

## MANAGEMENT DISCUSSION & ANALYSIS

### REVIEW OF OPERATIONS

For the year ended 31 December 2001, the Group's turnover amounted to approximately HK\$1,527,305,000, an increase of 0.56% compared with 2000. Profit attributable to shareholders grew by 456.2% to approximately HK\$116,971,000. As at 31 December 2001, the Group's consolidated net asset value was approximately HK\$1,275,760,000, or HK\$0.76 per share, with cash on hand of HK\$565,438,000 and a long-term debt to equity ratio of 40%.

During the year under review, the PRC economy grew strongly in 2001 against the global economic slowdown. With operations focusing in the PRC, the Group benefited from the country's favourable economic environment.

#### Property Development

The Shenzhen municipal government and the relevant authorities have introduced systematic measures to standardise the city's land development and to promote the real estate sector, which result in a more structured land supply and booming activities in the Shenzhen property market. The advantage of Shenzhen being a neighbour to the Hong Kong Special Administrative Region ("Hong Kong") also brought considerable demand for Shenzhen properties. Engaged in property development in Shenzhen for many years, the Group has nurtured a professional project team and established "Sinolink" as a brand name for high quality properties. These competitive advantages enabled the Group to seize the market opportunities by accelerating the development of its real estate projects in Shenzhen and made the timely launch of Sinolink Garden Phase Three, named Mandarin House, to meet the strong market demand.



Large residential projects were the focal point in the Shenzhen real estate market in 2001. There has been a transition from concerns on the layout plan, unit design, greenery and scenery, and property management, to concerns on the brand name of the developer and the community and lifestyle created by a project. While the supply and demand for residential properties in Shenzhen continued to grow steadily, home buyers have become more sophisticated and discriminating, with more divergent needs and higher expectations that call for an increase in the overall quality of the properties.

During the year, the Group launched the sale of Mandarin House, which comprises seven blocks of 32-storey residential buildings with a total of 1,288 units representing a gross floor area of 100,000 square metres. Despite the project is still under construction, the pre-sale commenced in August has been well received. The Group has offered different sales packages to homebuyers to give them more flexibility.

The Group sold a total floor area of 56,932 square metres during the year at an average selling price of RMB8,164 per square metre. Plans were also made for the launch of projects in 2002 including the Sinolink No. 8 and for the increase in land bank.

Sinolink No. 8 has completed excavation and piling works during the year and is now preparing for basement ground works. The property is scheduled for completion in August 2003.



During the year, the Group also commenced the design and construction of Landscape City (山水城) and carried out market research to ensure that the project can fully utilise its geographic and environmental advantages to provide home buyers with modern, highly usable and good value residential units.

In December, the Group participated in a public land auction held in Shenzhen and won the bid for a land lot in Mangrove Bay for a consideration of RMB780,000,000. The land, renowned as one of the best land lots in Shenzhen, occupies a total area of 75,101.8 square metres with a buildable area of 255,300 square metres. The Group has named this project as “Mangrove West Coast” (紅樹西岸) to reflect its prime location. It enjoys an unobstructed view of Shenzhen Bay with attractive sceneries of the golf club, theme parks and lakes, as well as excellent town planning and convenient transportation facilities.

#### **Gas Fuel Business**

For the year ended 31 December 2001, the LP Gas and natural gas business recorded a turnover of approximately HK\$1,008,335,000, representing a slight decrease of approximately 4.85% from the previous year. The gross profit margin increased from 4.59% in 2000 to 12.68% in 2001. The increase in gross profit margin was mainly attributable to the increase in the proportion of the retail business of the Group which commands a higher gross profit margin than the wholesale operation.

Through dedication and hard work from the management team of Panva Gas the end-user household customers of Panva Gas are now over 1,150,000 households, an increase of approximately 43.75% when compared to last year. The increase is a reflection of Panva



Gas's commitment to expand its retail operations by strengthening of customer management and the continuous improvement of customer services.

