

Management Discussion and Analysis

China's economic development has entered a new era. Its gradual integration into the WTO provides robust trade and investment flows and fosters promising business growth in the coming years. We translate this into a surging demand for quality commercial and residential properties, especially in major cities such as Shanghai and Guangzhou.

Beijing

Yangtze River Delta

Shanghai

Pearl River Delta

Guangzhou

Hong Kong

Guangzhou, one of the fastest growing cities in China, has seen remarkable growth in recent years. Its desirable location in the Pearl River Delta and close proximity to Hong Kong ensure the city with enormous business interaction and hence growth potential.

Shanghai, the largest metropolis in China, has maintained strong and perpetual growth in its GDP over the last decade. The 2010 World Expo in Shanghai is expected to further boost the city to unprecedented growth.

Management Discussion and Analysis

REVIEW OF PROJECTS

Hong Kong Plaza, Shanghai



Rising above the Huangpi South Road subway station at one of Shanghai's prime downtown addresses on famous Huaihaizhong Road, the Group's flagship project, Hong Kong Plaza, has become a prestigious landmark in the heart of the city. Offering a gross floor area of approximately 140,000 sq.m., the twin-building complex contains offices, shopping arcades and service apartments with extensive clubhouse facilities. Since its opening in late 1997, Hong Kong Plaza has attracted a diverse portfolio of prominent shopping arcade tenants including HSBC, Bank of China, Physical Fitness Centre, KFC, Zen and Cyber Mart. It is also a choice location for many esteemed corporate tenants who lease office space and service apartments. Despite the outbreak of SARS in the first half of 2003 which caused considerable shortfall in rental income from service apartments when compared with the original budget, Hong Kong Plaza continued to contribute stable rental income growth to the Group, recording an increase of HK\$13,180,000 in rental income for the Group.

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Office Tower Lobby



Shopping Arcade

Management Discussion and Analysis

Shanghai



North Tower — Service Apartment
South Tower — Office Tower
Huaihaizhong Road, Luwan District, Shanghai



Location Map



Reception



Service Apartment — Bedroom



Service Apartment — Living and Dining Rooms

Management Discussion and Analysis

Regents Park, Shanghai



Foundation work for another of the Group's key Shanghai projects, Regents Park (previously known as Hai Xin Garden), was completed during the year under review. The project is located in Shanghai's prestigious Changning District near Zhongshan Park subway station on a 36,000 sq.m. site. Upon completion, the Regents Park community will comprise 13 residential blocks with approximately 168,600 sq.m. of gross floor area, approximately 14,800 sq.m. of commercial area, a fully appointed clubhouse and other facilities. Phase I of the project is scheduled for completion in early 2005.

Designed to perfection with international standards by a team of renowned professionals, Regents Park has everything that the most exquisite residence has to offer including meticulous planning, optimum architecture, landscaped courtyards of 15,000 sq.m. by an award-winning designer, exclusive roof-top gardens for deluxe duplex apartments, a lavish and generous clubhouse, a state-of-the-art cinema-and-commercial complex and many other comprehensive facilities. Reputed to be the oasis of the concrete jungle, Regents Park ensures optimum functionality and practicality and was voted the most popular property project in Shanghai in 2003 by the media.



Sales Office



Show Flat — Living Room



Show Flat — Dining Room

Management Discussion and Analysis

Shanghai



Huichuan Road, Changning District, Shanghai



Location Map



Show Flat — Living and Dining Rooms



Show Flat — Bedroom

Management Discussion and Analysis

Eastern Place, Guangzhou



Eastern Place, located on Dongfeng East Road in Guangzhou's desirable Dongshan District, has earned a distinctive reputation as one of the most sought-after residential addresses in Guangzhou. With a total site area of approximately 60,000 sq.m., the entire project includes eight residential blocks and a commercial/office complex to be developed in several phases. Now in place are Phase I and II, which comprise four residential buildings, and the well-appointed residents' clubhouse, Eastern Club (previously known as Dong Feng Hui). Phase III, which includes two additional residential blocks adding approximately 42,000 sq.m. of gross floor area, is scheduled for completion and pre-sale towards the end of 2003. Other deluxe facilities, including a 50-metre swimming pool, tennis courts and golf amenities, have also been completed, making Eastern Place a fully self-sufficient community, not to mention an even more highly esteemed residence. Resident amenities are among the most luxurious and comprehensive available at any residential property in downtown Guangzhou.



