

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ANALYSIS

The Group recorded a turnover of approximately HK\$611 million for the financial year ended 31 March 2003, an increase of about 202% over that of last year.

A breakdown of the Group's turnover together with an analysis of contribution to operating results by activity is set out below:

	Year ended 31 March			
	2003	Contribution to operating results	2002	Contribution to operating results
	Turnover HK\$'000	HK\$'000	Turnover HK\$'000	HK\$'000
Sale of properties	579,528	56,143	179,574	(448,302)
Rental income	29,681	18,421	21,110	1,780
Property management	1,565	(5,508)	1,312	548
Corporate and others	—	(30,680)	—	(28,042)
Interest income	—	227	—	157
Total	610,774	38,603	201,996	(473,859)

The Group's turnover for the year was mainly derived from operations in the mainland of the People's Republic China.

The turnover for sale of properties had increased by about HK\$400 million, from last year's about HK\$180 million to about HK\$580 million for the year. The increase was mainly due to the launches for sales and pre-sales of Phases I and II of Shanghai Riviera Villa (formerly known as Shanghai Ritz Villa), Fuzhou Mansion (formerly known as Fuzhou Roman Garden), Phase I of Wuhan Lakeside Apartment (formerly known as Wuhan Ritz Garden) and Phase IV of Anshan Greenland IT City and the advancement in the sales and pre-sales of Phases III and IV of Xiamen Lu Jiang New City and Phase II of Shenzhen Dragon Court. The revenue for the year contributed from sales and pre-sales of Phases I and II of Shanghai Riviera Villa, Phase II of Shenzhen Dragon Court, Phases III and IV of Xiamen Lu Jiang New City, Phases III and IV of Anshan Greenland IT City, Fuzhou Mansion, and Phase I of Wuhan Lakeside Apartment respectively accounted for 38.22%, 15.16%, 14.75%, 12.40%, 10.85% and 8.13% of the turnover for sale of properties. The balance of 0.49% was contributed from sales of the small remaining residential areas in Shanghai Golden Bridge Garden.

During the year, the turnover for rental income had shown a growth of about 41% from last year. The increase was mainly attributable to a significant improvement in both the rental price and occupancy rate in the leasing of Wuhan Wah Zhong Trade Plaza. Rental income recorded from leasing of Shanghai Golden Bridge Mansion remained weak as keen competition for commercial/office floor area in the rental market continue to exert pressure on both the rental price and occupancy rate of this property during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ANALYSIS *(Continued)*

For property management, an increase of about 19% from last year was recorded. The increase was mainly attributable to more service income received as the property management portfolio has expanded from new engagements in providing property management services to both the Group's developed properties and properties developed by other third party developers, which had more than offset a reduction in the management service income derived from Shanghai Golden Bridge Garden due to a change in the terms of management service contract resulting in lowering the rate of remuneration.

Owing to business expansion, the Group has strengthened its business development and planning functions and accordingly there was an increase in administrative expenses for the year. Furthermore, the Group has first time adopted the recently-issued SSAP 34 "Employee Benefits" and accordingly first time provisions for employee benefits in relation to paid leave carried forward and long service payments amounting to HK\$1.75 were made during the year and included in administrative expenses for the year.

For the year ended 31 March, 2003, the Group recorded a net profit attributable to shareholders of approximately HK\$5.91 million, compared to a net loss attributable to shareholders of about HK\$499.51 million for last year. The improvement in the operating results was mainly attributable to the following:

- (1) The Group had gone through a consolidation period in its operations over the last few years, and no further significant provision for impairment of properties was required to be made for the year;
- (2) During the year, satisfactory results were achieved from the sales and pre-sales of properties, namely Phases I and II of Shanghai Riviera Villa, Phases III and IV of Anshan Greenland IT City, Phases III and IV of Xiamen Lu Jiang New City, and Phase I of Wuhan Lakeside Apartment; and
- (3) A significant improvement in the rental price and occupancy rate in the leasing of Wuhan Wah Zhong Trade Plaza.

