

Management Discussion and Analysis

BUSINESS REVIEW

Turnover of the Group for 2006 amounted to HK\$56.7 million, representing a decrease of 47% as compared to HK\$107.1 million for 2005. Included in turnover for 2006 were sales of developed properties and rental income from property letting. Sales of developed properties and land use rights amounted to approximately HK\$37.0 million (2005: HK\$61.1 million) and Nil (2005: HK\$30.6 million), respectively. The rental income amounted to approximately HK\$19.7 million from investment properties, representing an increase of 28% as compared to HK\$15.4 million for 2005. Gross profit of the Group amounted to approximately HK\$29.8 million, a decrease of 3% as compared to HK\$30.8 million for 2005. The Group's gross profit ratio for the year amounted to 52.6%, an increase of 23.9% as compared to 28.7% for 2005. The sharp increase of gross profit ratio was caused by the rise in proportion of rental income. Loss attributable to equity holders amounted to approximately HK\$22.5 million, a decrease of approximately HK\$43 million as compared to the profit of HK\$20.5 million for 2005 mainly due to the PRC land appreciation tax ("LAT"). Based on the latest understanding of LAT regulations from tax authorities, the Group provided the additional LAT provision in the amount of HK\$57.3 million in respect of the past years. Excluded the net effect from LAT, the Group's profit attributable to equity holders was approximately HK\$2.6 million, a decrease of approximately HK\$17.9 million or 85.5% (2005: HK\$20.5 million)

During the year, the Group sold residential and commercial properties with a total gross floor area of 7,193 sq.m. (2005: 48,809 sq.m.), representing a decrease of 85.3%. The rental income from investment properties was derived from the developed properties in Changchun, Nanjin and Ningbo, which the industrial property in Changchun generated rental income of HK\$17 million during the year. As the Group did not have new property development project completed during the year, all the sales of developed properties was generated from properties held for sales developed in previous years. It is the main reason for the significant drop of the turnover of the Group.

The development of commercial property project located in Ningbo was in progress with the total gross area of the project approximates 46,000 sq.m. and the main structure of the building is expected to be completed in 2007. The project will be launched for sale by the end of 2007 and relevant proceed are also expected. The Group has also acquired a piece of land in Ningbo with site area of approximately 44,698 sq.m during the year and plans to develop a large scale residential property project with GFA of approximately 67,000 sq.m in 2008.

FINANCIAL REVIEW

Net assets

As at 31 December 2006, the Group recorded total assets and total liabilities of approximately HK\$642,708,000 and HK\$332,402,000 respectively. The Group's net assets value per consolidated balance sheet as at 31 December 2006 decreased by approximately HK\$25,870,000 to approximately HK\$310,306,000 as compared to approximately HK\$336,176,000 as at 31 December 2005.

Liquidity and financial ratios

The Group had total cash at banks and in hand of approximately HK\$17,030,000 as at 31 December 2006 as compared with HK\$49,402,000 as at 31 December 2005. As at 31 December 2006, the current ratio was 1.3 as compared with 1.7 as at 31 December 2005. The gearing ratio was 49.5% as at 31 December 2006 as compared with 45.8% as at 31 December 2005. The bank borrowings to equity was recorded at 15.6% as at 31 December 2006 as compared with 26% as at 31 December 2005.

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FINANCIAL REVIEW *(Continued)*

Borrowings

The Group had interest bearing borrowings of approximately HK\$40 million as at 31 December 2006 (31 December 2005: HK\$69 million), representing a decrease of approximately 42% over the amount as at 31 December 2005. Borrowings were denominated in Renminbi ("RMB") and Hong Kong dollar ("HK\$").

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. 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 31 December 2006.

PLEDGE OF ASSETS

At the balance sheet date, the Group pledged certain of its investment properties and properties held for sale to banks in the PRC to secure the bank loans of approximately HK\$39,988,000 (2005: HK\$68,969,000) granted by these banks. The aggregate carrying value of the investment properties and properties held for sale at 31 December 2006 pledged amounted to approximately HK\$119,500,000 and HK\$25,776,000 (2005: HK\$116,346,000 and HK\$46,017,000) respectively.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group provided guarantees of approximately HK\$16,030,000 (2005: HK\$15,394,000) to banks in favour of its customers in respect of the mortgage loans provided by the banks to such customers for purchase of the Group's developed properties. These guarantees provided by the Group to the banks would be released upon receiving the building ownership certificates of the respective properties by the banks from the customers as a pledge for security to the mortgage loan granted.

MATERIAL ACQUISITION AND DISPOSAL

There is no material acquisition and disposal of subsidiary and assets during the year ended 31 December 2006.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group employed approximately 84 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 shares options were granted to the Directors. No options were exercised by the Directors during the year. There were 2,480,000 outstanding shares options granted to the Directors at the end of the year. The total number of shares available for issue under the Company's share option scheme as the date of this report is 3,980,000, representing approximately 1.4% of the issued share capital of the Company as at that date.

Management Discussion and Analysis

OUTLOOK

Despite of the macroeconomic control measures implemented by the PRC Government in 2006, the PRC economy still grew 10.7% for 2006. The PRC Government is trying to control the grow at about 8% for 2007, LAT and higher interest rates already came out in the first quarter, however, PRC economy still grow at 11.4% for the first quarter of 2007, the new macroeconomic control is expected to continue in 2007. Though the favorable effects on property developers are not expected, the PRC strong economic growth will remain strong support to the property market in PRC. As a result, the average price of residential property is increasing continuously given the booming demand driving by the growing residential income. The Board will continue to implement our strategies and achieve our goals for creation of value to our shareholders.