

Management Discussion and Analysis

BUSINESS ANALYSIS

The Group recorded a turnover of approximately HK\$355.56 million for the financial year ended 31 March 2001, a slight decrease of about 3.82% over that of last year.

A breakdown of the Group's turnover together with an analysis of contribution to operating results by activity is set out in the following table:

	Year ended 31 March			
	2001		2000	
	Turnover	Contribution to operating results	Turnover	Contribution to operating results
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of properties	316,574	(76,430)	332,712	34,982
Rental income	37,718	10,700	35,902	17,160
Property management	1,270	120	1,051	256
Total	355,562	(65,610)	369,665	52,398

The HK\$316.57 million turnover recorded for sale of properties for the year represents a decrease of 4.85% over that of last year. The decline was mainly attributable to lesser new developments were launched for sale during the year. The sale revenue for the year was mainly contributed by Anshan Greenland IT City and Shanghai Golden Bridge Garden which respectively accounted for 64.35% and 23.85% of the turnover for sale of properties. The balance of 11.80% was mainly contributed from sale revenue of Xiamen Lu Jiang New City Phase II, Shenzhen Dragon Court Phase I, and Shanghai Belgravia Court Block 2.

Rental income continued to stay weak as the sluggish rental market persisted during the year. Rental and occupancy rates of the two leasing properties, Wuhan Wah Zhong Trade Plaza and Shanghai Golden Bridge Mansion, remained unsatisfactory as oversupply of commercial and office properties in the nearby locations continues to exist. A total of approximately HK\$37.72 million of rental income was recorded for the year, a slight increase of 5.06% over that of last year. Shanghai Golden Bridge Garden remains to be the main rental income contributor. Of the rental income, approximately 63% came from the leasing of Shanghai Golden Bridge Garden, and approximately 20% came from the leasing of Wuhan Wah Zhong Trade Plaza. The remaining 17% mainly came from the leasing of Shanghai Golden Bridge Mansion and Hong Kong World-Wide House.

Property management income of HK\$1.27 million was recorded for the year representing an increase of approximately 21% as compared to that of last year. The increase was due to the fact that the Group has started to provide property management services for Phase I of Anshan Greenland IT City and Phase I of Shenzhen Dragon Court during the year.

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BUSINESS ANALYSIS *(Continued)*

The Group has recorded a net loss attributable to shareholders of approximately HK\$93.33 million for the year, a turnaround from last year's net profit of approximately HK\$10.38 million. The turnaround in the results was largely due to the following:

- (1) Provisions for diminutions in values of a property under development and certain completed properties for sale in the amount totalling approximately HK\$41.40 million.
- (2) A loss of approximately HK\$48.48 million resulted from the sale of Shanghai Golden Bridge Garden under a special sale campaign driven by sale tax exemption incentive.
- (3) A decrease in profit contribution from leasing activity due to an increase in depreciation charge for the year arose from additional renovation work on leasing properties and full year impact of amortisation of the payment for the use right of a property acquired in August 1999.
- (4) An increase in provision of approximately HK\$14.98 million for doubtful debts.
- (5) A provision for land appreciation tax of HK\$6 million.

The effect of the events as stated in (1) and (2) above has caused a negative contribution from sale of properties for the year while the factors as explained in (3) above have eroded the profit contribution from leasing of properties.

The operations of the Group's jointly-controlled entities continue to be insignificant to the Group. The losses from these jointly-controlled entities for the year had been narrowed down to HK\$0.03 million from last year's HK\$0.37 million.

REVIEW OF MAJOR PROPERTIES AND DEVELOPMENT PROJECTS

The overall business strategy of the Group is to focus on developing quality residential estates with decent amenities at affordable prices for middle class PRC households.

A summary of the status of the Group's major properties and development projects is set out below.

Anshan Greenland IT City

Anshan Greenland IT City is one of the major and large-scale development of the Group. The development has a total site area of about 268,807 sq.m. The development is being developed in phases into a low density residential estate with ancillary facilities and attached commercial area.

