

Management Discussion and Analysis

BUSINESS REVIEW

In 2004, the China economy recorded continuous healthy growth. Its per capita GDP grew by 9% over that of 2003, and for Guangzhou it was high at 15%. As for the real estate market, benefited from the improving living standard and the demand for better living environment of the country, the Group's total amount of transactions of primary property reached over RMB10 billion in 2004, representing a substantial increase of over 72% as compared with RMB5.8 billion in 2003. Driven by these favourable factors, the Group reported excellent performance in 2004. Its turnover reached HK\$162.2 million, representing an increase of 64.7% over last year's HK\$98.5 million. Profit before tax increased 65.7% to HK\$70 million (2003: HK\$42.3 million). Profit attributable to shareholders increased by 15.5% to HK\$48.6 million, compared with HK\$42.1 million last year. Due to the tax credit of HK\$3.1 million granted to the Group in 2003, the percentage increase of profit before tax is higher than that of profit attributable to shareholders. Basic earnings per share amounted to HK33.2 cents (2003: HK36.0 cents).

During the year under review, the commission income generated from the Group's primary property real estate agency service amounted to HK\$104.2 million (2003: 58.9 million), contributing approximately 61.1% of its total turnover (2003: 56.9%). The income generated from development, marketing & planning consultancy services and conveyance services amounted to HK\$16.1 million and HK\$12.6 million respectively. Total revenue generated from the Group's primary property real estate agency service in 2004 amounted to HK\$132.9 million, representing an increase of 67.8% from HK\$79.2 million in 2003. Commission income from the Group's secondary property real estate agency service reached HK\$37.4 million and represented an increase of 56.2% from HK\$23.9 million in 2003. Helped by the active and prudent investment and development strategies of the Group, the sector contributed about 21.9% to the Group's total turnover in 2004 (2003: 23.1%).

Geographically, Guangzhou remained the Group's core development base, accounting for 69% of the Group's total turnover. Revenue generated from rapidly developing cities such as Dongguang and Foshan and consultancy services provided to over 15 cities in the PRC together contributed 31% of the Group's turnover.

The Group has been successfully listed on the Stock Exchange since 15 July 2004. This marked a milestone in the Group's long term development, which raised the Group's corporate profile and led the Group towards its ongoing pursuit of quality management.



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**BUSINESS REVIEW** *(Continued)***Primary Property Real Estate Agency Service**

As the purchasing power of PRC citizens continued to increase, the average property price in Guangzhou grew by 18%. The Group's primary property real estate agency service business benefited from the growth of Guangzhou's property market and recorded satisfying results during the year under review. The Group was the sole agent of about 74 primary property projects in 2004, exceeding by far the 55 primary property projects it handled in 2003. The total floor area sold by the Group also surged from 11.7 million sq.ft. in 2003 to about 17.9 million sq.ft. in 2004. Projects such as Hui Jing New City (匯景新城), Guang Da Garden (光大花園), Liana Bay (利雅灣), Foshan Olympic Garden (佛山奧園), Dongguan Jiang Nan Garden (東莞江南世家), Nanguo Olympic Garden (南國奧園), Mainland Lake Garden (美林湖畔花園) received overwhelming response from property buyers and recorded remarkable sales. Over 90% of the first lot containing 400 units of Wonderland (四季花城) launched by Wanke Group (萬科集團) were sold on the first day. The number of transactions of Mainland Lake Garden (美林湖畔花園) in Guangzhou exceeded 1,100 during the Labour Day week in May 2004, making a new record and topping all Guangzhou residential projects.

Hopefluent has forged solid relationship with leading property developers in the PRC through providing one-stop-shop services covering planning of marketing programmes, handling of sales and related consultancy services, property transferal and mortgage arrangements. Leveraging the well-established relationship with property developers, the Group aggressively expanded its market presence outside Guangzhou to a much wider area including Tianjin, Foshan, Dongguan, Wuhan and Shanghai. Hopefluent's co-operation with Wanke Group is an example of such initiatives. The Group was the sole agent for Wonderland, a Wanke Group's project in Guangzhou. The project received overwhelming response, leading to the award of sole agency right to Hopefluent by Wanke Group for its other projects in Wuhan and Dongguan, reaping the benefits of integration of resources.

Hopefluent received the "TOP 10 Chinese Real Estate Business Corporations" Award at the 2004 China International Real Estate & Archi-tech Fairs (CIHAF) held in Shanghai in December 2004. Hopefluent is the only company from Guangzhou area who received this award. CIHAF is the largest national residential real estate industry exhibition. Representative of the industry, the event has been where the public and real estate professionals turned to for authoritative reference on mainstream industry trend since 2000.

