

# MANAGEMENT

## DISCUSSION AND ANALYSIS

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### Financial Review

#### Turnover and profit attributable to shareholders

Net turnover of the Group for the year 2003 was HK\$825.1 million, compared to HK\$800.9 million for the previous year, an increase of 3%. Profit attributable to shareholders amounted to HK\$91.8 million, compared to previous year's HK\$90.2 million, an increase of 1.8%.

#### Cash Flow

In 2003, net cash outflow from operating activities was HK\$98.6 million, decreased by HK\$218.7 million in 2003 compared with 2002. This decrease was mainly due to decrease in accounts receivable, prepayments and increase in other payables and accruals.

Net cash outflow in investing activities increased by HK\$149.7 million in 2003 compared with 2002, primarily due to investment in an associated company Shanghai Jinluodian Real Estate and Development Company Limited.

In 2003, funds from financing activities had decreased by HK\$474.3 million when compared with 2002. This is mainly due to proceeds of HK\$351.8 million from successful placements of 326,000,000 shares in 2002.

#### Liquidity and Capital Resources

The Group's liquidity position remains strong. Cash and bank balances amounted to HK\$491.9 million as at 31 December 2003 (2002: HK\$591.2 million). Working capital (net current assets) of the Group as at 31 December 2003 amounted to 1,126.7 million, an increase of 4.8% from previous year. Current ratio was at a healthy level of 2.6x (2002:2.7x). At 31 December 2003, the Group had long-term bank loans totaling HK\$568.4 million (2002: HK\$228.8 million).

As at 31 December 2003, the Group's net debt to shareholders equity ratio was at 18.7% (2002:0%) whereas the total liabilities to shareholders equity increased to 0.99x (2002:0.87x). Total liabilities of the Group amounted to HK\$1,073.6 million (2002: HK\$882.9 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.

As at 31 December 2003, the Group had contingent liabilities of HK\$146 million (2002:HK\$150million). The contingent liabilities were in respect of guarantees to assist home buyers to obtain mortgage loans from banks and complete mortgage procedures.

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### Analysis of the Real Estate Market in Shanghai

#### Market volume expanded, vibrant in both supply and demand

According to the figures from the Shanghai Statistical Bureau, Shanghai's GDP rose to RMB624 billion in 2003, increased by 11.8% over 2002. The growth rate was the highest since 1997, and it has been increasing by 2-digit rate for a consecutive 12 years. The average annual wages for a worker in Shanghai had increased by 13.8% over the previous year 2002, and the average annual family disposable income in the city had increased by 12.2% whilst the rural family disposable income by 7.2%. Simultaneously, the real estate market in Shanghai has been witnessing the trend of volume expansion, with vibrant supply and demand. The investment of real estate development, the commodity housing under construction, completion and for sale and sales of housing stock had reached the all time high. The market conditions for stable expansion, development in all directions, positive trend for growth in investment and spending, balanced supply and structural improvement were realized.

- Shanghai reported a 20.3% year-on-year increase in the investment of real estate development for 2003, reaching RMB90.124 billion and accounting for 36.8% of total fixed assets investment in the city. Total value of the real estate sector in Shanghai increased by RMB46.188 billion for the year, up 13.7% over that of the preceding year, accounting for a phenomenal 7.4% of the total GDP, a 0.5% increase from 1990 and 0.1% from last year.
- Shanghai realized an 20.6% increase over the preceding year in commodity housing under construction for 2003 to reach 82.6751 million square metres. Commodity housing commencing construction reached 31.3453 million square metres, of which 26.1319 million square metres were residential housing, up 20% and 13.1% over the preceding year. Amongst the new commodity residential housing construction, 39.8% were taking place outside the city outskirts, representing an 4.8% increase over the preceding year.
- Shanghai recorded an 25.6% increase in the completed commodity housing to reach 24.9184 million square metres in 2003, a net increase in 5.0716 million square metres and an 14.8% increase over 2002. Amongst the category, there were 21.3999 million square metres of commodity residential housing, up 25.3%, 0.6315 million square metres of office space, up 15.2%, 1.6301 million square metres of commercial housing, up 27.5%, and 1.2569 million square metres of others, up 33.8%.
- In 2003, the sale of new commodity housing in Shanghai reached 23.764 million square metres, up 20.5% over 2002, amongst which commodity residential housing reached 22.2447 million square metres, an 20.5% increase. In the residential housing transaction category, it comprised of 9.4455 million square metres of multi-storey residential houses, up 15.2%, 10.6226 million square metres of high-rise residential units, up 25.9%, and 2.1766 million square metres of villas

