BUSINESS ANALYSIS

The Group recorded a turnover of approximately HK$759.1 million for the financial year ended 31 March 2006, an increase of about 37% from that of last year.

A breakdown of the Group's turnover together with an analysis of contribution to operating results by activity is set out below:

	Year ended 31 March					
	2006			2005		
	Turnover HK$'000	**Contribution to operating results HK$'000**		Turnover HK$'000	Contribution to operating results HK$'000 (Restated)	
Sale of properties	**742,927**	**175,433**		524,988	108,520	
Rental income	**12,601**	**45,056**	(Note 1)	24,836	67,589	(Note 1)
Property management	**3,579**	**(1,050)**		3,090	(3,427)	
Corporate and others	**–**	**(32,335)**	(Note 2)	–	(7,679)	
Total	**759,107**	**187,104**		552,914	165,003	

The Group's turnover for the year was mainly derived from operations in the mainland of the People's Republic of China.

The performance of the Group for the financial year continues to be encouraging. The turnover for the year has reached the amount of HK$759 million, representing an increase of about 37% over that of last year. Profit from business operations has also shown a strong growth, although there is a non-operating charge of about HK$26.64 million arising from fair value adjustment for the derivative liability in connection with the issue of the convertible bonds during the year, which has reduced the net profit of the Group for the year significantly.

For property sales, the turnover for the year was about HK$743 million, an increase of about HK$218 million from last year's about HK$525 million. The increase was mainly attributable to more properties were completed and sold for the year. The turnover for sale of properties for the year ended 31 March 2006 was mainly attributable to the sales of Phases III and IV of Wuhan Lakeside Apartment, and Phase I of Beijing Sunvilla Realhouse, Phase V of Anshan Greenland IT City, Anshan Riviera Garden, which respectively accounted for about 60%, 21%, 12%, and 6% of the turnover for sale of properties for the year. The balance of about 1% was contributed from sales of certain commercial area in Xiamen Xiang Jiang Garden and the remaining car parking area in Fuzhou Mansion.

In respect of the remaining phase of Wuhan Lakeside Apartment with a site area of about 79,831 sq.m., the Group has entered into a joint development agreement with an independent third party developer under which the third party developer is wholly responsible for the development of the remaining phase of Wuhan Lakeside Apartment and the Group will receive a guaranteed return of about HK$97 million from the third party developer. The Group had fulfilled and completed all its obligations under the agreement and the whole amount of the guaranteed return had been paid by the third party developer to the Group. As at the end of the year, the net profit of about HK$44 million in respect of the transaction was deferred to be recognised as income and the guaranteed return received by the Group was recorded as a deposit received and deferred revenue.

BUSINESS ANALYSIS *(Continued)*

Note 1: Including an amount of about HK$19.44 million (2005: HK$54.90 million) gain on disposal of investment properties.

Note 2: Including an amount of about HK$26.64 million (2005: nil) charge arising from fair value adjustment for the derivative liability in connection with the issue of the convertible bonds during the year, pursuant to the adoption of the new accounting policy (see note 6 to the financial statements for more details).

Turnover for property rental decreased by about 49.26% as compared to last year. The decrease was mainly due to the disposal by the Group during the year of all the remaining commercial area in Wuhan Wah Zhong Trade Plaza so as to generate additional working capital for new development projects. The disposal has also resulted in a significant profit contribution to the Group for the year. The leasing performance of the commercial/office area held in Shanghai Golden Bridge Mansion has improved continuously although the revenue contribution to the Group is not significant. For Shenyang Dongbei Furniture and Ornaments Plaza, the market set up plan has been changed from an automobile and related accessories market to an agricultural products market. Subsequent to the year end date, the Group has signed a preliminary agreement with a major agricultural products chain store franchise owner in the PRC for the establishment of an agricultural products market-place in Shenyang Dongbei Furniture and Ornaments Plaza.

The income from property management operations has shown an improvement. Turnover has increased by about 16% from last year. Losses has reduced from last year's HK$3.43 million to HK$1.05 million for the year.