Nevertheless, the following negative incidences had eroded the Group's profits for the year:

- (1) Provisions for certain old aged property management fees receivable for various properties in the amount of HK\$4.75 million;
- (2) Certain claims made by purchasers of Phase I of Shenzhen Dragon Court in the amount of HK\$4.65 million regarding shortfall in floor area and delay in delivery; and
- (3) Losses from realisation of the two old aged development projects namely, Phase II of Shenzhen Dragon Court and Fuzhou Mansion in the amount of HK\$6.24 million.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF MAJOR PROPERTIES AND DEVELOPMENT PROJECTS

The Group continues its business strategy of focusing on developing quality residential estates for PRC middle class domestic market. A summary of the status of the Group's major properties and development projects is set out below.

Anshan Greenland IT City

Anshan Greenland IT City is one of the large-scale developments of the Group and has a total site area of about 268,807 sq.m. which is being developed in phases into a low density residential estate with ancillary facilities and attached commercial area.

The construction of Phases I, II and III with a total GFA of 214,899 sq.m. had been completed. As at the end of the year about 81% of the GFA in these three phases had been sold and the remaining GFA of about 39,972 sq.m. includes a club house area of 6,320 sq.m..

The construction of Phase IV with a total GFA of approximately 32,148 sq.m. comprising residential, commercial and car parking area was commenced in April 2002. The development of Phase IV was completed after the end of the year in May 2003. As at the end of the year about 32% of the GFA in the development had been pre-sold.

Beijing Ritz Garden Villa

The development has a site area of 410,000 sq.m. and is planned to be developed into a villa estate in two phases.

The construction of Phase I with a GFA of about 56,380 sq.m. was started in September 2002 and is expected to be completed in March 2004. Pre-sale of the development is planned to be commenced in September 2003.

The construction of Phase II with a GFA of about 69,120 sq.m. is planned to be started in January 2004 and is expected to be completed in late 2005.

Fuzhou Mansion (Formerly known as Fuzhou Roman Garden)

The development is a residential building with a total GFA of 40,443 sq.m. of which about 35,222 sq.m. is residential area and about 5,221 sq.m. is car parking space and storage space located on two basement levels.

The construction of the development was completed after the end of the year in June 2003. As at the end of the year about 45% of the GFA in the development had been pre-sold.

Shanghai Golden Bridge Garden

Completed in November 1997, Shanghai Golden Bridge Garden is a residential/commercial development with a total GFA of 65,908 sq.m. As at the end of the year all of the residential and commercial area had been sold and car parking spaces with GFA of about 4,823 sq.m. was held for sale by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF MAJOR PROPERTIES AND DEVELOPMENT PROJECTS *(Continued)*

Shanghai Golden Bridge Mansion

Shanghai Golden Bridge Mansion is a residential/commercial building developed by an independent PRC developer. The Group held for sale a total GFA of about 7,365 sq.m. which comprises commercial area on level 1 to level 4 in the podium, and 70 car parking spaces in the basement. Pending sale, a substantial part of the commercial area held by the Group was leased to generate rental income and the car parking spaces are being operated as a public car park by the Group.

Shanghai Riviera Villa (Formerly known as Shanghai Ritz Villa)

Shanghai Riviera Villa is a low density residential estate with a site area of 259,984 sq.m. The development is planned to be carried out in three phases.

Phase I of the development has a total GFA of 59,939 sq.m. The construction was completed in December 2002. As at the end of the year about 93% of the GFA had been sold.

The construction Phase II with a total GFA of approximately 70,000 sq.m. was started during the year and is expected to be completed in December 2003. Pre-sale of Phase II was started in November 2002. As at the end of the year about 34% of the GFA had been pre-sold .

The construction of Phase III with a total GFA approximately 60,000 sq.m. is scheduled to be started in September 2003 and is expected to be completed in mid 2004.

Shenzhen Dragon Court

Shenzhen Dragon Court is a residential/commercial development with two residential buildings and two levels of commercial podium.

Phase I (Tower I) of the development was completed in March 2000 with a total GFA of 25,322 sq.m., of which, 97% had been sold as at the end of the year and the remaining GFA of about 731 sq.m. (mainly car parking spaces) was held for sale.

