

## MANAGEMENT DISCUSSION AND ANALYSIS



Consolidated revenue of the Group for the financial year ended 31 December 2006 increased by 31.0% to reach HK\$303.1 million (2005: HK\$231.3 million), primarily due to the continued business growth momentum of specialised construction business.

Including the revaluation gain on investment properties and write-back of provision for properties under development, the consolidated after-tax profit attributable to equity holders of the Company was HK\$105.8 million in 2006 (2005: HK\$28.1 million), up 276.0% from the previous year. Earnings per share rose from 3.65 HK cents in 2005 to 13.71 HK cents in 2006.

The Group is principally engaged in the businesses of real estate development and project management, specialised construction, property leasing, manufacturing and trading, and securities investment and trading.

## TOTAL REVENUE BY BUSINESS SEGMENTS

	Year ended 31 December				Year-on-year
	2006		2005		change
	HK\$'000	%	HK\$'000	%	%
Real estate development and project management	11,283	3.7	14,995	6.5	-24.8
Specialised construction	206,727	68.2	144,075	62.3	+43.5
Property leasing	14,249	4.7	12,078	5.2	+18.0
Manufacturing and trading	64,931	21.4	59,781	25.8	+8.6
Securities investment and trading	5,895	2.0	393	0.2	+1,400.0
Total revenue	303,085	100.0	231,322	100.0	

## REAL ESTATE DEVELOPMENT AND PROJECT MANAGEMENT BUSINESS

This business segment includes two real estate development projects in the PRC namely, The Grand Panorama Project (formerly known as Haitian Garden Project) in Zhuhai and the Laguna Bay Project in Nanjing, and the provision of project management services with respect to the construction works of Guangzhou Tian He Jin Hai Building ("Jin Hai Building") in Guangzhou, the PRC.

During the year under review, The Grand Panorama Project was under construction and the Laguna Bay Project was primarily in the design and planning stage. As a result, the revenue recorded under this segment was entirely attributable to project management activities relating to the construction of Jin Hai Building. In 2006, the Group's service contract with respect to the provision of construction project management services for Jin Hai Building was in its final stage and hence the service fees income recognised by the Group in 2006 were comparatively lower than that in the preceding year as the fee structure was more heavily weighted towards the early stages of the contract period.

In 2006, revenue from this segment was HK\$11.3 million (2005: HK\$15.0 million), a decrease of 24.8% year-on-year. Segment profit increased from HK\$12.6 million in 2005 to HK\$43.8 million in 2006, representing an increase of 247.6%. Excluding the write-back of provision for properties under development, segment profit during the year under review was HK\$7.5 million, representing a decrease of 40.5% compared with HK\$12.6 million in 2005.

### The Grand Panorama Project, Zhuhai, Guangdong Province, the PRC

The Grand Panorama Project obtained the permit for superstructure construction in May 2006. At the end of 2006, construction works for this project had progressed to an extent enabling the application of the relevant pre-sale permit to be submitted. In January 2007, the permit was obtained and the pre-sale of the residential units of the project commenced. All



## REAL ESTATE DEVELOPMENT AND PROJECT MANAGEMENT BUSINESS (Cont'd)



units in The Grand Panorama Project are over 90 sqm in size and targeted at high-income investors or owner-occupiers from Hong Kong, Macau and the PRC, in particular from the Pearl River Delta. So far, response to the pre-sale of the project has been satisfactory. Sale of the units in the project is expected to substantially complete in 2007 and handover of the units to our customers is scheduled in July 2008.

Pre-sale of The Grand Panorama Project has marked the success of our management's continued dedication and efforts in revitalising the project in the past few years. As a result of the satisfactory progress in the project together with improved realisable value of the project, we have in 2006 made a full write-back of the provision in the Group's financial statements of HK\$36.3 million that was made in 2003 and 2004.

### Laguna Bay Project, Nanjing, the PRC

Based on the Group's analysis of market conditions and resources allocation plan, the Laguna Bay Project will be developed under three phases, with a substantial portion of the sale proceeds from the earlier phases to be utilised towards the development of subsequent phase(s). The project is positioned for the middle to high-end residential property market in the Nanjing area. During the year under review, the relevant land use right certificates were granted and the design and planning proposal of the project was being reviewed by the Jiangning District local authority. In December 2006, the project's design and planning proposal had been submitted to the Urban Planning Bureau and the design and planning permit had been granted in February 2007. Works on phase 1 of the project started in January 2007 in terms of detailed site investigation works.