The overall gross profit margin for the year has improved to about 29% from last year's 21%. The improvement was mainly due to better profit margin achieved from the properties completed and sold amid a generally bullish property market in the PRC.

To cater for the business expansion, the Group has continued to recruit high-calibre staff to join the management team. Also as a result of higher level of business activities which include increased intensity in corporate brand building compaigns, administrative expenses has increased correspondingly by about 32% from last year.

Comparing to last year, the amount of finance costs (mainly interest for bank, other borrowings, senior notes and convertible bonds) before capitalisation increased by about 52% to about HK$123 million. The increase is mainly due to an overall increase in the total amount of bank and other borrowings and the issue of senior notes and convertible bonds during the year for financing the development of ongoing projects and acquisition of new development projects.

During the year, the Company has issued certain senior notes and convertible bonds to an independent third party for a total amount of US$30 million (equivalent to approximately HK$234 million) which provide additional working capital to the Group for its operations. The details of the transaction are set out in the section headed "Financial Resources and Liquidity".

The net profit attributable to shareholders for the year has increased by about 3% to approximately HK$105 million from last year's about HK$102 million (restated) and is mainly contributed from the following:

(1) Satisfactory results achieved from sales of Phases III and IV of Wuhan Lakeside Apartment, Phase I of Beijing Sunvilla Realhouse, Phase V of Anshan Greenland IT City and Anshan Riviera Garden; and

BUSINESS ANALYSIS *(Continued)*

(2) Significant profits realized from the disposal of all the remaining commercial area in Wuhan Wah Zhong Trade Plaza.

Despite the satisfactory overall performance for the year, there is a non-operating charge of about HK$26.64 million arising from fair value adjustment for the derivative liability in connection with the issue of the convertible bonds during the year which has caused a significant negative impact on the Group's results for the year.

For the financial year, the Group has adopted for the first time the new and revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards as set out in note 2.2 to financial statements. The effects of such adoption are summarized in note 2.2(c) to financial statements, amongst which a total positive effect on the profit for the year of HK$3.72 million has resulted.

REVIEW OF MAJOR PROPERTIES AND DEVELOPMENT PROJECTS

The Group continues its business strategy of mainly focusing on developing quality residential estates for PRC middle class domestic market. A summary of the status of the Group's major properties and development projects is set out below.

Anshan Greenland IT City

Anshan Greenland IT City is one of the large-scale developments of the Group and has a total site area of about 268,807 sq.m. which is being developed in phases into a low density residential estate with ancillary facilities and attached commercial area.

The construction of the first five phases with a total GFA of 291,258 sq.m. was completed. As at the end of the year, about 95% of the GFA in these five phases was sold. The remaining GFA of about 10,301 sq.m., excluding the clubhouse with a GFA of 6,320 sq.m. held by the Group as an investment property, was held for sale by Group.

The construction of Phase VI with a total GFA of about 145,000 sq.m. was started in May 2005 and is expected to be completed in June 2007. Pre-sale of Phase VI was commenced in November 2005 and as at the end of the year, about 9% of the GFA had been pre-sold.

Anshan Riviera Garden

This is the second development of the Group in Anshan, which is a residential estate with ancillary facilities and attached commercial area with a total GFA of approximately 84,417 sq.m. The development was divided into two sections and the constructions were all completed. As at the end of the year the Group had sold about 98% of the GFA in this development. The remaining GFA of about 1,637 sq.m. was held for sale by the Group.

REVIEW OF MAJOR PROPERTIES AND DEVELOPMENT PROJECTS *(Continued)*

Beijing Silo City

Beijing Silo City is a development in which the Group has a 49.75% equity interest. The development has a total site area of about 216,025 sq.m. and is planned to be developed into a residential/commercial/leisure complex with a total GFA of about 850,280 sq.m. The development is being carried out in phases.

Due to good sales performance of the development since its first launch for pre-sale, the Group has accelerated the development pace of this development. Accordingly the development plan was revised that a total GFA of about 473,059 sq.m. was planned for the first four phases.

