

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

Turnover of the Group for the year 2002 was HK\$137.6 million, compared to HK\$256.3 million for the year 2001, representing a decrease of 46.3%, where sales of residential and commercial properties and sales of land approximately were HK\$106.3 million (2001: HK\$255.2 million) and HK\$31.3 million (2001: HK\$1.1 million) respectively. Gross profit of the Group was HK\$65.6 million, compared to last year's HK\$93.2 million, a decrease of 29.6%. However, Gross profit ratio of the Group for the year was 47.6%, compared to 36.4% for the year 2001, representing an increase of 11.2%. Profit attributable to shareholders amounted to HK\$27.5 million, compared to last year's HK\$41.2 million, a decrease of 33.2%.

The Group recorded sales of total GFA of residential and commercial properties approximately 29,713 sq.m. (2001: 107,810 sq.m.), representing a decrease of 72.4% over last year, which mainly contributed by the sales of developed properties of Fanjin Garden and Fortune Garden in Ningbo, Changchun Haoyuan in Changchun and Village Garden in Shanghai.

The decrease of the Group's sales of GFA is mainly caused by the drop of completion of GFA. A total GFA of approximately 67,200 sq.m. (2001: 128,300 sq.m.) was completed during the year, representing a 47.6% decrease over last year, which consisted of 25,900 sq.m. in Village Garden in Shanghai and 41,300 sq.m. in second part of first phase of Changchun Haoyuan in Changchun.

Village Garden is located at 558 Gaojin Road, Xujin Village, Qingpu district, Shanghai and is about a distance of 20 km to Shanghai city central. The site is developed as a large-scale luxury residential development with 73 villas and relevant facilities which comprises a total GFA of 27,743 sq.m. At the year end of 2002, the construction is approximately 90% completed representing 25,900 sq.m. GFA. Owing to the delay of completion schedule and pass of inspection process, the pre-sale permit is granted in November 2002 and the formal sales campaigns have been started in early December, 2002. It has resulted in the decrease of Group's sales for the year.

On 4th September, 2002, the Group's wholly owned subsidiary entered into a joint venture contract with 中國青島廣廈房地產實業總公司 ("the Qingdao partner"), which is owned by Qingdao Land Administration Bureau 青島市國土局, to establish a joint venture company, Qingdao Zhenghuiguangsha Real Estate Development Co, Ltd. 青島正輝廣廈房地產開發有限公司 ("Qingdao JV") in Qingdao. The registered capital of the Qingdao JV is

## MANAGEMENT DISCUSSION AND ANALYSIS

RMB20 million. The Qingdao JV is owned as to 70% by 正輝青島 and 30% by the Qingdao partner. The Qingdao JV will be engaged in redevelopment of villas in Xiaoyushan (小魚山) in Qingdao (the "Project"). The site is located at Jinkaoyilu (金口一路), which adjoins Luxun Park and Qingdao No.1 bathing beach, facing the Yellow Sea and Xiaoyushan at the back. The site area for the Project is approximately 400,000 sq.m. and the site will be developed as a large-scale luxury residential and commercial composite development. As at 31st December, 2002, the Group has injected approximately HK\$10 million for the registered capital of the Qingdao JV. The project is in the stage of planning now. The directors estimate the early time for this project to generate income would be at the end of 2004. This project is expected to be finalized before the year of 2008.

### MARKET REVIEW

According to National Bureau of Statistics of China (NBS), the GDP growth of the PRC is 8% in 2002 which is slightly better than the forecast (7% growth) set by the PRC. As the GDP growth is the same as last year's 8%, the economic growth has been maintained at steady rates in the PRC and it is expected to continue in the next several years.

In 2002, the contracted foreign capital investments were up 19.6% to approximately 52 billion United State dollars, and the foreign capitals actually utilised were up 12.5% over the previous year. A large number of foreigners come to and stay in the PRC and they are likely to buy or rent luxury properties. This stimulates the demand for luxury properties. The economic growth increases the income for citizens in PRC. The annual GDP per capita in cities is risen from RMB10,870 in 2001 to RMB12,422 in 2002, a increase of 14.3%, resulting in more potential house buyers in cities. In addition, accelerating housing reforms, booming secondary residential property market, robust demand for quality housing and relaxed mortgage policies, are all enhancing the growth of the property market.