The construction of Phase II (Tower II) of the development was started in September 2000 and was completed after the end of the year in April 2003. Phase II has a total GFA of 29,260 sq.m. comprising residential, commercial area and car parking spaces. As at the end of the year about 66% of the GFA had been pre-sold.

The Group is still negotiating to acquire the land parcel with a site area of about 5,024 sq.m. adjacent to the development which will become Phase III of the development when acquired. It is not certain at this stage that the acquisition will be materialized as the Land Administration Bureau in Shenzhen has recently altered the plan of the development which might affect the commercial viability of the development.

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REVIEW OF MAJOR PROPERTIES AND DEVELOPMENT PROJECTS *(Continued)*

Wuhan Wah Zhong Trade Plaza

Wuhan Wah Zhong Trade Plaza is a 9-floor commercial/office building with a total GFA of 79,985 sq.m. As at the end of the year, the Group held about 45,359 sq.m. of the GFA on level 1 to 6 of the development as investment property, and car parking area in the basement and area on level 8 to 9 totalling about 14,781 sq.m. as properties held for sale.

During the year, substantially all of the GFA held by the Group as an investment property was leased out.

Wuhan Lakeside Apartment (Formerly known as Wuhan Ritz Garden)

Wuhan Lakeside Apartment is a large-scale residential estate development with ancillary facilities and attached commercial area with a total GFA of approximately 344,000 sq.m. The development is planned to be carried out in phases.

The construction of Phase I with a total GFA of 43,000 sq.m. comprising residential and commercial area had been started in March 2002 and is expected to be completed in August 2003. Pre-sale of Phase I was started during the year. As at the end of the year about 25% of the GFA had been pre-sold.

The construction of Phase II with a total GFA of 68,000 sq.m. had been started during the year and is expected to be completed in June 2004. Pre-sale of Phase II was commenced after the end of the year in May 2003.

The construction of Phase III with a total GFA about 90,000 sq.m. is scheduled to be started in November 2003 and is expected to be completed in mid 2005.

The construction of the remaining phases with a total GFA approximately 143,000 sq.m. is scheduled to be started in 2004 to 2005 and is expected to be completed in 2006 to 2007.

Xiamen Lu Jiang New City

Xiamen Lu Jiang New City is a large-scale residential development. The development has a total site area of 36,721 sq.m. and is being developed into a residential estate with ancillary facilities and attached commercial area in four phases.

The construction of the first two phases had been completed with a total GFA of approximately 59,310 sq.m., of which, about 83% had been sold as at the end of the year and a remaining area of 10,259 sq.m. (mainly car parking spaces) was held for sale.

The construction of Phase III with a GFA of 29,237 sq.m. had been completed after the end of the year in May 2003. As at the end of the year, about 94% of the GFA had been pre-sold.

The construction of Phase IV was commenced in March 2002 and is expected to be completed in late 2003. Phase IV of the development has a total GFA of 45,864 sq.m., comprising about 38,370 sq.m. residential area and 3,632 sq.m. commercial area. As at the end of the year, about 41% of the GFA had been pre-sold.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF MAJOR PROPERTIES AND DEVELOPMENT PROJECTS *(Continued)*

Xiamen Xiang Jiang Garden

The development is a residential/commercial development completed in December 1993. The Group had sold over 94% of the GFA in the development. The remaining unsold GFA is mainly car parking spaces in the basements which are being operated as a public car park by the Group.

LAND USE RIGHTS HELD FOR FUTURE DEVELOPMENT

During the year, the Group had deployed the remaining site areas of 181,989 sq.m. from its Shanghai Riviera Villa landbank and 216,667 from its Wuhan landbank. These two site areas are capable to be developed into properties with a total GFA of about 326,170 sq.m.

The remaining landbank of the Group are located in Anshan and Wuhan. A summary of the landbank is set out below:

Landbank	Site area of the development (sq.m.)	Estimated GFA of the development (sq.m.)	Interests of the development attributable to the Group
Anshan Greenland IT City (excluding Phase I, II, III & IV)	105,107	179,521	96%
Anshan Riviera Garden (Note 1)	92,000	87,000	100%
Wuhan landbank (Note 2)	1,000,000	2,200,000	100%
Total	1,197,107	2,466,521	

Note 1: New development acquired in current year.