The current construction and pre-sale schedules of the Laguna Bay Project are shown below:

	Approximate gross floor area <small>(Note)</small>	Expected pre-sale commencement date	Expected construction completion date
	sqm		
Phase 1	68,300	4Q 2007	4Q 2008
Phase 2	150,300	4Q 2008	4Q 2009
Phase 3	59,100	4Q 2009	4Q 2010
Total	277,700		

*Note: Gross floor area excludes primary school gross floor area.*

## REAL ESTATE DEVELOPMENT AND PROJECT MANAGEMENT BUSINESS (Cont'd)



Since the administrative status of Jiangning was upgraded from a county to a district in 2000, economic activity in the area had continued to expand at a brisk rate, especially with timely improvements in transport links both within the area and externally. In mid-2006, the Jiangning metro subway system was extended to the Science Park area, close to the location of our Laguna Bay Project. In addition, the Ninghang Expressway, with a toll station in Jiangning District, will be fully in operation in 2007. Given these favourable developments in the infrastructures and the economic activity of the Jiangning District, the Group is confident about the potential of the Laguna Bay Project and its contributions to the Group's revenue and cash flow for several years from 2008 onwards.

### Construction Project Management Service

Although construction of the Jin Hai Building project was substantially completed in June 2006, the final account of the construction works could not be completed on schedule primarily due to contractual dispute between the developer and the contractor. The Group will negotiate with the developer to determine a new target completion date for finalisation of the accounts. The Group has recognised RMB36.6 million of project management fee up to 2006.

## SPECIALISED CONSTRUCTION BUSINESS

In 2006, the Group operated this business through SJQ which is engaged in the design and installation of curtain walls in the PRC and Enful which is engaged in the manufacture and installation of fire-rated timber doors and fire-proofing plaster projects in the PRC and Hong Kong.

In 2006, specialised construction business reported revenue of HK\$206.7 million (2005: HK\$144.1 million), representing an increase of 43.5% over the previous year. Segment loss was HK\$3.4 million in 2006, compared with a segment profit of HK\$8.1 million in 2005. The loss was mainly a result of the less than satisfactory performance of Enful's business.

### Curtain Wall Business

SJQ recorded revenue of HK\$191.4 million in 2006 (2005: HK\$140.1 million), representing a 36.6% increase over 2005. Benefiting from strong economic growth in the PRC and brand recognition, SJQ continued to enjoy improved business growth in 2006. Based in Shanghai, SJQ has extensive operations in 15 provinces and cities in the PRC. Through its experience and track record in the curtain wall industry in the PRC and by leveraging on the advantage of being a subsidiary of China Minmetals, SJQ has built its brand recognition and credibility effectively amongst existing and potential clients. The value of outstanding contracts on hand amounted to approximately HK\$300 million at the end of 2006 (2005: HK\$122 million).



Fujian Province People's Procuratorate



China Construction Luban Prize

## SPECIALISED CONSTRUCTION BUSINESS (Cont'd)

In recognising the quality and high standard of work performed by SJQ, the Ministry of Construction and Shanghai Construction Trade Association had respectively granted two prestigious awards namely,



Shanghai White Orchid Award

China Construction Luban Prize (中國建築工程魯班獎) and Shanghai White Orchid Award (上海市建設工程“白玉蘭”獎) for two curtain wall construction projects completed by SJQ in 2006.



Shanghai Mint

By the 21st century, the PRC has become the largest producer and consumer of curtain wall in the world. In the next several years, the size of the curtain wall market in the PRC is expected to maintain at about 120 million sqm per year in terms of new installations and modification. Given prevailing market dynamics, SJQ seeks to enlarge operation scale and modify production facilities in response to market demand via feasible measures including merger and acquisition.

## Fire-proofing Door and Plaster Business

During the year under review, the revenue of Enful was HK\$15.3 million (2005: HK\$4.0 million), of which HK\$13.8 million (90.2% of revenue) was derived from the Hong Kong market, with the remaining HK\$1.5 million (9.8% of revenue) from the PRC market. Enful's business volume, especially in the PRC, was not able to cover its fixed operating costs in 2006. Despite the efforts of the Group to revive Enful's business in the past through various measures, the improvement had not been satisfactory. The management had taken actions to minimise further financial losses to the Group.

## PROPERTY LEASING BUSINESS

The Group's property leasing business covers mainly the leasing of office and commercial spaces in ONFEM Tower ("ONFEM Tower") located in Central, Hong Kong, and four other residential units in Hong Kong. The Group's residential properties in Shanghai were occupied as staff quarters of the Group.

In 2006, revenue of the property leasing business increased by 18.0% to HK\$14.3 million (2005: HK\$12.1 million). Segment profit amounted to HK\$63.9 million, up 157.7% on the previous year of HK\$24.8 million. After excluding the gain of HK\$52.7 million on revaluation of investment properties in 2006 (2005: HK\$15.2 million), segment profit was 16.7% higher than the preceding year.

## MANUFACTURING AND TRADING BUSINESS

The Group's manufacturing and trading business consists of the manufacture and distribution of industrial lubricant oil products operated by Jaeger.



