



Management Discussion and Analysis

Financial Commentary

Turnover and Profit Attributable to Shareholders

Net turnover of the Group for the year 2002 was HK\$800.9 million, compared to HK\$586 million for the previous year, an increase of 36.7%. Profit attributable to shareholders amounted to HK\$90.2 million, compared to last year's HK\$79.7 million, an increase of 13.1%.

Cash Flows

In 2002, net cash outflow from operating activities was HK\$379.3 million, increased by HK\$403 million in 2002 compared with 2001. This increase was mainly due to the capital expenditure relating to Oasis Jiang Nan Garden, Oasis Thousand Islands Garden, Oasis Mayfair Garden, Oasis Skyway Garden Hotel and Oasis Lakeside Garden.

Net cash outflow in investing activities increased by HK\$14.8 million in 2002 compared with 2001, primarily due to investment in associated company relating to the Luodian Land Clearance Project.

In 2002, funds from financing activities had increased by HK\$830.9 million when compared with 2001. This is mainly due to (i) proceeds of HK\$351.8 million from successful placements of 326,000,000 shares in March and May 2002; (ii) successful arrangement of syndicated loans of HK\$95 million in November 2002; and (iii) the subsidiaries of the Group were granted credit facilities ranging from RMB200 million to RMB500 million in December 2002.

Liquidity and Capital Resources

The Group's liquidity position remains strong. Cash and bank balances amounted to HK\$591.2 million as at 31 December 2002 (2001: HK\$157.9 million). Working capital (net current assets) of the Group as at 31 December 2002 amounted to 1,075.2 million, an increase of 120.1% from previous year. Current ratio was at a healthy level of 2.7

(2001: 2.2). At 31 December 2002, the Group had short-term bank loans totaling HK\$228.8 million (2001: HK\$35.6 million) and long-term bank loans totaling HK\$219.1 million (2001: HK\$6.3 million).

As at 31 December 2002, the Group's net debt to shareholders equity ratio remained at zero whereas the total liabilities to shareholders equity increased to 0.87 (2001: 0.76). Total liabilities of the Group amounted to HK\$882.9 million (2001: HK\$454.9 million).

Management is comfortable that existing financial resources will be sufficient for future expansion plans. Should other opportunities arise requiring additional funding, Management also believes that the Group is in a good position to obtain financing on favorable terms.

At 31 December 2002, the Group had contingent liabilities of HK\$150 million (2001: HK\$316 million). The contingent liabilities were in respect of guarantees to assist home buyers to obtain mortgage loans from banks and complete mortgage procedures.

Analysis of Shanghai real estate market in Shanghai

A stable market with development in all directions

Shanghai has been witnessing a positive and stable real estate market with development in all directions in recent years: the increase in investment along with the growth of consumption with demand slightly exceeding supply; transaction volume has been increasing with improved market structure and balanced development among ordinary residential housing, luxury apartments and villas as well as office buildings. Movements in new supply correspond with stock level, and both sales and leasing activities have been rising.



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- Shanghai reported a 14% year-on-year increase in the investment of real estate development for 2002 to reach RMB72.023 million, accounting for 33.4% of total fixed assets investment in the city. Total value of the real estate sector in Shanghai increased by RMB37.363 million for the year, up 14.6% over that of the preceding year, accounting for 6.9% of the total GDP, a 0.5% increase from last year.
- Shanghai realized an 11% year-on-year rise in the sales of new housing for 2002 to reach 19.5 million square metres. The sales of housing stock posted 17.9 million square metres for the same year, up 25.9% over the past year with the ratio of sales of housing stock to the sales of new housings recording 0.92:1, basically reaching the level of a mature real estate market.
- Among commodity housing transactions registered in 2002, 96.2% belonged to transactions among individuals, up 0.9 percentage point over that of the previous year; transactions registered for commodity housing pre-sale of individuals amounted to 203,082 units, comprising 98.5% of the total housing pre-sale volume, up 0.6% over that of the preceding year. A total of 18.7% in area of housing transactions was made by Chinese citizens from other provinces and cities, and 5.6% was made by overseas people.
- As at December 2002, China Real Estate Shanghai Composite Index reached 891 points, rising 114 points over that at the end of 2001, or a 14.7% growth. A further 34 points were added as at February 2003 over that of December 2002, representing a 3.8% rise. A substantial increase in the sales of high quality housing, albeit with higher pricing, met the corresponding increase in demand from residents who had higher purchasing power and from a large number of multinational companies seeking to set up their regional headquarters in Shanghai or domestic companies which relocated part of their business to Shanghai.
- Shanghai's per capita GDP recorded nearly US\$5,000 for 2002, gaining 11.1% over 2001. Residents' consumption has shifted to housing and cars, reflecting that people have a higher purchasing power for housing.
- With plans to develop into a world class metropolis and as pioneer in China's economic development, Shanghai has attracted more and more foreign investors following China's entry into the World Trade Organization. Over 60 out of the World 500 multinational corporations have set up their regional or PRC headquarters in Shanghai, and the number is expected to reach 250 by 2005. Domestic companies that have competitive power also rushed from outside Shanghai into the city. Market demand for offices is expected to soar in Shanghai.
- China Real Estate Shanghai Office Building Index showed a steady upturn in 2002 following more meagre performance in the preceding two years. The index climbed to 1009 points in January 2003 from 922 points in January 2002, a 9.44% rise. The index further reached 1016 points in February 2003. This rising trend indicates a positive change in market demand and supply of office buildings in Shanghai, and the potential opportunities offered to developers engaged in office building development.



