



■ FINANCIAL REVIEW ■

For the year ended 31 December 2006, the Group's turnover decreased to HK\$27,578,000 representing a decrease of 24% over that of previous year's HK\$36,205,000. Net profit for the year under review was HK\$7,745,000 as compared to the net profit of HK\$758,000 for the last corresponding year.

■ OPERATIONS REVIEW AND FUTURE PROSPECTS ■

Construction and related business

The 51% subsidiary in Beijing made profit for the period. The management has now taken a comprehensive review in this sector of business and has selectively secured contracts with a view to improve the performance of this subsidiary.

Properties for investment/for sale

The management has leased 5 units out of 9 office units in Beijing, which the Group has acquired in 2003 to generate recurrent rental income. However, the management would recommend these properties be re-classified as properties for sale under current assets. Management would endeavour to lease out the remaining 4 units and to dispose the units in the light of flourish property market in Beijing, The People's Republic of China ("PRC").

Properties held for sale, leasehold interests in land and property, plant and equipment

The 51% subsidiary in Wuhan suffered a loss for the period. The purchase from Wuhan Huaxin Real-Estate Development Co. Ltd. ("WHRED"), of 5 units office premises were classified under non-current assets. The management has focused to look for opportunity for expanding its services as our core business to independent third parties to sustain better performance of this subsidiary.

Retail business in Wuhan

The share of profit from the jointly-controlled entity, Wuhan Plaza Management Co., Ltd ("WPM"), amounted to HK\$26,731,000 after tax which represented a 40% decrease as compared to last corresponding period. During the period under review, the economy of the PRC continued to experience growth, the retail and department store business remained promising. However, the performance of WPM has suffered set backs due to recoverability a related company's debts. The outcome of litigation on increase in rental may further pose a negative factor for the future profitability of this jointly-controlled entity.

■ 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 31 December 2006, the Group had deficiency in equity of HK\$41,918,000 (2005: HK\$49,131,000) with total assets of HK\$100,572,000 (2005: HK\$130,232,000) and total liabilities of HK\$142,490,000 (2005: HK\$179,363,000). The current ratio, which equals current assets divided by current liabilities was 0.42, compared to 0.41 as at 31 December 2005. The Group's bank balances and short term deposits which are mainly denominated in Hong Kong dollars and Renminbi, amounted to HK\$2,226,000 as at 31 December 2006 (2005: HK\$2,494,000).



■ LIQUIDITY AND FINANCIAL RESOURCES ■ (continued)

The Group currently enjoys the continuous financial support from the Company's ultimate holding company and the sale proceeds from the disposal of properties situated in Beijing have been applied to repay partially the Group's interest-bearing borrowings. The Group will actively improve its working capital at appropriate time, consider raising funds by suitable means, for investment and trade opportunities.

■ CAPITAL STRUCTURE AND BORROWINGS ■

As at 31 December 2006, the Group had interest-bearing other borrowings of HK\$34,630,000 (2005: HK\$39,630,000), in which an other loan of HK\$30 million bearing interest at 2% per month was due on 23 February 2007 and would be extended to 23 August 2007 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 investment in a jointly-controlled entity was a loan from a jointly-controlled entity of HK\$61.9 million (2005: HK\$95.2 million) which was repayable through dividends distributions by the jointly-controlled entity up to December 2007.

■ GEARING ■

The gearing ratio, as a ratio of total interest-bearing borrowings including the loan from a jointly-controlled entity to total assets as at 31 December 2006, was 0.96 (2005: 1.04).

■ MATERIAL INVESTMENT OR CAPITAL ASSETS ■

The Group entered into an agreement with a related party for acquisition of 5 units office premises in Wuhan the PRC.

■ CONTINGENT LIABILITIES ■

WHRED has given corporate guarantees to banks (the "Banks") for mortgage loans granted to the buyers of its properties in prior years.

In September 2004, due to the default payments by certain borrowers, the Banks commenced legal action against WHRED requesting WHRED to repay the guaranteed amounts. Based on the legal opinion from a PRC lawyer in Wuhan, the amounts payable by WHRED would be limited to the outstanding balances after the sales proceeds from the mortgaged properties. As at 31 December 2006, the estimated amounts payable by WHRED in respect of the default payments by certain borrowers were approximately HK\$10 million. As WHRED was reclassified as an available-for-sale investment during the year ended 31 December 2004, and the Group has not provided any financial guarantee to WHRED, the directors do not expect the above claims to have any impact on the Group.



■ CHARGE OF ASSETS ■

As at 31 December 2006 the Company's and the Group's other loan of HK\$30,000,000 bears interest at 2% per month, and is secured by:

- (i) a debenture incorporating a floating charge on all assets of the Company and a first legal charge on the entire issued capital of International Management Company Limited ("IMC") and Hudson Development (H.K.) Company Limited ("HDHK"), subsidiaries of the Company;
- (ii) a debenture incorporating a floating charge on all assets of IMC and a first legal charge on its 49% shareholding in WPM;
- (iii) a first legal charge on the 49% joint venture rights in WPM including all cash, dividends, distribution, bonuses, interests or other monies derived from the rights in WPM;
- (iv) a debenture incorporating a floating charge on all assets of HDHK and a first legal charge on its 51% shareholding in WHRED;
- (v) a first legal charge on the 51% joint venture rights in WHRED, including all cash, dividends, distribution, bonuses, interests on other monies derived from the rights in WHRED;
- (vi) a share mortgage executed by Yield Point Investments Ltd and Huaxia Nominees Ltd in respect of the two issued ordinary shares of Ever Park Development Limited ("EPD"), a subsidiary of the Company;
- (vii) a debenture incorporating a first floating charge over the undertaking, properties and assets of EPD;
- (viii) a deed of guarantee signed by Mr. Zhou Chu Jian He, Chairman of the Company;
- (ix) a debenture incorporating a first floating charge over the undertaking, properties and assets of Prime Century Investments Limited ("PCI"), a fellow subsidiary of the Company;
- (x) a share mortgage in respect of the one issued share of PCI; and
- (xi) assignment of receivables of EPD.



■ LITIGATION ■

In December 2002, a former director of a subsidiary which was disposed of in prior years commenced litigation in the PRC against the Group with total claims 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 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.

■ SUBSEQUENT EVENTS ■

Detailed subsequent events are shown in note 39 to the financial statements.

■ EXCHANGE RATE EXPOSURE ■

While 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 31 December 2006, the Group did not have any foreign currency investment which has been hedged by currency borrowings and other hedging instruments.

■ EMPLOYEE AND REMUNERATION POLICY ■

As at 31 December 2006, the Group had about 197 employees (2005: 195 employees) of whom 10 (2005: 10) are based in Hong Kong and 187 (2005: 185) 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.