

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Results of First Half of Fiscal 2005

For the six months ended 30 June 2005 the Group generated a turnover of HK\$21.4 million (2004: HK\$13.0 million), an increase of 65% when compared with the same period last year. Had there been no macroeconomic control in the PRC forcing the Directors to be very selective in accepting construction projects for fear of bad debts, the increase in turnover would be even more substantial.

The gross profit margin improved significantly from 13% to 19% when compared to the corresponding period last year. This was due to Directors' selection of higher margin businesses and tight control of costs.

The Group generated a profit attributable to shareholders of HK\$1.4 million (2004: HK\$145.9 million), a drop of 99% when compared to the corresponding period last year. However, the profit in 2004 included gains of approximately HK\$100.3 million arising from debts discharged under the Creditors' Scheme and a gain of approximately HK\$50.2 million arising from deconsolidation of Prosperity Construction and Decoration Limited, previously a wholly-owned subsidiary of the Company, upon receiving a winding-up Court order during the corresponding accounting period. Had these been excluded, the profits in 2004 turned into a loss of HK\$4.6 million. This is the first period in over 5 years that the Group achieved an operating profit (excluding exceptional items).

Construction Contractor

The group focused its efforts in the construction market in the Guangdong Province, the People's Republic of China (the "PRC"), an area that the Directors, in particular the Chairman, have an extensive network of connections. The turnover of the construction division, all in the PRC, recorded an increase of 65% from approximately HK\$13.0 million in the corresponding period last year to HK\$21.4 million this Period.

Construction contract costs mainly represent direct materials and subcontracting costs for construction projects. It increased by 54% from approximately HK\$11.3 million in the corresponding period last year to HK\$17.3 million this Period.

In the coming period, we would continue to increase our resources to develop the more profitable construction and property related businesses in the PRC.

Operating Expenses

General and administrative expenses decreased by 40% from approximately HK\$5.7 million in the corresponding period last year to HK\$3.4 million this Period due to the decrease in professional fees, consultancy fees and operating expenses as a consequence of the Directors implementing tight expenses control during the Period.

Liquidity and Financial Resources

Gearing Ratio

The Group's consolidated interest bearing debts amounted to HK\$3.7 million (31 December 2004: HK\$9.0 million) in contrast to the shareholders' equity of HK\$7.0 million (31 December 2004: HK\$5.6 million), resulting in a gearing ratio of 53% (31 December 2004: 161%).

Finance Cost

Interests on the Group's borrowings were based on the normal commercial interest rates for mortgage and the shareholders' loan.

Net Current Assets and Working Capital

As at 30 June 2005, the Group's total current assets and current liabilities were approximately HK\$22.2 million and HK\$17.4 million respectively. After taking into account of the financial resources available to the Group including cash on hand and at bank, bank borrowings and shareholders' loan, the Directors are of the opinion that the Group has sufficient working capital to meet its working capital requirements in the foreseeable future.

Exchange Rate Risk Exposure

Most of the Group's transactions were in Hong Kong Dollars and Renminbi. As the exchange rate of Renminbi against Hong Kong Dollar was relatively stable during the Period, apart from the recent appreciation of Renminbi by around 2%, we were not exposed to any significant exchange risk in this Period.

Contingent Liabilities

As at 30 June 2005, the Group did not have any material contingent liabilities.

Future Prospects

The Directors have the knowledge, experience and connections, principally in the businesses of property development and construction, in particular in the Guangdong Province, the PRC. The Directors would continue to focus on business areas where they could deploy their expertise to develop the construction and property related sectors in the PRC. The Board would also look for other opportunities in both Hong Kong and the PRC for investments which would generate positive cashflows and profits to the Company.

To address the small net asset value position of the Company, the Directors are considering the possibility of capital raising in the future including the issuance of new shares, placing or issuance of convertible notes. However, no firm decision has been reached and no agreement has been signed in connection with any capital raising activities.

Employee

As of 30 June 2005, the Group has approximately 100 employees (2004: 70 employees) in Hong Kong and the PRC.

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the Period (2004: Nil).