Phase I has a GFA of about 124,583 sq.m. The construction of it was started in December 2004 and is expected to be completed in October 2006. Pre-sale of Phase I was commenced in June 2005 and as at the end of the year about 60% of the GFA had been pre-sold.

Phase II has a GFA of about 103,356 sq.m. The construction of it was started in September 2005 and is expected to be completed in March 2007. Pre-sale of Phase II was commenced in October 2005 and as at the end of the year, about 59% of the GFA had been pre-sold.

Phase III has a GFA of about 104,648 sq.m. The construction of it was started in March 2006 and is expected to be completed in September 2008. Pre-sale of Phase III was commenced subsequent to the year end date in April 2006.

Phase IV has a GFA of 140,472 sq.m. The construction of it is planned to be started in August 2006 and is expected to be completed in July 2009. Pre-sale of Phase IV is planned to be commenced in August 2006.

Beijing Sunvilla Realhouse

The development comprises a villa estate with a total site area of about 484,421 sq.m. The development is being carried out in three phases.

Phase I has a GFA of about 69,156 sq.m. The construction of it was completed in September 2005. As at the end of the year, about 82% of the GFA in Phase I had been sold. The remaining GFA of about 11,411 sq.m. excluding the clubhouse with a GFA of 4,189 sq.m. held by the Group as investment property, was held for sale by the Group.

Phase II has a GFA of about 47,318 sq.m. The construction of it was started in January 2005 and is planned to be completed in early 2007. Pre-sale of Phase II was commenced subsequent to the year end date in May 2006.

The construction of Phase III with a GFA of about 22,895 sq.m. is planned to be started in early 2007 and is expected to be completed in early 2008.

REVIEW OF MAJOR PROPERTIES AND DEVELOPMENT PROJECTS *(Continued)*

Dongguan Riviera Villa

Dongguan Riviera Villa with a site area of about 382,649 sq.m. is a low density residential estate development with ancillary facilities and attached commercial area. The development is being carried out in two phases.

Phase I has a total GFA of approximately 130,910 sq.m. which is further divided into section A and section B with GFA of about 64,330 sq.m. and 66,580 sq.m. respectively. The construction of Phase I was started in September 2004. Section A is expected to be completed in September 2006 and section B is expected to be completed in November 2007. Pre-sale of section A was commenced in November 2005 and as at the end of the year, about 12.27% of the GFA had been pre-sold. Pre-sale of section B is planned to be commenced in early 2007.

The construction of Phase II with a total GFA of approximately 189,090 sq.m. is planned to be started in September 2007 and is expected to be completed in early 2009.

Fuzhou Mansion

Fuzhou Mansion is a residential building with a total GFA of 40,443 sq.m. completed by the Group.

As at the end of the year, about 97% of the GFA in the development had been sold and the remaining car parking spaces with a GFA of about 1,267 sq.m. was held for sale by the Group.

Jiangxi Riviera Garden

Jiangxi Riviera Garden with a site area of about 186,394 sq.m. is a low density residential estate development with ancillary facilities and attached commercial area and is being carried out in two phases.

The construction of Phase I with a total GFA of approximately 98,900 sq.m. was started in February 2005 and is planned to be completed in December 2006. Pre-sale of Phase I was commenced in October 2005 and as at the end of the year, about 47% of the GFA had been pre-sold.

The construction of Phase II with a total GFA of approximately 136,000 sq.m. is planned to be started in September 2006 and is expected to be completed in September 2008. Pre-sale of Phase II is planned to be commenced in December 2006.

Shanghai Golden Bridge Garden

Shanghai Golden Bridge Garden is a residential/commercial development with a total GFA of 65,908 sq.m. completed by the Group. As at the end of the year, all of the residential and commercial area had been sold and car parking spaces with a total GFA of about 4,823 sq.m. was held for sale by the Group.