Show Flat — Bedroom



Show Flat — Living Room



Show Flat — Dining Room

Management Discussion and Analysis

Guangzhou



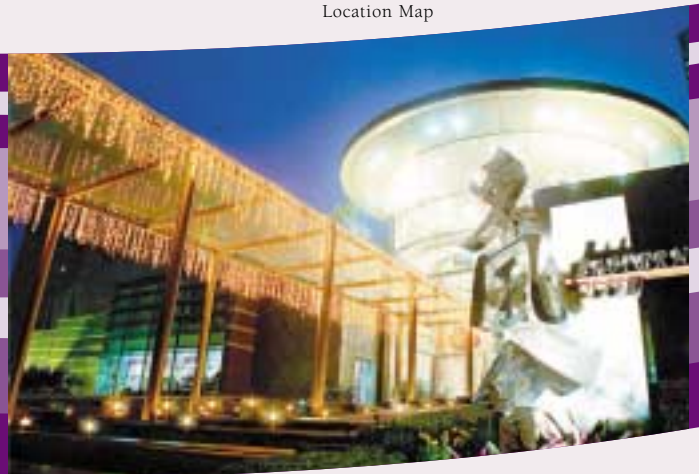
Dongfeng East Road, Dongshan District, Guangzhou



Location Map



50-metre Standard Swimming Pool



Club House — Eastern Club

Management Discussion and Analysis

Guangzhou

May Flower Plaza, Guangzhou



Substantial structural work was completed during the year for May Flower Plaza (previously known as Wuyuehua Shangye Guangchang) in Guangzhou. The property, which enjoys a prime strategic location directly above the Gongyuanqian subway station on Zhongshanwu Road, is

now undergoing decoration. May Flower Plaza will provide commercial tenants with exceptional convenience and access to a well-developed transportation network, directly linked as it is to two exits of the subway station and situated in close proximity to the bustling Beijing Road Buxingjie shopping street, a popular and mature shopping district. Its superior



Zhongshanwu Road, Yuexiu District, Guangzhou



Location Map

location is already drawing enormous traffic flow to the Plaza. The 13-storey complex will soon offer approximately 35,000 sq.m. of office and commercial floor area, as well as a four-storey basement of approximately 14,000 sq.m. earmarked for commercial and car park usage. Targeted to house a comprehensive mix of retail tenants, exhibition centres, restaurants and a cinema with state-of-the-art facilities, May Flower Plaza is scheduled to open in the beginning of 2004.

Management Discussion and Analysis

Zhongshan

On 20th August, 2003, the Group through its newly formed wholly-owned subsidiary, Zhongshan City Bao Li Properties Development Limited (“Zhongshan Bao Li”), entered into an agreement with Zhongshan Li Shan Properties Development Limited (“Zhongshan Li Shan”), a jointly-controlled entity of the Group, and a third party in the Mainland, pursuant to which the Group gave up the entitlement of its investment in 50% of Zhongshan Li Shan and in return was compensated by a new piece of land of 55,000 sq.m. in Zhongshan, the Land Use Rights Certificates of which were issued to Zhongshan Bao Li by the People’s Government of Zhongshan on 24th October, 2003. Since the development of the land held by Zhongshan Li Shan was not commercially feasible and the remaining term of this joint-venture was short, full provision on the impairment of the Group’s interest in 50% in Zhongshan Li Shan was already made in the Group’s financial statements since the financial year ended 31st July, 2002. The detailed development plan of this new piece of land owned by Zhongshan Bao Li has yet to be determined by the Group.

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CAPITAL STRUCTURE, LIQUIDITY AND DEBT MATURITY PROFILE

The Group has diverse sources of financing comprising internal funds generated from the Group’s business operations, bank borrowings on project basis and general bank loan facilities on secured basis.