The development of the Anshan Greenland IT City has been progressing satisfactorily as planned. Phase I of the development was completed in June 2000, and approximately 87% of the GFA in it has been sold as at the end of the year. Of the unsold portion, a club house of 6,320 sq.m. is held by the Group as investment property.

Management Discussion and Analysis

REVIEW OF MAJOR PROPERTIES AND DEVELOPMENT PROJECTS *(Continued)*

The Anshan Greenland IT City *(Continued)*

The construction of Phase II was started in January 2000 and has been completed in December 2000. Of the approximately 92,253 sq.m. of the GFA developed in Phase II, about 67% has been sold as at the end of the year.

The construction of Phase III with a GFA of approximately 45,830 sq.m. was commenced in March 2001. Phase III comprises mainly low density residential properties with about 3,600 sq.m. of commercial area. The construction of Phase III is expected to be completed in February 2002. Pre-sale of Phase III was started in May 2001.

Fuzhou Roman Garden (Formerly known as Fuzhou New Era Tower)

The revised plan for the development is a residential building with two levels of basement for car parking use. The final approved total GFA of the development is about 40,443 sq.m., of which about 35,222 sq.m. is residential area, about 5,221 sq.m. is car parking space and storage space.

The construction of the development is in progress but the schedule has been delayed due to the fact that more time was spent in obtaining government authorities' approvals of the revision to the plan than expected. The completion date of the construction of the project is expected to be in late 2002.

Qingdao Xiang Hai Garden

Qingdao Xiang Hai Garden is a small-scale residential development which is to be developed in four phases. Phase I of the project, which was completed in November 1994, comprises a 7-floor residential/retail building with a total GFA of 7,891 sq.m. The Group has a 50% interest in the development.

The scale of the development is comparatively small in terms of its impact on the Group's operating results and balance sheet and the Group has only had a 50% interest in the development.

The Group is negotiating with a third party to dispose of all the Group's interests in the development to the third party and it is anticipated that no significant profit or loss will arise from such a disposal.

Shanghai Belgravia Court, Block 2

Shanghai Belgravia Court, Block 2 is a residential building developed by an independent PRC developer. The Group has sold most of the GFA of the property and has held about 406 sq.m. for sale as at the end of the year.

Shanghai Golden Bridge Garden

Completed in November 1997, Shanghai Golden Bridge Garden is a residential/commercial development with a total GFA of 65,908 sq.m. As at the end of the year, a cumulated total of about 84% of the GFA has been sold.

As at the end of the year the Group held about 10,748 sq.m. in this development for sale, of which 7,087 sq.m. is car parking area.

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REVIEW OF MAJOR PROPERTIES AND DEVELOPMENT PROJECTS *(Continued)*

Shanghai Golden Bridge Garden *(Continued)*

Pursuant to an agreement entered into in 1999 between the Group and a purchaser in respect of a block sale of about 24,523 sq.m., the Group is entitled to the use right of these 24,523 sq.m. for a term of three years commencing from 4 August 1999 in consideration for a payment of HK\$18.5 million by the Group to the purchaser. A substantial part of this GFA was leased by the Group to generate rental income during the year. Subsequent to the year end date, the Group has agreed with the purchaser to revert the use right of this GFA to the purchaser on 1 July 2001 in consideration of 12 equal monthly instalments of HK\$747,664 (RMB 800,000) and a final payment of HK\$822,430 (RMB 880,000) payable by the purchaser to the Group commencing 1 July 2001.

Shanghai Golden Bridge Mansion

The Shanghai Golden Bridge Mansion is a residential/commercial building developed by an independent PRC developer. The Group held for sale a total GFA of about 7,365 sq.m. which comprises commercial area on level 1 to level 4 in the podium, and 70 car parking spaces in the basement. Pending sale, a substantial part of the commercial area held by the Group was leased to generate rental income and the car parking spaces are being operated as a public car park by the Group.

