

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of operations

#### Results

For the six months ended 30 June 2004, the Group reported a turnover of HK\$15,044,000 representing an increase of 23% over that of the last corresponding period's HK\$12,193,000. The turnover for the period slightly increase representing a 79% decrease in property investment, 6% decrease in property management and a 261% increase in construction. The Group recorded positive results and the profit attributable to shareholders for the period amounted to HK\$24 million as compared to the loss of HK\$7 million for the last corresponding period. The main improvements compared to last corresponding period come from the absence of arrangement fee of HK\$14 million for debt settlement agreement. The results have also significantly improved from the loss for the year 2003 due to a revaluation surplus of HK\$16 million sustained during the period.

#### Property investment

The disputes with the Joint Venturer in Wuhan, Wuhan Department Store Group Company Limited ("WDS") hinder the normal operations of the property investment subsidiary. Most of the leases lapsed in the period were not renewed which induced the turnover of property investment to drop drastically compared to the last corresponding period. Due to the disputes and various litigations, the financial position of the property investment subsidiary is vulnerable. However, the financial impact to the Group will be minimal since all the loss incurred was already captured in the consolidated accounts and no guarantee, except as disclosed, was made for the operation of the property investment subsidiary.

For details please refer to note 15 to the accounts.

#### Property management

The operation of property management remained steady during the period and the management intended to look for opportunity for expanding its services to property to independent third parties as compared to only provision of services to affiliated companies.

#### Construction

The main contribution to the turnover of the Group came from construction. Despite the macroeconomic measures carried out by the PRC government, the growth momentum still remains strong in the PRC. Under the macro economic measures, the growth in the property market in the PRC will be comparatively steady which creates an optimistic environment for the Group. The management is studying the possibility to cooperate with the affiliated companies, including controlling shareholder's group which is a property developer in the PRC, for expanding the business in property construction and decoration.

**Retail business**

The share of profits from the jointly controlled entity WPM amounts to HK\$25 million before tax which represents a decrease of 8% compared to last corresponding period. Facing the keen competition in the retail business in the PRC, the management believes that further growth for a single department store is limited. The management had carried out market research for analyzing the possibility of developing new department store at different locations or vertical integration of businesses of the retail business.

**Important events**

As announced on 19 January 2004, disputes have arisen between the Group and the joint venturer related to appointment of directors to certain subsidiaries and a jointly controlled entity and two arbitrations. Accordingly, the Group had commenced three arbitrations in order to resume its authority to appoint directors hence to control the companies. On 7 September 2004, one arbitration was awarded to the Group and directors can be appointed accordingly into one of the subsidiaries legally. The results of the other two arbitrations were pending and the management is optimistic about the outcome. On 26 May 2004 and 9 June 2004, applications were filed to the middle court of Wuhan, PRC to reverse the captioned arbitrations and due to the complexity of the cases, the court was not yet decided to start the trial.

Except as disclosed above, there were various litigation held against the Group which may carry financial impact. For details please refer to note 15 to the accounts.

**Liquidity and financial resources**

As at 30 June 2004, the Group had net assets of HK\$23 million with total assets of HK\$405 million and total liabilities of HK\$379 million. The current ratio, with equals current assets divided by current liabilities, was 1.16 as at 30 June 2004, compared to 1.06 as at 31 December 2003. The Group's unrestricted bank balances and short term deposits, which are mainly denominated in Hong Kong dollars and Renminbi, amounted to HK\$10 million as at 30 June 2004.

**Capital structure and interest bearing borrowings**

On 4 February 2004, the Company issued 63,726,000 ordinary shares as partial settlement of the consideration in the sale and purchase agreement signed on 26 December 2003 and supplemented on 29 December 2003 in relation to the acquisition of certain commercial properties in Beijing.

The interest-bearing bank and other borrowings amount to approximately HK\$24.6 million as at 30 June 2004 in which an other loan of HK\$20 million will be due in October 2004 and an other loan of HK\$4.6 million is with no fixed term of repayment. The Group is applying for extension of the other loan of HK\$20 million for at least another 6 months subject to the agreement of the approval of the lender. If failed, the controlling shareholder committed to finance the settlement of the loan. With the support of its controlling shareholder, the Group should have sufficient liquidity to meet its operation needs.

**Material acquisitions and disposals of subsidiaries, associated companies and jointly controlled entities**

There is no material acquisition and disposal of subsidiaries, associated companies and jointly controlled entities during the period.

**Segmental information**

Detailed segment information in respect of the Group's turnover and contribution to profit before taxation are shown in note 2 to the profit and loss account.

**Material investment or capital assets**

There is not any plan for material investment or capital asset in the coming year.

**Gearing**

The gearing ratio, as a ratio of total interest-bearing borrowings to total assets as at 30 June 2004 was 0.7 (2003: 0.8).

**Contingent liabilities**

As at 30 June 2004, the Group had contingent liabilities of HK\$20,000,000 (2003: HK\$20,000,000) in respect of guarantees given by the Group to two banks for mortgage loan facilities granted by the banks to the buyers of properties developed by the Group.

**Charge of assets**

As at 30 June 2004, the Group's other loan was secured by debentures incorporating floating charges on all assets of the Company and the Group's entire interests/rights in certain subsidiaries and a jointly-controlled entity. For details please refer to note 13 to the accounts.

**Exchange rate exposure**

While the sales of the Group are mainly denominated in Hong Kong dollars and Renminbi, the Group's exposure to fluctuations in exchange rates was minimal. As at 30 June 2004, the Group did not have any foreign currency investments which has been hedged by currency borrowings and other hedging instruments.

**Employee and remuneration policy**

As at 30 June 2004, the Group had about 189 employees of whom 9 are based in Hong Kong and 180 are based in the PRC. The number of workers employed by the Group varies from time to time depending on the industry needs and they are remunerated based in industry practice.

The remuneration policy and package of the Group's employees are periodically reviewed and approved by the executive directors. Apart from the pension funds, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.