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BUSINESS REVIEW *(Continued)***Secondary Property Real Estate Agency Service**

In recent years, as banks introduce more flexible mortgage policy, the quality of secondary properties improves, the secondary property market experienced robust growth. To grasp this market opportunity, the Group took full reference of its existing customer base and opened additional branch offices in Guangzhou for maximum coverage. The Group's branch offices in Guangzhou for secondary property real estate agency service rapidly climbed from 18 as at 31 December 2003 to 59 as at 31 December 2004. The Group also set up a new main office and three branch offices for secondary real estate business in Shanghai during the year under review to capture business opportunities in the vigorously thriving secondary property market in Shanghai. The Group handled over 5,500 transactions in 2004.

PROSPECT

Looking ahead, the Group sees continuous steady development for the real estate market in the PRC. Despite the slight increase in property mortgage interest rate, potential property buyers in the market are generally optimistic about the property market and agree that secondary properties are better value buy. Riding on the favourable market atmosphere, the Group will follow the market closely and flexibly allocate its resources to capture market opportunities.

In the primary real estate market, the Group will continue to expand its business into areas outside Guangzhou. When exploring new markets, the Group will apply prudent strategy and enter a new market only after thorough consideration and the emergence of a viable customer base. The Group plans to set up new branches in Beijing, Jinan, Nanjing, Hefei and Changsha to boost its agency business and the number of consultancy contracts. Currently, the Group has approximately 90 projects on hand.

Turning to the secondary property real estate market, the Group will discreetly yet actively expand its market coverage in line with demand. The Group plans to further expand the number of its secondary property real estate agency service branches from 72 currently to 100 in Guangzhou and from 3 to 10 in Shanghai. Moreover, the Group will focus on seeking more expansion opportunities taking full advantage of its existing customer base, and further strengthening its relationship with leading property developers to ensure its long-term success.



Management Discussion and Analysis

PROSPECT *(Continued)*

Armed with a unique business model and boasting brilliant prospect, the Group was spotted by Value Partners Limited, a renowned institutional investor. In January 2005, Value Partners subscribed shares of the Group and became a strategic investor of Hopefluent. The placing helped expand the shareholder base of the Group and introduced Hopefluent to more overseas investors.

With a solid business foundation, the management is confident of the Group's future development and ability to bring satisfying long term returns to its shareholders.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee"), comprising the three existing independent non-executive directors, with written terms of reference in compliance with the Code of Best Practice, as set out in Appendix 14 to the Listing Rules. The Committee has reviewed the audited financial statements for the year ended 31 December 2004 including the accounting, internal controls and financial reporting issues.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group maintained a sound financial position where the cash and bank deposits and current ratio, as a ratio of current assets to current liabilities, were approximately HK\$119.4 million (2003: HK\$30.9 million) and 3.64 (2003: 1.86) respectively. Total borrowings amounted to approximately HK\$9.3 million are secured bank loans (2003: HK\$15.5 million). The Group's gearing ratio, which was computed by dividing the total borrowings by total assets, was approximately 3.7% (2003: 12.3%). The Group's borrowings were primarily denominated in Renminbi. The Group had no material contingent liabilities as at 31 December 2004.

PLEDGE OF ASSETS

At 31 December 2004, the Group pledged its investment properties and, leasehold land and buildings with an aggregate amount of HK\$19.4 million to banks to secure bank borrowings of the Group.

FOREIGN EXCHANGE EXPOSURE

Most of the Group's business transactions were denominated in either Hong Kong dollars or Renminbi. As such, the Group had no significant exposure to foreign exchange fluctuations.

EMPLOYEES

As at 31 December 2004, the Group had approximately 1,600 full time employees. Around 7 staff were based in Hong Kong and the rest were employed in China. Competitive remuneration packages are structured to commensurate with individual job duties, qualification, performance and years of experience.

USE OF THE PROCEEDS FROM THE INITIAL PUBLIC OFFER

The Company was listed on the Stock Exchange on 15 July 2004 (the "Listing Date"). The total net proceeds raised by the Company in its initial public offering were HK\$53 million after deducting the actual related expenses. The Directors have confirmed that, as at the balance sheet date, the total unused proceeds, which have been placed in a bank as a fixed deposit, amounted to HK\$23 million. The Directors have also confirmed that the proceeds which have been used, include HK\$6 million for the expansion of primary real estate services; HK\$11 million for the expansion of the secondary real estate sales network; HK\$2 million for the promotion and marketing activities; HK\$2 million for staff training programmes; HK\$3 million for the enhancement of the Group's management information systems and HK\$6 million as general working capital.

CAPITAL STRUCTURE

As at 31 December 2004, the total number of shares (the "Shares") of HK\$0.01 each in the capital of the Company in issue was 180,000,000.

Subsequent to 31 December 2004, the number of issued Shares was increased from 180,000,000 to 194,000,000 on 31 January 2005 after the top-up subscription exercised by the existing shareholder of the Company for 14,000,000 new Shares at HK\$1.38 each following their placing (the "Placing") of existing Shares to third party investors. Value Partners Limited had taken up 18,000,000 Shares in the Placing.