Shanghai Ritz Villa

Shanghai Ritz Villa is a low density residential estate which will be developed in phases on a land parcel newly acquired by the Group during the year. The land parcel has a total site area of approximately 259,984 sq.m. and is located in Xinqiao, Songjiang District in Shanghai. Phase I of the development has a total GFA of approximately 60,172 sq.m. The construction of Phase I of the development has commenced in July 2001 and is expected to be completed in early 2002.

Shenzhen Dragon Court

Shenzhen Dragon Court is a residential/commercial development. Phase I (Tower I) of the development was completed in March 2000 with a GFA of 25,322 sq.m., of which, about 95% has been sold as at the end of the year. The remaining 5% GFA is held for sale by the Group.

The construction of Phase II (Tower II) of the development was started in September 2000 and is planned to be completed in mid 2002. Phase II has a total GFA of 29,260 sq.m. comprising residential, commercial, office area and car parking spaces. Pre-sale of Phase II was started in March 2001 and has been progressed satisfactorily.

The Group is currently negotiating to acquire a land parcel adjacent to this development with a site area of about 5,024 sq.m. which when acquired will become Phase III of the development and will be developed into a residential/commercial building with a GFA of about 45,766 sq.m.

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REVIEW OF MAJOR PROPERTIES AND DEVELOPMENT PROJECTS *(Continued)*

Wuhan Wah Zhong Trade Plaza

Wuhan Wah Zhong Trade Plaza is one of the early developments completed by the Group. It is a 9-floor commercial/office building with a total GFA of 79,985 sq.m. Since the completion of the development in December 1996, the Group has sold about 20% of the GFA of the development. As at the end of the year, the Group held 45,359 sq.m. on levels 1 to 6 of the development, representing 57% of the total GFA, as an investment property. The remaining 23% of the total GFA is car parking area in the basement and office area on levels 8 to 9 which are held by the Group for sale.

During the year, the GFA held by the Group as an investment property was leased by parts to various tenants.

Xiamen Lu Jiang New City

The development is a large-scale residential development of the Group. It has a site area of 36,721 sq.m. and is being developed into a residential estate with ancillary facilities including a school and a kindergarten in four phases.

Phase I of the development was completed in June 1998 with a total GFA of 17,297 sq.m. which was all sold.

The construction of Phase II was completed in August 2000. Phase II has a total GFA of approximately 42,013 sq.m. and up to the end of the year, about 72% of the GFA was sold. The remaining 28% of the GFA is held by the Group for sale and is mainly car parking spaces in the basement.

The construction of Phase III has commenced in February 2001 and the pre-sale of it was started in June 2001. Phase III has a total GFA of approximately 28,500 sq.m. which comprises about 24,317 sq.m. of residential area and 4,183 sq.m. of commercial area.

The preparation work for the development of Phase IV is in progress. Phase IV will have a total GFA of approximately 46,983 sq.m. comprising residential, commercial and car parking areas of GFA of 38,115 sq.m., 3,875 sq.m. and 4,993 sq.m. respectively.

Xiamen Linzi Mansion

Completed in July 1994, Xiamen Linzi Mansion is a residential building with a total GFA of 22,591 sq.m. As at the end of the year, all the GFA in the development was sold.

Xiamen Xiang Jiang Garden

The development is a residential/commercial development completed in December 1993. Over the years, the Group has sold over 94% of the GFA in the development. The remaining GFA unsold is mainly car parking spaces in the basements which is being operated as a public car park by the Group.

Management Discussion and Analysis

REVIEW OF MAJOR PROPERTIES AND DEVELOPMENT PROJECTS *(Continued)*

Unit 1402, World-Wide House, Hong Kong

The property has a saleable area of 473 sq.m. and has been used by the Group as head office in Hong Kong since 1991. Subsequent to the year end date, the property was sold to an independent third party for a consideration of HK\$42 million.

Unit 1409, World-Wide House, Hong Kong

The property is situated adjacent to the Group's office in World-Wide House, Hong Kong with a saleable area of 165 sq.m. which was held as an investment property by the Group. Subsequent to the year end date, the property was sold to an independent third party for a consideration of HK\$17 million.