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The Group's new development of Oasis Lakeside Trade Port, a high quality office building project with innovative concept, is a move to meet the upturn of office building demand in Shanghai. This project will be an important step for the Group to further its development and to obtain persisting flow of income.

Increasingly intense brand name competition and emergence of Group's advantage

Property brandnames have become more important as Shanghai's real estate market has entered into the era of brand competition. Large real estate developers were already aware of this tendency, and have developed brandname strategy and cultivated their own "focused brandnames". Nine prestigious real estate developers and their brandname properties were awarded the status of the "Nine most popular property brands in Shanghai" in a survey participated by 62 real estate enterprises, among which some were large state-owned enterprises, listed companies and private enterprises.

The "Oasis Garden" brand owned by the Group was awarded as one of the "Nine most popular property brands in Shanghai" due to the Group's integrity, reputation and the high quality of its properties. The Oasis Garden brandname and the award will make the properties developed by the Group more attractive and competitive on the market. However, as other real estate enterprises are increasingly aware of the importance of brandname. It has become an important task to maintain the market position and reputation of Oasis Garden.

Operating Results

The Group concentrates on the improvement of the type of housing, environment, property management and community development in order to meet the market demand. The residential buildings developed by the Group in the residential districts are technologically intelligent, equipped with electronic facilities and ecology friendly. The construction of residential buildings is also in large scale in order to be cost-effective. The Group, enjoying the recognition of the Oasis Garden brandname, has attracted more consumers on the market and maintained good performance.

The funds from the placing of shares and syndicated loans this year have been utilized for the Group's new projects in an orderly and effective way. The funds obtained from credit facilities granted by a number of banks, which is being used for investments, will gradually benefit the Group and bring in returns in the upcoming years.

The Group

Business environment and opportunities in 2003

- **the increasing uncertainty of the global situation increased the attractiveness of investment in China and Shanghai**

Increase in the uncertainty of the global situation prompted international funds flowing to new, safe and profitable markets. The robust and steadily growing economy as well as the consumption market in the PRC with huge potential have attracted more and more foreign direct investments. Shanghai, which aims at making itself a world class metropolis, has become the top choice of foreign investment in the country.



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- **Achieving the target of better-off living standard and consistent growth of China's economy**

The Chinese government announced that China would reach a better-off living standard by 2020. In order to achieve this goal, the Chinese government implemented a proactive fiscal policy and a stable monetary policy. The relevant authority under the State Council forecast that China's economy will maintain an approximately 7% growth rate for 2003. With a relatively stable growth of national economy, Shanghai is still expected to keep an approximately 10% GDP growth rate for 2003.

- **Shanghai's World Expo, Universal Studio Theme Park and other urban constructions**

The Shanghai 2010 World Expo exhibition halls will be located on both sides of the Huangpu River. The project will cover an area of 400 hectares and require at least US\$3 billion in direct investment. The construction of transport, communications, and commercial facilities as well redeveloping old urban areas in support of the 2010 World Expo will require US\$15–30 billion in indirect investment. Such massive investment is expected to push forward the transformation of the entire city of Shanghai. Universal Studio Theme Park is to be built adjacent to the site of the Shanghai 2010 World Expo. The construction of the first phase project occupying an area of 0.85 square kilometres is scheduled to begin in 2003 and to be open to tourists in 2006. The Universal Studio is expected to attract 8 million tourists in the first year, which will inevitably stimulate the real estate development in the surrounding area and Shanghai at large.

- **Implementation of new urban planning bolstering demand for commodity housing in Shanghai**

Shanghai's new phase of urban development schemes include: redevelopment of decadent urban area, comprehensive development on both banks of the Huangpu River, the construction of express ways, subway network, cross-river telecommunications line, international shipping centre etc. These development projects will create a substantial demand for housing. It is estimated that the redevelopment of old urban area and infrastructure construction within three to five years will lead to relocation of 70,000 to 80,000 households, giving rise to a demand for approximately 7 million square metres of commodity housing per year. In addition, households that purchase up-market housing will increase to 60,000 to 70,000, creating a demand for approximately 8 million square metres of housing, and people who come from outside Shanghai are estimated to buy approximately 4 million square metres of housing a year. The annual market demand therefore totals 19 million square metres.

- **The support from Shanghai's municipal government for the construction of "One City and Nine Towns"**

A number of policies have been made in accordance with the Shanghai municipal government's strategy to "promoting the prosperity of central urban areas and realizing the potential of economic development of suburbs". These policies include implementation of special plans to grant land in batch; practising policies of "investment immigration permit" or "high education immigration permit" to encourage inflow



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of population; and allowance of personal income tax of those who have purchased commodity housing in the area of “one city and nine towns” will be extended to the end of 2005.

