

## Management Discussion and Analysis

### REVIEW OF OPERATIONS

Despite the property market in Shanghai was affected by the economic austerity measures implemented by the PRC government in 2005, Shanghai Zendai overcame the challenges in the market and achieved satisfactory results for the year ended 31 December 2005. The result for the year was mainly attributable to sales and delivery of apartments and retail premises of phase III of southern Zendai Jia Yuan and the completion and of the construction of the main hall of the 6th China Flower Expo in Chengdu, Sichuan Province.

The group is engaged in the development of mid-to high end properties in Shanghai and its surrounding area. During the year, three residential projects went on sale. They were the remaining Shui Qing Mu Hua apartments, individual villas of Mandarin Place and Phase III of Zendai Jia Yuan, which were all well received by the market and reported very satisfactory sales performance. Furthermore, in order to satisfy the huge demand for offices in Shanghai, the Group has increased the proportion of investment in commercial property development and started the construction of two commercial buildings namely "Zendai – Wu Dao Kou Financial Centre" and "Zendai Cube Tower" which are expected to be sold at the end of 2006. When the two projects are completed in the second half of 2007, they will add about 147,000 square metres in gross area of commercial premises in Shanghai.

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

As at 31 December 2005, the Group had a healthy financial position with net assets increased from approximately HK\$429 million in 2004 to approximately HK\$795 million. Net current assets amounted to approximately HK\$576 million (2004: approximately HK\$589 million) with current ratio of approximately 1.44 times (2004: 1.42 times).

The Group adopts relatively prudent financial policy and closely monitors its cash flow. As at 31 December 2005, the Group had consolidated bank loans of approximately HK\$373 million (denominated in Renminbi), in which HK\$163 million was repayable within one year and HK\$210 million was repayable more than one year. As at 31 December 2005, the Group's bank balances and cash are approximately HK\$362 million, in which 89% was denominated in Renminbi.

The gearing ratio of the Group was decreased from 1.31 times in 2004 to 0.7 times in 2005 (basis: total of amounts due to related companies, amount due to a director, shareholders' loan and bank loans, convertible notes dividend by shareholders' funds).

### SEGMENT INFORMATION

#### Sales of properties

The turnover of this segment for the year amounted to HK\$1,396,759,000 (2004: HK\$4,220,000). It resulted from the increase 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\$30,143,000 (2004: HK\$43,622,000).

### FOREIGN CURRENCY EXPOSURES

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 31 December 2005, the Group employed approximately 240 employees (2004: 230 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.

### MAJOR ACQUISITIONS

#### Zendai Garden-Riverside Town

The Group entered into a sale and purchase agreement with Zendai Investment Developments Limited on 29 April 2005 to acquire the entire issued share capital of Myway Developments Limited ("Myway") at an aggregate consideration of HK\$100,000,000. The amount was satisfied half by cash and half by issue of 288,350,634 new ordinary shares of HK\$0.02 each. The aggregate nominal value of such new shares amounts approximately to HK\$5,767,012. The new issue represented approximately 6.24% of the then issued share capital of the Company as at the date of the sale and purchase agreement or approximately 5.87% of the enlarged issued share capital of the Company upon completion. The acquisition was completed before 30 June 2005.

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### Zendai Thumb Plaza

On 30 June 2005, Shanghai Zendai entered into an agreement to acquire commercial properties at the Zendai Thumb Plaza (証大大拇指商業廣場) at RMB680,000,000 (equivalent to approximately HK\$653,846,000). The acquisition will be completed before 30 June 2006.

### CHARGE ON ASSETS

As at 31 December 2005, the Group's properties for sale of approximately HK\$403 million had been pledged to banks to secure bank loans granted to the Group.

### CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no significant contingent liabilities or outstanding litigation.