Shanghai Golden Bridge Mansion

Shanghai Golden Bridge Mansion is a residential/commercial building developed by an independent PRC developer. As at the end of the year, the Group held for sale a total GFA of about 7,365 sq.m. which comprises commercial area on level 1 to level 4 in the podium, and 70 car parking spaces in the basement. Pending sale, a substantial part of the commercial area held by the Group was leased to generate rental income and the car parking spaces are being operated as a public car park by the Group.

REVIEW OF MAJOR PROPERTIES AND DEVELOPMENT PROJECTS *(Continued)*

Shanghai Riviera Villa

Shanghai Riviera Villa is a low density residential estate development with a total GFA of 189,939 sq.m. completed by the Group.

As at the end of the year, all the residential area in the development had been sold. A clubhouse with a GFA of 4,349 sq.m. was held by the Group as an investment property.

Shanghai Riviera Garden

Shanghai Riviera Garden is a low density residential estate development with a site area of about 326,118 sq.m. and is being carried out in two phases.

The construction of Phase I with a total GFA of approximately 131,143 sq.m. was started in June 2005 and is expected to be completed in March 2007. Pre-sale of the development was commenced subsequent to the year end date in May 2006.

The construction of Phase II with a total GFA of approximately 156,817 sq.m. is planned to be started in November 2006 and is expected to be completed in March 2008.

Shenyang Dongbei Furniture and Ornaments Plaza

Shenyang Dongbei Furniture and Ornaments Plaza is a property developed by an independent PRC developer and was acquired by the Group and held as an investment property. The property comprises two office buildings of 2 and 7 storeys respectively, a 5-storey exhibition centre, an 8-storey guest house, four single storey warehouses, a carport and various business shops. The total GFA of this property is 149,752 sq.m. As at the end of the year, the Group held a total GFA of about 80,752 sq.m. in this property as investment property.

The Group has changed the market set up plan for this property from as an automobile and related accessories market to an agricultural products market. A preliminary agreement with a major agricultural products chain store franchise owner in the PRC was signed subsequent to the year end date for the establishment of an agricultural products market-place in this property. Rental income generated from the existing lessees for the year is not significant.

Shenzhen Dragon Court

Shenzhen Dragon Court is a residential/commercial development with two residential buildings and two levels of commercial podium with a total GFA of 45,582 sq.m. completed by the Group.

As at the end of the year, about 90% of the GFA had been sold. The remaining area (comprising mainly car parking spaces) with a GFA of about 3,598 sq.m., excluding the club house with a GFA of 1,200 sq.m. held by the Group as an investment property, was held for sale by Group.

Wuhan Wah Zhong Trade Plaza

Wuhan Wah Zhong Trade Plaza is a 9-floor commercial/office building with a total GFA of 79,985 sq.m. completed by the Group. During the year the Group sold all the remaining GFA held in the property resulting in a significant profit for the Group for the year.

REVIEW OF MAJOR PROPERTIES AND DEVELOPMENT PROJECTS *(Continued)*

Wuhan Lakeside Apartment

Wuhan Lakeside Apartment is a low density large-scale residential estate development with ancillary facilities and attached commercial area with a total GFA of approximately 344,000 sq.m. The development was carried out in phases.

The construction of Phases I to IV with a total GFA of about 282,242 sq.m. was completed. As at the end of the year, about 93% of the GFA had been sold and the remaining GFA of about 18,748 sq.m., excluding the clubhouse with a GFA of 1,670 sq.m. held by the Group as an investment property, was held for sale by Group.

The Group has entered into a joint development agreement with an independent third party developer (the "Third Party Developer") to develop the remaining phase of Wuhan Lakeside Apartment, with a site area of 79,831 sq.m. Under the agreement, the Third Party Developer is wholly responsible for the development of the remaining phase of Wuhan Lakeside Apartment and the Group will receive a guaranteed return from the Third Party Developer. As at the end of the year, the Group had fulfilled and completed all its obligations under the agreement and the whole amount of the guaranteed return had been paid by the Third Party Developer to the Group, which was deferred to be recognised as income and accounted for as a deposit received and deferred revenue.