According to statistics from 上海市統計局 (Shanghai Statistics Bureau), 長春市統計局 (Changchun Statistics Bureau), 寧波市統計局 (Ningbo Statistics Bureau), and 青島市統計局 (Qingdao Statistics Bureau), there was growth in GDP of 10.9%, 14.1%, 13.2% and 14.6% respectively in comparison to the year of 2001. According to NBS, 國房景氣指數 (The "Booming Index of National Real Estate") was 104.18 in 2002. The Index over 100 indicates the property markets in PRC were in the booming stage.

### SIGNIFICANT ACQUISITION & DISPOSAL OF SUBSIDIARIES AND ASSOCIATION

There was no material acquisition and disposal of subsidiaries and associated companies in the course of the financial year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Net Assets

As at 31st December, 2002, the Group recorded total assets and total liabilities of approximately HK\$552,723,000 and HK\$294,515,000 respectively. The Group's net assets as at 31st December, 2002 increased by approximately HK\$135,123,000 to approximately HK\$217,512,000 as compared to approximately HK\$82,389,000 as at 31st December, 2001. The increase of the Group's net assets was a result of IPO proceeds of approximately HK\$82.6 million, net capitalisation of approximately HK\$24.2 million, revaluation surplus of approximately HK\$0.8 million and net profit for the year of approximately HK\$27.5 million.

#### Liquidity and financial ratios

The Group had total bank balances and cash of approximately HK\$68,657,000 as at 31st December, 2002 as compared with HK\$54,215,000 as at 31st December, 2001. As at 31st December, 2002, the current ratio was 1.7 as compared with 1.2 as at 31st December, 2001. The gearing ratio was 53.3% as at 31st December, 2002 as compared with 74.6% as at 31st December, 2001. The bank borrowings to equity was recorded at 19.5% as at 31st December, 2002 as compared with 47.2% as at 31st December, 2001.

#### Borrowings

The Group had interest bearing borrowings of approximately HK\$83.5 million as at 31st December, 2002 (31st December, 2001: HK\$67.6 million), representing an increase of approximately 23.5% over the amount as at 31st December, 2001. The increased amount of borrowings was principally utilised for the project in Shanghai. All borrowings were denominated in Renminbi ("RMB"). Approximately 50.8% of the borrowings is repayable within one year and the rest representing the loans from minority interests, which will not be demanded for repayment within one year, have no fixed terms of repayment.

#### 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 31st December, 2002.

## MANAGEMENT DISCUSSION AND ANALYSIS

### USE OF PROCEEDS

The Group has placed 82,600,000 shares of HK\$1.00 each (together with the over-allotment of 12,600,000 shares) on 29th May, 2002. The net proceeds after deduction of related expenses were approximately HK\$62.6 million. These proceeds were applied during the year ended 31st December, 2002 as follows:

- approximately HK\$20 million was used for repayment of bank borrowings;
- approximately HK\$14 million was used for the development of Changchun Haoyuan in Changchun;
- approximately HK\$10 million was used for the development of Village Garden in Shanghai; and
- approximately HK\$5 million was applied as general working capital of the Group.

The balance of approximately HK\$13.6 million as at 31st December, 2002 was placed on short term deposits where approximately HK\$10 million was denominated in RMB.

### EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2002, the Group employed approximately 68 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.

### OUTLOOK

The PRC economy is aimed to grow 7% next year. To achieve the targeted growth, the PRC government will continue to stimulate foreign capital investments, domestic demand and exports in 2003. A continuous strong demand for the properties is expected. Also, the directors believe the news of success of the hosting of Shanghai EXPO in 2010 would bring excitement on the sales of Village Garden in Shanghai.

## MANAGEMENT DISCUSSION AND ANALYSIS

A few unfavourable factors and indicators have appeared in 2002. The investment in real estate was up 21.9% to RMB 774 billion in 2002. The supply was over temperature in some cities. However, the PRC government has responded quickly to regulate the supply of property. A balance between supply and demand in major cities should bring the PRC property market healthy and steady growth. It is a year of "spring" in the PRC property market for 2002 and this "spring" will continue in 2003.

The Group will continue look for potential and quality sites/land in rapid growing cities to replenish its land bank and to diversify its investment and increase its geographical coverage in potential cities in the PRC. The Group focuses on developing middle to high end residential properties, together with its experienced and talent staff; the Group can catch the trend and ride the billows of the PRC property market growth.