LAND USE RIGHTS HELD FOR FUTURE DEVELOPMENT

In view of the improvement in buying sentiment and market conditions in the PRC property market, the Group has further deployed a total site area of 33,300 sq.m. of its land reserve for its development of Phase III of Anshan Greenland IT City.

Furthermore, the Group has added a land parcel in Shanghai with a total site area of 259,984 sq.m. to its land reserve during the year, of which a site area of 77,995 sq.m. has been deployed for the development of Phase I of Shanghai Ritz Villa.

The landbank of the Group are located in Anshan, Qingdao, Wuhan and Shanghai. A summary of the landbank is set out below:

Landbank	Site area of the development (sq.m.)	Estimated GFA of the development (sq.m.)	Interests of the development attributable to the Group
Wuhan - seven parcels of land	466,700	2,333,500	100%
Anshan Greenland IT City (excluding Phase I, II and III)	115,807	212,871	96%
Shanghai Ritz Villa (excluding Phase I)	181,989	134,504	100%
Qingdao - Xiang Hai Garden, Phase III and IV	13,866	43,721	50%
Total	778,362	2,724,596	

The landbank are capable of being developed into properties with a total GFA of approximately 2.72 million sq.m., based upon the plot ratios stated in the relevant land grant contract, land use right certificate or approval issued by competent authorities. Residential and/or commercial properties are expected to be developed on these sites in accordance with the market demand then prevailing.

Management Discussion and Analysis

LAND USE RIGHTS HELD FOR FUTURE DEVELOPMENT *(Continued)*

The development of the seven parcels of land in Wuhan shall involve the redevelopment of a substantial part of urban area, which shall entail a substantial amount of upfront cost incurred in resettlement of the households and commercial operations established on the land parcels. As the financial resources required for the development are beyond the immediate capability of the Group and the 10 years time limit for completion of the development as imposed by the land grant contract will be due in May 2004, the Group has negotiated with and has obtained the approval from the Land Administration Bureau of Wuhan for the replacement of the seven parcels of land by 1,950 mu (about 1.3 million sq.m.) of land parcels situated in a new town district in Wuhan and on which building structures requiring demolition before development are minimal. The Group is currently finalising with the local government authorities in the said district regarding the overall planning of these land parcels. It is anticipated that the development will be mainly for residential purposes with attached commercial area and ancillary community facilities. Based on the replacement, a provision for permanent diminutions in values of the seven land parcels of about HK\$310 million was made for the year which was dealt with in the properties held for development revaluation reserve.

Due to low development potential of the Qingdao Xiang Hai Garden to the Group, the Group is presently negotiating to dispose of all its interests in this project.

It is the Group's strategy to continuously seeking for suitable landbank additions for its future development. Presently, the Group is in negotiation with certain independent third parties regarding acquisition of certain land parcels in major cities of the PRC. Nevertheless, no assurance can be given at this stage as to whether or not these negotiations will bring to fruition in future.

FINANCIAL RESOURCES AND LIQUIDITY

During the year, property sales and leasing continued to be the principal sources of cashflow generated for the Group, whilst bank borrowings were used as supplementary sources for balancing funding requirements of project development. As at 31 March 2001, the net borrowings of the Group, being interest bearing bank and other borrowings less cash and bank balances and bank deposits, amounted to about HK\$396 million. Net debt to equity ratio is about 20.73%, which is expressed as a percentage of the net borrowings over the total net assets of the Group of about HK\$1,910 million.

Subsequent to the year end date, the Company has completed a rights issue of 384,000,000 new shares of HK\$0.1 each on the basis of three rights shares for every five existing shares held taken up at a cash price of HK\$0.16 per rights share. As stated in the rights issue circular and prospectus, the net proceeds of approximately HK\$58 million will be applied towards the repayment of part of the liability due to the controlling shareholder of the Company. As a result of rights issue, the capital base of the Company was broadened whereby the financial position of the Group was strengthened.