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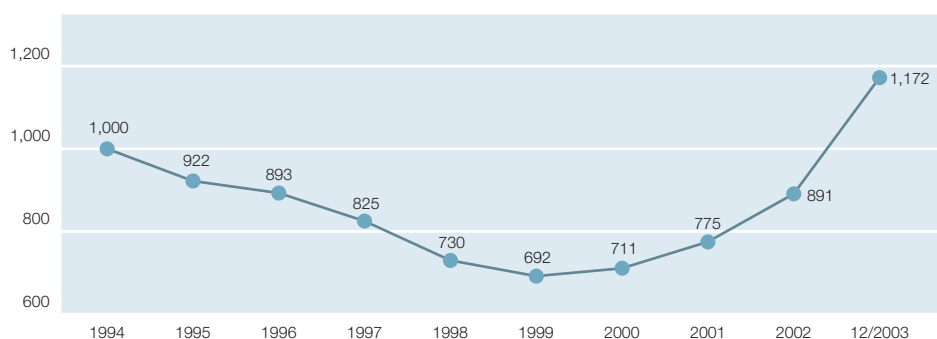
and luxury apartments, up 19.2%. More than 99% of the new housing transactions belonged to individuals, and among the total individuals 25% were citizens from other provinces and cities and overseas people.

- In 2003, the sale of housing stock reached 23.0628 million square metres, an increase of 28.8% over 2002, with transaction value of RMB97.783 billion, up 82.4%. The sale of residential stock within this category accounted for RMB81.164 billion, up 83.1%, and 18.0757 million square metres, up 34.7%. The ratio between the sale of housing stock and that of new commodity housing was 1:1, which revealed a matured level of the real estate market in Shanghai.
- In 2003, the average residential usage area for a person residing in Shanghai was 19 square metre, an increase in 0.9 square metre over 2002, and the average livable area for each person was 13.8 square metre, an increase in 0.7 square metre over 2002. The home-actualization rate for people was 92.3%. With the enhancement of material well-being and living standard of the people and the development of real estate sector, the target of “Project Fifteen”, which advocates 18-20 square metre as the average livable area for an average person, could be reached by 2005 and residents in Shanghai will achieve home actualization rate of 100%.

### High price level with structural adjustment and stable growth

In January 1995, the China Real Estate Shanghai Price Index was introduced. Starting with a base of 1000 points in December 1994, the trend of the China Real Estate Shanghai Composite Index showed a saddle-shaped curve within a span of 9 years. It once dropped to about 650 points in June 1999, but subsequently kept on rising and in 2003 reached its all-time high and also recorded the biggest surge since its inception. According to forecast, the commodity housing market in Shanghai will enter into a stage of vibrant development, structural adjustment and stable growth.

As of December 2003, the China Real Estate Shanghai Composite Index climbed to 1172 points, up 281 points over that of end-2002 and a 31.5% rise. The China Real Estate Shanghai Residential Housing Index was 1123 points, up 279 points over that of end-2002 and a 33.1% rise. As the reform in the