Wuhan Silo City

Wuhan Silo City has a site area of about 883,843 sq.m. and is planned as a large-scale development with a total GFA about 1,460,000 sq.m mainly comprises both residential and commercial area. The development is being carried out in phases.

Phase I has a total GFA of about 223,086 sq.m. which is further divided into section A and section B with GFA of about 132,715 sq.m. and 90,371 sq.m. respectively.

The construction of section A was started in December 2005 and is expected to be completed in September 2007. Pre-sale of section A is planned to be commenced in September 2006.

The construction of section B is planned to be stated in October 2006 and is expected to be completed in September 2008. Pre-sale of section B is planned to be commenced in March 2007.

The development plan for the remaining phases will be fixed as the development goes forward. Commencement of the construction of the next phase is expected to be in early 2007.

Xiamen Lu Jiang New City

Xiamen Lu Jiang New City is a large-scale development comprises a residential estate with ancillary facilities and attached commercial area with a total GFA of 143,411 sq.m. completed by the Group.

As at the end of the year, approximately 92% of the GFA had been sold. The remaining area (comprising commercial area and car parking spaces) with a GFA of about 11,643 sq.m., excluding the club house with a GFA of 1,054 sq.m. held by the Group as an investment property, was held for sale by the Group.

Xiamen Xiang Jiang Garden

Xiamen Xiang Jiang Garden is a residential/commercial development completed by the Group. Substantially all the GFA in the development had been sold. As at the end of the year, the remaining unsold GFA held by the Group is a minimal amount of commercial area.

LAND USE RIGHTS HELD FOR FUTURE DEVELOPMENT

As at the end of the year, the Group had the following landbank:

Landbank	Site area of the development (sq.m.)	Estimated GFA of the development (sq.m.)	Interests of the development attributable to the Group
Beijing Silo City (excluding Phases I to IV)	99,760	377,221	49.75%
Chengdu landbank	280,668	222,534	90.00%
Total	380,428	599,755	

The landbank are capable of being developed into properties with a total GFA of approximately 599,755 sq.m., based upon the plot ratios stated in the relevant land grant contract, land use right certificate or approval issued by competent authorities. Residential and/or commercial properties are expected to be developed on these sites in accordance with the market demand then prevailing.

The Group is persistently seeking for suitable landbank additions for its future development. Currently, certain negotiations are underway between the Group and a number of independent third parties regarding acquisition of certain land parcels in major cities of the PRC. There is no assurance that these negotiations will bring to fruition in future.

Please refer to the Schedule of Major Properties on pages 115 to 118 of the annual report for further information about the properties and development projects of the Group.

FINANCIAL RESOURCES AND LIQUIDITY

For the year ended 31 March 2006, the principal source of fund for the Group came from the cashflow generated from property sales and leasings supplemented by bank and other borrowings.

At 31 March 2006, the net borrowings of the Group, being interest-bearing bank and other borrowings less cash and bank balances and pledged deposits, amounted to about HK$1,250 million. Net debt to equity ratio, which is expressed as a percentage of the net borrowings over the net assets of the Group, decreased by about 1.34% to about 77.83% from about 79.17% (restated) last year. The decrease in the net debt to equity ratio is mainly due to the increase in the net assets value of the Group.

On 7 July 2005, the Company entered into a subscription agreement with Mellon HBV Alternative Strategies LLC, an independent third party, in relation to the issue and subscription of the senior notes, the additional notes and the convertible bonds of an amount of US$17.5 million (equivalent to approximately HK$136.5 million), US$30 million (equivalent to approximately HK$234 million) and US$12.5 million (equivalent to approximately HK$97.5 million) respectively which are secured by a share charge over the 100% of the entired share capital of Coastal Realty Development Co. Limited, a wholly owned subsidiary of the Company. On 5 August 2005, all the senior notes and the convertible bonds with a total amount of US$30 million (equivalent to approximately HK$234 million) were subscribed. None of the additional notes were subscribed and the subscription for the additional notes was terminated subsequently.