Note 2: Excluding the land deployed for the whole development of Wuhan Lakeside Apartment.

The landbank are capable of being developed into properties with a total GFA of approximately 2.47 million sq.m., based upon the plot ratios stated in the relevant land grant contract, land use right certificate or approval issued by competent authorities. Residential and/or commercial properties are expected to be developed on these sites in accordance with the market demand then prevailing.

The Group will persistently seek for suitable landbank additions for its future development. Currently, certain negotiations are underway between the Group and a number of independent third parties regarding acquisition of certain land parcels in major cities of the PRC. There is no assurance that these negotiations will bring to fruition in future.

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FINANCIAL RESOURCES AND LIQUIDITY

For the year ended 31 March 2003, the principal source of fund for the Group came from the cashflow generated from property sales and leasings supplemented by bank and other borrowings.

At 31 March 2003, the net borrowings of the Group, being interest-bearing bank and other borrowings less cash and bank balances, time deposits and pledged bank deposits, amounted to about HK\$462 million. Net debt to equity ratio, which is expressed as a percentage of the net borrowings over the net assets of the Group, increased by about 2.52% to about 31.20% from about 28.68% last year. The increase in the net debt to equity ratio is mainly due to the increase in net borrowings of the Group from about HK\$423 million to about HK\$462 million.

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BORROWINGS AND CHARGES

At 31 March 2003, the level of bank and other borrowings of the Group and their maturity profile are as follows:

	HK\$'000
Bank overdrafts repayable:	
Within one year or on demand	8,323
Bank loans repayable:	
Within one year or on demand	405,648
In the second year	136,753
	542,401
Other loans repayable:	
Within one year	51,673
In the second year	558
In the third to fifth years, inclusive	1,673
Beyond five years	11,618
	65,522
	616,246

An analysis by currency denomination of the above borrowings is as follows:

	HK\$'000
Renminbi	511,943
Hong Kong dollars	90,892
United States dollars	13,411
	616,246

The borrowings bear interest rates based on normal commercial terms.

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BORROWINGS AND CHARGES *(Continued)*

- (a) Certain of the Group's borrowings are secured by:
- (i) Certain investment properties of the Group with an aggregate carrying value at 31 March 2003 of approximately HK\$379 million;
 - (ii) Certain properties under development of the Group with an aggregate carrying value at 31 March 2003 of approximately HK\$381 million;
 - (iii) Certain completed properties for sale of the Group with an aggregate carrying value at 31 March 2003 of approximately HK\$69 million;
 - (iv) Certain properties held for development with a carrying value at 31 March 2003 of approximately HK\$165 million;
 - (v) Corporate guarantees from the Company and certain its subsidiary companies; and
- (b) Certain other loans are secured by certain completed properties for sale of the Group with an aggregate carrying value of approximately HK\$42 million at 31 March 2003.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group's operations are principally in the People's Republic of China. Majority part of the Group's income and expenditure is in Renminbi. The exchange rate for Renminbi has been stable over the past few years and the directors do not foresee any circumstances that will lead to erratic fluctuation in the exchange rate for Renminbi in the foreseeable future. Therefore, the directors consider the Group does not have undue exposure to fluctuation in exchange rates.

CONTINGENT LIABILITIES

At 31 March 2003, the Group had given guarantees to the extent of approximately HK\$342,103,000 (2002: HK\$171,731,000) to banks in respect of mortgage loan facilities granted by the banks to the buyers of certain properties developed by the Group and a property of which the sales were underwritten by the Group.

EMPLOYEES AND REMUNERATION POLICY

The Group employs a total of about 1,115 employees in the mainland China and Hong Kong. Employees are remunerated based on their work performance, skills and experience, and prevailing industry practice. Apart from basic salary and performance related bonus, the Group also provides other benefits to its employees including mandatory provident fund, medical insurance coverage and share options.