## MANUFACTURING AND TRADING BUSINESS (Cont'd)

This segment recorded revenue of HK\$64.9 million in 2006 (2005: HK\$59.8 million), up 8.6% on the previous year. In 2006, 82.9% of Jaeger's revenue was derived from the PRC while the remaining revenue was derived mainly from Hong Kong. Segment profit was HK\$4.6 million (2005: HK\$2.7 million), representing an increase of 70.4% year-on-year.

During the year under review, Jaeger managed to adjust upward its average product prices by as much as 20%. As such, Jaeger was able to pass along higher costs of raw materials and transportation to its customers and maintained a slight improvement in gross margins compared with the preceding year. On the back of firming price trends, we have seen some of our customers switching to lower quality local brands in the PRC.

Since Jaeger is to a large extent exposed to movements in market prices of lubricant products, its management has been focusing on strategies that would enable it to improve its product mix towards higher value products and control costs so as to stabilise margins. Jaeger will continue to develop new customers from heavy industries in the PRC including die-casting, steel-making and car-making, and explore new markets particularly in the south-western part of the PRC.

## SECURITIES INVESTMENT AND TRADING BUSINESS

In 2006, revenue of this segment was HK\$5.9 million (2005: HK\$0.3 million) and segment profit was HK\$2.9 million (2005: HK\$0.6 million), which were mainly derived from the disposal of financial assets listed in Hong Kong. Immediately following the disposal of a securities investment in January 2007 for net proceeds of HK\$157.8 million, the Group did not hold any securities for investment and trading.

## LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group derived its funds mainly from cashflows generated from business operations as well as borrowings from banks and a fellow subsidiary. During the year ended 31 December 2006, the Group secured a new bank borrowing of RMB100 million to finance the construction of the superstructure of The Grand Panorama Project.

At 31 December 2006, cash and bank deposits (excluding pledged deposits) of the Group amounted to HK\$116.1 million (2005: HK\$143.3 million), of which 93.0%, 6.5% and 0.5% (2005: 50.9%, 18.1% and 31.0%) were denominated in RMB, HK\$ and US\$ respectively.

To finance the Group's real estate development projects, the consolidated borrowings, comprising borrowings from banks and a fellow subsidiary, increased to HK\$271.5 million as at 31 December 2006 (2005: HK\$63.1 million). Gearing ratio (total borrowings over total equity) of the Group rose from 10.5% as at 31 December 2005 to 33.2%.

At 31 December 2006, borrowings denominated in RMB amounted to RMB197.5 million (2005: RMB64.5 million), while the remaining balances of HK\$74.7 million (2005: HK\$1.1 million) were bank borrowings denominated in HK\$. Among the borrowings, HK\$171.8 million were payable within one year and HK\$99.7 million was a term bank loan of a tenure of two years. All of the Group's borrowings were on a floating interest rate basis. Finance costs charged to the income statement for the year ended 31 December 2006 amounted to HK\$0.9 million (2005: HK\$0.6 million) after capitalisation of HK\$9.5 million (2005: HK\$6.3 million) into the costs of properties under development. The unutilised banking facilities of the Group amounted to HK\$103.2 million as at 31 December 2006 (2005: HK\$176.0 million).

Capital commitments of the Group as at 31 December 2006 amounted to HK\$160.5 million (2005: HK\$275.9 million). These commitments related to properties under development and are to be financed by internal funds and borrowings.

## EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

Most of the transactions of the Group were denominated in HK\$, RMB and US\$, and accordingly, the Group has RMB exposure in large while the currency risk exposure to US\$ was considered to be minimal. Given that the expected appreciation of RMB would have positive impact on the Group's assets in the PRC and income generated from the PRC, the Group had not implemented hedging or other alternative measures during the year ended 31 December 2006. During the year under review, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

## CHARGES ON GROUP ASSETS

At 31 December 2006, the Group pledged leasehold land and buildings and investment properties with carrying amounts of HK\$6.7 million (2005: HK\$8.8 million) and HK\$290.8 million (2005: HK\$236.3 million) respectively, properties under development of HK\$308.8 million (2005: Nil) and fixed bank deposits of HK\$37.0 million (2005: HK\$5.0 million) as securities for the Group's banking facilities.

## CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and the Group are set out in Note 31 to the consolidated financial statements.

## EMPLOYEES

At 31 December 2006, the Group employed 466 (2005: 438) staff, including the Directors. The total remuneration and benefits of the Directors and staff of the Group during the year ended 31 December 2006 were HK\$35.4 million (2005: HK\$34.6 million). The Group adopts a remuneration policy in line with market practice.

By order of the Board

**Wang Xingdong**

*Managing Director*

Hong Kong, 12 April 2007