FINANCIAL RESOURCES AND LIQUIDITY *(Continued)*

The senior notes bear interest at 9% per annum and is wholly repayable on 5 August 2008. The convertible bonds, as subsequently amended on 10 November 2005, were issued in four tranches each in the amount of US$3,125,000 (equivalent to approximately HK$24,375,000). The convertible bonds carry the right of converting into the ordinary shares of the Company. The conversion price for tranches 1 and 2 is HK$0.3 per share and for tranches 3 and 4 is HK$0.5 per share. The conversion period of tranches 1, 2, 3 and 4 shall expire up to and including the 11th business day prior to 31 December 2005, 30 June 2006, 31 December 2006 and 31 December 2006 respectively. The convertible bonds bear interest at LIBOR plus 1.5% per annum.

The proceeds from the issue of the senior notes and the convertible bonds were used in the development of the Group's development project in Shanghai. The issue of the senior notes and convertible bonds has provided additional working capital for the Group's operations.

BORROWINGS AND CHARGES

At 31 March 2006, the level of bank and other borrowings of the Group and their maturity profile are as follows:

	HK$'000
Bank loans and bank overdrafts repayable:	
Within one year or on demand	451,668
In the second year	378,604
In the third to fifth years, inclusive	63,624
	893,896
Other borrowings repayable:	
Within one year	250,182
In the second year	197,064
In the third to fifth years, inclusive	262,754
Beyond five years	11,152
	721,152
	1,615,048

An analysis by currency denomination of the above borrowings is as follows:

	HK$'000
Renminbi	1,401,468
Hong Kong dollars	5,550
United States dollars	208,030
	1,615,048

BORROWINGS AND CHARGES *(Continued)*

The borrowings bear interest rates based on normal commercial terms.

(a) Certain of the Group's borrowings are secured by:

  (i) Certain investment properties of the Group with an aggregate carrying value at 31 March 2006 of approximately HK$283 million;

  (ii) Certain properties under development of the Group with an aggregate carrying value at 31 March 2006 of approximately HK$2,845 million;

  (iii) Certain completed properties for sale of the Group with an aggregate carrying value at 31 March 2006 of approximately HK$166 million;

  (iv) Certain bank deposits of the Group amounting to approximately HK$68 million; and

  (v) Corporate guarantees from the Company and certain of its subsidiary companies.

(b) Certain other loans are secured by the 85% equity interest in Shanghai Xinhongda Real Estate Ltd., a wholly owned subsidiary of the Company, a 49.75% equity interest in the Group's jointly controlled entity, Beijing Gaosheng Real Estate Company Limited and the Group's properties held for development with a carrying value of approximately HK$113 million.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group's operations are principally in the People's Republic of China. Majority part of the Group's income and expenditure is in Renminbi. The exchange rate for Renminbi has been stable over the past few years with a slight appreciation of about 2% announced in July 2005 and the directors do not foresee any circumstances that will lead to erratic fluctuation in the exchange rate for Renminbi in the foreseeable future which will cause a material adverse impact on the Group's operations. Therefore, the directors consider the Group does not have undue exposure to fluctuation in exchange rates.

CONTINGENT LIABILITIES

At 31 March 2006, the Group had given guarantees to the extent of approximately HK$393 million to banks in respect of mortgage loan facilities granted by the banks to the buyers of certain properties developed by the Group and a property of which the sales were underwritten by the Group, and in respect of certain borrowings of a jointly controlled entity and approximately HK$30 million in respect of a bank loan granted to a PRC company which was acquired by the Group subsequent to the year end date.

EMPLOYEES AND REMUNERATION POLICY

The Group employs a total of about 2,230 employees in the mainland China and Hong Kong. Employees are remunerated based on their work performance, skills and experience, and prevailing industry practice. Apart from basic salary and performance related bonus, the Group also provides other benefits to its employees including mandatory provident fund, medical insurance coverage and share options.