MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

Results

For the six months ended 30 June 2005, the Group reported a turnover of HK$9,560,000 representing a decrease of 36% from that of last corresponding period of HK$15,044,000. The decline of turnover for the period was mainly due to no income accrued from property investment and property management, and 6% decrease in construction and related business.

The Group recorded positive results with profits attributable to equity holders for the period amounted to HK$9,659,000 as compared to HK$24,273,000 for the last corresponding period which included a revaluation surplus of HK$16,168,000. The results have also significantly improved from the loss for the year 2004 due to better performance from retail business.

Operations review and future prospects

Construction and related business

The 51% subsidiary in Beijing suffered a loss for the period. The management has now taken a comprehensive review in this sector of business in the light of the continuing loss with a view to improve the performance of this subsidiary.

Properties for investment/for sale

The Group entered into an acquisition agreement through a wholly-owned subsidiary of the Company with Wuhan Junefield Sogo Department Store, a connected person (as defined in the Listing Rules) of the Company, for the acquisition of Wuhan property for RMB27.348 million (approximately HK$25.8 million). The Group presently intends to hold the Wuhan property as a long-term investment and will lease the Wuhan property to generate recurrent rental income.

The Group also entered into a disposal agreement with Beijing Junefield Real Estate Development Co. Ltd., a connected person (as defined in the Listing Rules) of the Company, for disposal of 15 office units in Beijing which the Group has acquired in 2003 for RMB26.43 million (approximately HK$24.934 million) (the "Disposal"). The Disposal provides the Group an opportunity to realise part of the Beijing properties at a pre-determined price comparable to the prevailing market valuation on an underwritten basis.

The management has endeavoured to lease the remaining 9 office units in Beijing which the Group has acquired in 2003 to generate recurrent rental income.

Retail business in Wuhan

The share of profits from the jointly controlled entity, WPM, amounted to HK$37,439,000 before tax which represented a 48% increase as compared to last corresponding period. During the period under review, the economy of the People's Republic of China continued to experience growth, the retail and department store business was rapidly rising and it is preview with potential to grow steadily.

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

Save as disclosed above, there is no material acquisition and disposal of subsidiaries, associated companies and jointly-controlled entities.

Liquidity and financial resources

As at 30 June 2005, the Group had a deficiency in assets of HK$27 million with total asset of HK$47 million and total liabilities of HK$74 million. The current ratio, which equals current assets divided by current liabilities, was 0.20 as at 30 June 2005, compared to 0.40 as at 31 December 2004. The Group's unrestricted bank balances and short term deposits which are mainly denominated in Hong Kong dollars and Renminbi, amounted to HK$1.4 million as at 30 June 2005. The Group currently enjoys the continuous financial support from the Company's ultimate holding company and intends to apply the entire sale proceeds from the Disposal to repay the Group's interest-bearing borrowings with a view to improve the working capital and cashflow position.

Capital structure and interest bearing borrowings

As at 30 June 2005, the Group had interest bearing other borrowings of HK$39.6 million (2004: HK$24.6 million) in which an other loan of HK$35 million bearing interest at 1.5% per month was due in August 2005 and would be extended to February 2006 at 2% per month. Another loan of HK$4.6 million bears interest at 9.5% per annum with no fixed term of repayment.

Included in interest in a jointly-controlled entity was a loan from a jointly-controlled entity of HK$90.2 million (2004: HK$95.5 million) which was repayable through dividends distributions by the jointly-controlled entity up to December 2007.

Segmental information

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

Material investment or capital assets

The Group entered into a conditional agreement with a connected person for acquisition of certain commercial podium in Wuhan during the period.

Gearing

The gearing ratio, as a ratio of total interest-bearing borrowing including the loan from a jointly-controlled entity to total assets as at 30 June 2005 was 0.94 (31 December 2004 : 0.93).

Charge of assets

As at 30 June 2005, the Group's other borrowings were secured by debentures incorporating floating charges on all assets of the Company and the Group's entire interests/rights in certain subsidiaries and jointly-controlled entity. For details, please refer to note 14 to the interim financial statements.

Litigation

The Group has been involved in a legal proceeding with total claimed amount of approximately RMB19 million. Currently, the litigation is still in progress and no conclusion has been drawn on the litigation. Based on the legal opinion from the Group's PRC lawyer, the directors are in the opinion that the court will ultimately decline such claim and, accordingly, no provision has been made. Other than the above, the Group had no litigation and claim during the period.

Exchange rate exposure

While sales of the Group are mainly denominated in Hong Kong dollars and Renminbi, the Group's exposure to fluctuation in exchange rates was minimal. As at 30 June 2005, the Group did not have any foreign currency investment which has been hedged by currency borrowings and other hedging instruments.

Contingent liabilities

As at 30 June 2005, the Group had no material contingent liabilities.

Employees and remuneration policy

As at 30 June 2005, the Group had about 120 employees of whom 10 are based in Hong Kong and 110 based in the PRC. The number of workers employed by the Group varies from time to time depending on the industry need and they are remunerated under the employment term which is based on 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.