- **All round development of intelligent housing property, more room for development of related products and facilities**

As a world class metropolis, Shanghai requires world class commercial facilities, office buildings and residential housing. Intelligent office buildings, intelligent residential housing districts, and intelligent community and towns with high technology contents are emerging, fostering an opportunity for substantial and long-term development of related equipment and facilities and even the chance for the development of Shanghai’s housing technology industry.

The Group believes that it will keep a core competence in the developing high quality property and housing technology:

- **to continuously optimize the structure of core business**

The Group believes that the development of an enterprise has a close link with the direction of local industries. The Group, based on its own resources and its core competence in property development and housing technology, intends to further restructure its business portfolio so as to keep in pace with the direction of major industrial development and the economic trend in Shanghai where the Group’s core business is located. Given this strategy, the Group is likely to receive support from the local government and to take advantage of its strengths in gaining profits.

- **Prestigious property brand in the market**

The “Oasis Garden” brand of the Group is one of a few top prestigious property brands in Shanghai. As one of the nine most popular property brands in Shanghai, it is proved to be competitive in the era of brandname competition among real estate developers in Shanghai.

- **Sustainable development projects**

The Group insists on the concept of sustainable development and attaches importance to the reserve of land resources. The Group has been making efforts to accumulate land reserves that have appreciation potential so as to sustain long-term business development. The projects commenced in 2002 such as Oasis Jiang Nan Yuan, Oasis Thousand Island, Oasis Mayfair Garden, Oasis Lakeside Trade Part, Oasis Skyway Garden Hotel and condominium are located either near the Shanghai 2010 World Expo site or in the area connecting both Shanghai’s urban area and suburb or has adequate resources and potential for appreciation. The 6.8 sq. km. Luodian New Town Foundation work project, is located in the new town of Luodian, one of Shanghai’s “one city and nine towns,” and is expected to generate attractive profits in the coming 5–7 years.

- **Adequate funding support**

Adequate funding is available to the Group for future development. The Group succeeded in the placing of shares and syndicated loan borrowing this year and profits earned in the preceding years are retained for future development. The Group were also granted several credits facilities from commercial banks like Agricultural Bank of China, Construction Bank of China and Bank of Communications. The funding support will gradually show its contributing effects.



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– **Stable and reliable community resources**

The Group keeps strategic partnership with Shanghai Housing Development Bureau, Shanghai Housing Resources Management Bureau, China Great Wall Assets Management Company, Shanghai Telecommunications Company, Shanghai Chaohejing Cao He Jing Emerging Technological Development Area Corporation and other institutions in the financial community. It also collaborates with the technology research units of Tongji University, Donghua University and China Academy of Science, Shanghai division. The cooperation with these institutions provides the Group with stable community resources necessary for developing high quality housing and housing-related technologies.

– **Effective management team**

The innovative concepts and technologies are the Group's valuable intellectual assets. Dedicated senior management with a passion for innovation is the key resource of the Group. Its senior management, from the chairman and all members of the Board to the directors and general managers of its affiliate companies, all contribute their best efforts to attain the objective of "providing housing with a living environment of high quality modern lifestyle, hi-tech services and convenient transportation facilities" for the purpose of realizing our pledge of bringing in constant and stable returns for the shareholders.

Future Strategies

The Group aims at building further its Oasis Garden brandname in the market, actively developing housing technology, and seeking new business opportunities in the real estate sector, and adapt to the market trend in Mainland China in general and in Shanghai in particular. The Group also intends to continue its strategy of "management service, growing economic return and sustainable development" in future. In order to realize this objective, the Group will implement the following strategies for 2003:

– **To build a well-performing enterprise and to foster a professional management team**

In order to raise its competitive edge, the Group will continue to work for the improvement of its management system, fostering and expanding its professional management team, and assign business targets to each division. The Group will strengthen its monitoring over the performance of its workforce in order to raise management standards and profitability.

– **Persist in developing innovative projects with attractive themes**

Real estate developers are putting more emphasis on innovation, including design and theme building. The Group will continue its effort to promote innovation, such as designing distinct theme for each building to strengthen competitiveness.



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- **To acquire more investment properties for sustainable development**

The Group has developed over ten real estate projects which include residential housing districts, office buildings and service apartment buildings available either for sale or for leasing. The Group will increase its property investment to obtain long-term income from real estate leasing and adequate cash flows for sustainable development.

- **To tighten cost control**

The real estate projects developed by the Group are usually large scale projects, and the periods for investment recovery are usually long. Cost control is therefore very important to realize expected profits of the investments. The Group has decided to tighten cost control by inviting tenders for design and construction services from domestic companies, and inviting tenders for the property management services of office buildings and service apartment buildings from contractors all over the world.

- **To strengthen service awareness**

The Group believes that the award won by the Oasis Garden brand as one of the nine most popular property brands in Shanghai resulted from its adherence to high quality and dedicated services. By the same token, the Group can only keep its reputation and customers by delivering its traditional practice for excellence, offering high quality housing and dedicated services.