In developing the piped gas provision business, Panva Gas has spent much of its efforts on the construction of piped gas stations, main pipelines, and branch gas pipeline networks, establishing a network to supply LP Gas and natural gas directly into the homes of the end-user customers.

The Group has commenced the feasibility evaluation of possible piped gas development projects and has commenced discussions with certain local operators on the possible business partnerships in some of these areas. The Group intends to spend much of its effort on the expansion of the retail sales of LP Gas in cylinders, the provision of piped LP Gas and natural gas, and the gas pipeline construction business in the coming years.

#### **Electricity Supply**

Having completed the fuel conversion for electricity generation in 2000 to reduce the risks of fuel price fluctuations, the Group's subsidiary Fuhuade was able to report good operating results in 2001. During the year, Fuhuade sold a total of 260,000,000 watts of electricity and its generators attained a high utilisation rate of 87.9%. This coupled with the success in controlling fuel costs have enabled the electricity supply business to be profitable again.

In developing of the strong demand for electricity in the Guangdong province, the Group has decided to further expand its electricity supply business. During the year, Fuhuade purchased a gas turbine generator unit and accessory equipment from Siemens Atkiengesellschaft, which will enable Fuhuade to operate a combined cycle power plant that will enlarge its electricity output capacity from 70.8 mega watts to 285 mega watts. The generator unit can also use natural gas as fuel, thus enabling Fuhuade to further reduce its fuel costs. The expansion in output capacity together with the reduction in fuel costs will further improve the profitability of Fuhuade.

### **FINANCIAL POSITION**

The Group's total borrowings increased from approximately HK\$284,276,000 as at 31 December 2000 to approximately HK\$920,960,000 as at 31 December 2001. The proportion of borrowings due within one year to total borrowings decreased from approximately 80.6% to approximately 44.5% and a long term liabilities to equity ratio of 40.5%. Borrowings are mainly used to finance the property development projects of the Group and are all borrowed at fixed interest rates. The increase is mainly used to finance the acquisition of a piece of land in Shenzhen.

Total assets pledged in securing these loans have a net book value of approximately HK\$239,236,000 as at 31 December 2001. Bank borrowings of the Group are denominated in RMB and as the entire operation of the Group is carried out in the PRC, all receipts and payments in relation to operation is denominated in RMB. In this respect the Group is not exposed to any foreign exchange exposure risk. No financial instruments were used for hedging purpose.

The Group's cash and cash equivalents amounted to approximately HK\$565,438,000 as at 31 December 2001 are mostly denominated in RMB, Hong Kong dollars and US dollars.

### **MAJOR ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES**

During the year, a subsidiary of the Group, Panva Gas underwent a reorganisation to rationalise the Group structure by rolling the operating subsidiaries in the PRC into the Group's wholly owned PRC incorporated investment holding company, Panriver Investments Company Limited.

The Group added two new operating subsidiaries during the year, Panva Gas (Yunnan) Co., Ltd. and Ziyang Gas Company. One other operating subsidiary in Nanjing is currently being established. During the year, Pan River Gas (Guizhou) Co., Ltd. increased its register capital and changed its name into Pan River Gas (China Southwest) Co., Ltd.

### **CONTINGENT LIABILITIES**

On 17 May 1996, a legal claim in the amount of approximately HK\$13,585,000 was brought against Sinolink Worldwide (HK) Company Limited ("Sinolink Worldwide (HK)") by a third party for charter hire charges overdue. After consultation with the legal adviser in relation to this litigation, the claim would not have any material adverse effect on the financial position of the Group. In addition, an indemnity has been given by the controlling shareholder of the Company to the Group in respect of the claim. No provision for loss has therefore been made by the Group in respect of the outstanding claim.

Guarantees given to banks as security for the mortgage loans arranged for the purchases of the Group's properties amounted to approximately HK\$122,026,000.

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2001, the Group had 2,661 full time employees, of which approximately 99% are located in the PRC.

The Group remunerated its employees mainly bases on industry practices and individual's performance and experience. On top of regular remuneration, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance. Other benefits, such as medical and retirement benefits, are also provided.