

## Management Discussion and Analysis

### BUSINESS REVIEW

Turnover of the Group for the year 2003 was HK\$190.7 million, compared to HK\$137.6 million for the year 2002, representing an increase of 38.6%, where sales of residential and commercial properties and sales of land approximately were HK\$154.9 million (2002: HK\$106.4 million) and HK\$35.8 million (2002: HK\$31.3 million) respectively. Gross profit of the Group was HK\$68.6 million, compared to last year's HK\$65.6 million, an increase of 4.6%. However, Gross profit ratio of the Group for the year was 36%, compared to 47.6% for the year 2002, representing a decrease of 11.6%. Profit attributable to shareholders amounted to HK\$32.5 million, compared to last year's HK\$27.5 million, an increase of 18.1%.

The Group recorded sales of total GFA of residential and commercial properties approximately 40,749 sq.m. (2002: 27,513 sq.m.), representing an increase of 48.1% over last year, which 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 rise in the Group's turnover was mainly attributable to the increase in the sales of Village Garden in Shanghai, which realised sales of HK\$111.5 million (2002: HK\$32.1 million), an increase of 247.3% as compared to last year. Village Garden has developed into a luxury residential development with 73 villas, 10 shops, club-house and relevant facilities. At the end of 2003, the project was completed and approximately 90% of saleable GFA was sold at satisfactory selling prices, resulting in an increased turnover for the year.

During the year, total land area newly acquired by the Group in Xikou Fenghua, Ningbo is 133,333 sq.m. The project is located in Xikou national scenery district and is about a distance of 20 km to downtown Ningbo City. The site will be developed as a large-scale luxury residential development with a total GFA of approximately 75,000 sq.m and consists of semi-detached houses, villas, club houses and other facilities. The development has already commenced at the end of 2003. It is divided into two phases and is expected to be completed in 2004 and 2005 respectively.

The redevelopment projects of villas in Xiaoyushan (小魚山) in Qingdao is in the stage of planning and design and the Group will finalize the development plan for this project once the local government promulgates the new removal and demolish policies.

## Management Discussion and Analysis

### MARKET REVIEW

According to National Bureau of Statistics of China (NBS), the GDP growth of the PRC is 9.1% in 2003 which is beyond the forecast (7% growth) set by the PRC. As the GDP growth is 1.1% over the last year's 8%, the overall economy of the PRC continues its rapid growth.

In 2003, sizable foreign capital investments were maintained with actual foreign direct investment amounted to 53.5 billion US dollars, which in turn stimulated the demand for high-class residential property in large and medium cities. Meantime, continued improvement in living standard, per capita urban disposal income amounting to RMB 8,472 and urbanization rate accounting for 40% of total population has promoted to the rapid development of the PRC residential property market and as a result, investment in real estate industry was 29% higher than that of last year with a sales growth of approximately 30%.

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 11.8%, 7.6%, 15.3% and 15.9% respectively in comparison to the year of 2002. The continued rapid growth of the economy of such areas will undoubtedly give impetus to the continued growth of their respective real estate property market.

### FINANCIAL REVIEW

#### Net assets

As at 31st December, 2003, the Group recorded total assets and total liabilities of approximately HK\$485,597,000 and HK\$207,374,000 respectively. The Group's net assets value per consolidated balance sheet as at 31st December, 2003 increased by approximately HK\$24,054,000 to approximately HK\$238,878,000 as compared to approximately HK\$214,824,000 as at 31st December, 2002.

#### Liquidity and financial ratios

The Group had total bank balances and cash of approximately HK\$35,746,000 as at 31st December, 2003 as compared with HK\$68,657,000 as at 31st December, 2002. As at 31st December, 2003, the current ratio was 2.3 as compared with 1.7 as at 31st December, 2002. The gearing ratio was 42.70% as at 31st December, 2003 as compared with 53.8% as at 31st December, 2002. The bank borrowings to equity was recorded at 3.6% as at 31st December, 2003 as compared with 19.8% as at 31st December, 2002. The Group managed its liquidity at a healthy level to reduce its potential financial risk.

## Management Discussion and Analysis

### **Borrowings**

The Group had interest bearing borrowings of approximately HK\$39.4 million as at 31st December, 2003 (31st December, 2002: HK\$83.5 million), representing an decrease of approximately 52.8% over the amount as at 31st December, 2002. All borrowings were denominated in Renminbi ("RMB"). Approximately 21.8% (31st December, 2002: 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.

### **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, 2003.

### **MATERIAL ACQUISITION AND DISPOSAL**

There is no material acquisition and disposal of subsidiary and assets during the year ended 31st December, 2003.

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 31st December, 2003, 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**

Out of worries about overheated real estate property investment, The People's Bank of China and the State Council has promulgated their respective policies in order to regulate and control financial risks in the real estate industry and to assure healthy and sustained development of the real estate property market. The Group believes that, for the sake of the sustained development of national economy, state policy control is unlikely to cause major adjustment in the real estate industry. On the other hand, there will inevitably be increasing demand for residential property as a result of increased per capita income and intensified urbanization. Therefore, it is expected that the demand for quality residential property market will be continuously increased.

## Management Discussion and Analysis

In 2004, the Group will continue to focus in the development and construction of Fenghua Project and Changchun Haoyaun in the replenishment of land bank in Shanghai, Ningbo and Changchun and other areas. In view of the fact that the PRC government has implemented various strategic moves in reviving the economy of those old industrial bases in the northeastern part of China, the Group is optimistic about the prospect of the Changchun economy development. Furthermore, the Group plans to develop the industrial region in the state economy and technology development region in Changchun to meet the demand for mills by the growing number of domestic and foreign enterprises. The whole industrial estate region project (the “Changchun China Fair Land Industrial Park”) is expected to be of approximately 500,000 sq.m (together with its public utilities construction). The said development will be conducted in phases. The Group will keep abreast of the economic development in these areas for corresponding growth.