

# Management Discussion and Analysis

## BUSINESS REVIEW

Turnover for the Group for 2005 amounted to HK\$107.1 million, representing a decrease of 59.1% as compared to HK\$261.9 million for 2004. Sales of developed properties and land sales amounted to approximately HK\$61 million (2004: HK\$260.4 million) and HK\$30.6 million (2004: HK\$nil), respectively. The rental income of approximately HK\$15.4 million (2004: HK\$1.5 million) from investment properties included in turnover for the first time. Gross profit of the Group amounted to approximately HK\$30.8 million, a decrease of 60% as compared to HK\$77 million for 2004. The Group's gross profit ratio for the year amounted to 28.7%, a decrease of 0.7% as compared to 29.4% for 2004. Profit attributable to equity holders of the Company amounted to approximately HK\$ 20.5 million, which was 36% more as compared to HK\$15 million for 2004.

During the year, the Group sold residential and commercial properties with a total gross floor area of 48,809 sq.m. (2004: 64,750 sq.m.), marking a year-on-year decrease of 24.6%. Developed properties such as Prosperous Age Garden in Ningbo and Changchun Haoyuan in Changchun accounted for the majority of the sales. The industrial property in Changchun generated rental income of HK\$13.2 million during the year. Pursuant to a lease agreement between a subsidiary of the Group and the lessee for a term of 15 years, the lessee shall pay a total rental amount of approximately HK\$198 million to the Group's subsidiary for the lease period. The decrease in turnover was mainly attributable to a decrease in the total areas of saleable properties such as Prosperous Age Garden and Changchun Haoyuan.

As the Group did not have new property development project completed during the year, all the sales of developed properties was from properties held for sales developed in previous years. It is the main reason for the significant drop of the turnover of the Group. In compliance with the new HKASs and HKFRSs, the Group's investment properties were revalued with a net surplus after deferred tax and minority interests of approximately HK\$22.5 million included in the profit attributable to shareholders.

The development of commercial property project located in Ningbo has been commenced during the year. The total gross area of the project approximates 33,000 sq.m. and it is planned to be developed into a commercial and office complex. The project will be completed and launched for sale by the end of 2006. The Group has also acquired a piece of land with site area approximately 17,514 sq.m during the year and plans to develop a commercial and residential property project in Cixi in Ningbo in 2006.

## MARKET REVIEW

According to the National Statistics Bureau, the PRC attained a 9.9% growth in the GDP in 2005, registering an increase in excess of 9% for four consecutive years, indicating that the nation as a whole is still in the course of rapid economic growth.

Foreign direct investment ("FDI") maintained at a high level with a gross actual FDI amount of US\$60.3 billion, making the PRC the largest recipient of FDI in the world.

Meanwhile, PRC people continued to enjoy rising living standard with an average of per capital disposable income of RMB10,493 for urban and town residents. The PRC residential property market maintained a robust growth of 19.8% amid rapid economic development and continuously increasing per capita income, while a 14.9% growth was recorded in the sales of commodity houses.

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## MARKET REVIEW *(Continued)*

Figures from the Shanghai Statistics Bureau, Changchun Statistics Bureau, Ningbo Statistics Bureau and Qingdao Statistics Bureau indicate that these cities have achieved local GDP growths of 11.1%, 9.1%, 12.5% and 16.9% respectively as compared to 2004. Continuous robust economic growth in these regions is set to provide a major driver to the prosperity of their real estate markets.

## FINANCIAL REVIEW

### Net assets

As at 31 December 2005, the Group recorded total assets and total liabilities of approximately HK\$647,354,000 and HK\$311,178,000 respectively. The Group's net assets value per consolidated balance sheet as at 31 December 2005 increased by approximately HK\$19,734,000 to approximately HK\$336,176,000 as compared to approximately HK\$316,442,000 as at 31 December 2004.

### Liquidity and financial ratios

The Group had total bank balances and cash of approximately HK\$49,402,000 as at 31 December 2005 as compared with HK\$88,010,000 as at 31 December 2004. As at 31 December 2005, the current ratio was 1.8 as compared with 2.1 as at 31 December 2004. The gearing ratio was 45.8% as at 31 December 2005 as compared with 49.8% as at 31 December 2004. The bank borrowings to equity was recorded at 26% as at 31 December 2005 as compared with 30% as at 31 December 2004.

### Borrowings

The Group had interest bearing borrowings of approximately HK\$68,969,000 as at 31 December 2005 (31 December 2004: HK\$73,676,000), representing a decrease of approximately 6.4% over the amount as at 31 December 2004. Borrowings were denominated in Renminbi ("RMB") and Hong Kong dollar ("HK\$"). Approximately 57% of the borrowings is repayable within one year.

### 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 in view of the stability of the RMB. 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 2005.

## MATERIAL ACQUISITION AND DISPOSAL

Other than the acquisition of an additional 5% equity interests in the Changchun Joint Venture, there is no material acquisition and disposal of subsidiary and assets during the year ended 31 December 2005.

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## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group employed approximately 86 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, 2,480,000 shares options were granted to the Directors on 27 September 2005. 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 4,050,000, representing approximately 1.4% of the issued share capital of the Company as at that date.

## OUTLOOK

Macroeconomic control measures implemented by the PRC Government in 2005 achieved explicit results. Property price in individual cities, particularly Shanghai, is going back to normal without causing undesirable consequences such as disruption of market equilibrium. Looking forward to 2006, the PRC property market will enter into a development phase with relatively stable demand and supply. In view of this, the Group will aggressively seek and realize the development of new projects, in bid to fuel the Group's business growth.