On 11th March, 2003, the Company announced a rights issue of 767,706,730 rights shares of HK\$0.10 each at HK\$0.10 per rights share in the proportion of one rights share for every five existing shares held on 31st March, 2003 (the “Rights Issue”). A total of 767,706,730 shares were allotted and issued, representing approximately 20% and 16.67% of the original and enlarged issued share capital of the Company, respectively. In view of the recent economic climate, the Directors decided upon a prudent course to finance long-term growth through long-term funding, preferably in the form of equity. The Directors deemed that it was in the interest of the Company to enlarge its capital base by way of the Rights Issue, which would allow all shareholders the opportunity to participate in the growth of the Group.

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As at 31st July, 2003, the Group had a gross borrowing (inclusive of the loan of HK\$16,170,000 (2002: HK\$86,886,000) loaned by Mr. Lim Por Yen) amounting to HK\$1,138 million (2002: HK\$1,054 million), representing an increase of HK\$84 million over that of the preceding financial year-end. The consolidated net assets of the Group amounted to HK\$5,602 million (2002: HK\$5,523 million). The resultant debt to equity ratio was 0.20 (2002: 0.19).

During the year, the Group obtained an additional unsecured loan of RMB38,934,000 from Mr. Lim Por Yen, a substantial shareholder in the Group. The Group has repaid HK\$106,000,000 to Mr. Lim Por Yen during the year under review. The aggregate outstanding balance of the loans from Mr. Lim Por Yen as at 31st July, 2003 was HK\$16,170,000.

Approximately 99% of the Group's gross borrowings were on a floating rate basis at the balance sheet date and the remaining 1% were interest-free. As at 31st July, 2003, approximately 38% of the Group's gross borrowings were denominated in Renminbi ("RMB") and 62% were denominated in United States dollars ("USD").

The Group's monetary assets, loans, and transactions are principally denominated in Hong Kong dollars (HKD), RMB and USD. Considering that the exchange rate between HKD and USD is pegged, and that there is insignificant fluctuation in the exchange rate between HKD and RMB, the Group believes its exposure to exchange rate risk is nominal. At present, the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations involving USD and RMB. However, the Group will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in future as may be necessary.

The maturity profile of the Group's bank borrowings as at 31st July, 2003 was spread over a period of five years, with approximately 4% repayable within one year and 96% repayable between two to five years. Certain assets of the Group have been pledged to secure financing, including investment properties with carrying value amounting to approximately HK\$2,893 million and properties under development with carrying value amounting to approximately HK\$1,304 million, and bank balances amounting to approximately HK\$11.5 million at the balance sheet date.

Management Discussion and Analysis

Taking into account cash held as at the balance sheet date, available banking facilities and recent improvements in the Group's operating activities, the Group believes it has sufficient liquidity to finance its existing and planned property developments and other investment projects. The Group will consistently maintain a prudent financial policy.

CONTINGENT LIABILITIES

According to a practice common among banks in the Mainland when providing mortgage financing to property buyers, the bank will require the property developer to provide a buy-back guarantee to secure the due performance of borrowers. The Company is currently providing a number of buy-back guarantees to banks that have granted mortgage loans to buyers of office space and residential units in Hong Kong Plaza, and Phase I and Phase II of Eastern Place. As the PRC property market is currently stable, the management does not expect such contingent liabilities to crystallise in the near term.

EMPLOYEES AND REMUNERATION POLICY

As the employer of approximately 400 staff, the Group recognises the importance that maintaining strong human resources plays in its continued success. Under the Group's existing policy, employee pay rates are maintained at competitive levels, whilst promotion and salary increments are assessed on a performance-related basis. Discretionary bonuses are granted to certain employees on a merit basis and in accordance with industry practice. Other staff benefits include a mandatory provident fund, a free hospitalisation insurance plan, subsidised medical care and subsidies for external education and training programmes.

SHARE OPTION SCHEME

In order to provide the Group with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible employees (including executive and non-executive directors), a Share Option Scheme was approved and adopted by the shareholders at an Extraordinary General Meeting held on 21st August, 2003.