borrowings of HK$210,000,000 (2003: HK$187,000,000) as at 31 December 2004 are repayable within one year, of which HK$165,000,000 (2003: HK$142,000,000) was secured and interest free. Other unsecured loans of HK$45,000,000 (2003: HK$45,000,000) was interest bearing at 6% per annum.

Gearing Ratio

The gearing ratio (total borrowings/total assets of the Group) was 0.42 as at 31 December 2004 (2003: 0.49). This ratio was lower than the gearing ratio of last year mainly due to strong cashflow generated from the advance payment of Netcom.

Exchange Risks

The Group's major operations are located in the PRC and the main operational currencies are Hong Kong Dollars and Renminbi, there is no significant exchange rate fluctuation during the year under review. Therefore, it is not necessary for the Group to make any foreign currency hedging arrangement to minimise the foreign exchange risk and exposure.

Pledge of Assets

At 31 December 2004, the Group had pledged its property under development with an aggregate net book value of approximately HK$947,789,000 (2003: HK$744,400,000) to secure the bank loans granted and amounts payable in respect of land development cost totalling approximately HK$306,944,000 (2003: HK$522,718,000).

Contingent Liabilities

(a) In October 2002, one of the creditors of the Group filed a notice of arbitration against the PRC subsidiary holding the property for development for sale for a total amount of approximately RMB290 million, which relates to certain land development cost for the property of approximately RMB222 million and interest penalty of approximately RMB68 million. A court order against the PRC subsidiary was issued on 22 October 2002 either to freeze its bank deposits or to attach its assets for an amount up to RMB50 million. The Group was then at the final stage of finalising the terms of the settlement and rescheduling of the outstanding amounts payable to the creditor, which terms would form part of the master standstill agreement as mentioned under note 18 to the financial statements. The directors were confident that the creditor would sign the agreement. Under the agreement, the Group is not liable to pay the aforesaid interest penalty of approximately RMB68 million. Accordingly, the aforesaid sum was not provided in 2002.

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During the year ended 31 December 2003, the Group entered into the master standstill agreement with its creditor and bankers under which the aforesaid interest penalty was waived. The waiver is subject to the condition that the Group is able to repay the land development cost in accordance with agreed repayment schedule. Should the Group be unable to comply with repayment schedule, the interest penalty will be become payable. The directors consider that the Group has sufficient funds to comply with the repayment and accordingly no provision for the penalty is necessary.

(b) During the year ended 31 December 2002, a purchaser of an unit of the Group's property under development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of RMB30 million paid together with interest and applied to freeze the bank balances or equivalent assets of the Group to the extent of RMB30 million. On 8 January 2003, the PRC court ordered that the Group is liable to refund the deposits together with interest to the purchaser. On 31 March 2003, the Group appealed to the court to object the decision based on the fact that the evidence provided by the purchaser are not valid. The directors of the Group, based on the opinion of the independent legal advisers, considered that the claim from the purchaser will be overruled and no provision for the loss is necessary.

(c) During the year ended 31 December 2003, a purchaser of an unit of the Group's property under development for sale in the PRC took legal action to cancel the sale and purchase agreement of the aforesaid unit and to claim the refund of the deposits of approximately RMB15 million paid together with interest. The directors of the Group, based on the opinion of the legal advisers, considered that the claim made by the purchaser is not valid and are of the opinion that the claim will not cause any material loss to the Group. No provision for the loss in the financial statements is necessary.

(d) The Group have given guarantees to banks in respect of the loans of the amounts USD2,500,000 and RMB14,000,000 granted to Beijing New Rank Real Estate Development Co., Limited, a former subsidiary of the Group.

Staff

As at 31 December 2004, the Group had employed about 50 employees in both PRC and Hong Kong. The Group adopts a competitive remuneration package for its employees. Remuneration packages are reviewed annually with reference to the then prevailing market employment practices and legislation.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospects

The economy of China has continued to show notable growth. Significant increase in inflow of foreign capital contributes positively to the overall performance of the property market. The Group actively seeks for investment project with good return in order to enhance the overall income of the Group.

In respect of property leasing, strong demand for office building in Beijing especially the Grade A office in the city center of Beijing will be beneficial to property leasing. After the completion of the disposal of the China Securities Plaza, a property as part of consideration located at the city center of Beijing which is classified as Grade A office premises, will be transferred to the PRC subsidiary. The main usage of the property will be used for generating rental income. The management expects that the office property will contribute significant recurrent rental income to the Group.