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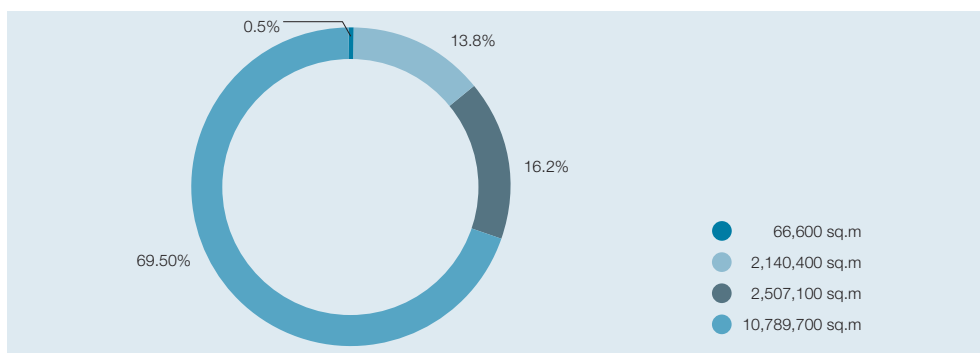
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Shanghai housing system progressed with the improvement in people's living standard and in their concept on the betterment of living conditions, the housing stock assets had been stimulated and the secondary market on real estates had also become active. The real estate market in Shanghai has been in general on the right track for its development.

The China Real Estate Shanghai Composite Index showed its steady rise since 2004 as it climbed to 1178 points in January and to 1195 points in February. The rising trend, although somewhat slowing down, still indicates a continuous growth. The less vigorous growth was attributed to the control of market behavior as a result of the promulgation of policies and regulations by the State Council and relevant government authorities, and largely to the adjustment of housing supply situation because of the introduction of medium to low price commodity houses in the latter half of 2003.

It is foreseen that at the same time when the new commodity housing experienced changes in price structure, the real estate market in Shanghai will still maintain its stable development at high price levels. An annual increase of 10-15% in commodity housing prices is projected for 2004, but price decrease or variance in commodity houses in different regions will be experienced. A lot of medium to lower priced commodity housing will be introduced along the city outskirts to suit the needs of the working class community and the relocation of residents from the decadent urban area. On the other hand, the prices for the commodity housing in the city centre and the inner-outskirt area will continue to rise as the urban redevelopment scheme slows down and the possible concern for increasing relocation costs. Part of the luxury housing will mainly satisfy the need for the increasing high-income population and for those people in quest of better value.

In mid-2003, the Shanghai municipal government promulgated regulations on the usable area ratio and high rise limitation of new commodity housing as well as increasing the spaces for landscaping and public utility. These had significant impact on the planning for commodity housing projects. The granting of land had expanded from the city centre to the suburbs. According to the 2003 statistics, there were 184 pieces of land (a total of 15.5033 million square metres) granted, of which 140 pieces were residential land. By demarcation of regions, there were 66,600 square metres in the city centre, 2.1404 million



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square metres in the secondary city centre, 2.5071 million square metres in the city fringe and 10.7892 million square metres in the suburbs, representing 0.5%, 13.8%, 16.2% and 69.5% of the total respectively. By the forecast for 2004, the supply of new commodity housing in the city centre will be reduced by more than 30%, making a tight supply situation for the city as a whole and particularly the inner-outskirt area. It is foreseeable that the Group's development projects in the city centre, namely, the Oasis Huafu Tiandi in the Xin Tiandi Centre and the Oasis Skyway Garden Hotel and Condominium in the Shanghai 2010 World Expo district will have their rooms for increase in value.

As of December 2003, the China Real Estate Shanghai Office Building Index climbed to 1158 points, up 158 points over the preceding year, a 15.8% rise. With China's entry into the World Trade Organization, the opening of market in all directions and foreign investment were intensified, leading to the expansion and growth of the market for office building. Since early 2004, the vacancy rate for office premises dropped to an all-time low in recent years. The trend for the demand outrunning supply was revealed as the vacancy rate for office premises in Puxi had dropped from 13.8% to 10.8% and in Pudong from 17% to 16.6%.

It is also foreseeable that the Group's project of Oasis Central Plaza at the western section of Zhonghuan Road in Shanghai will take long-term benefits and continuous growth with the stable growth in the office building market in Shanghai.

### **Open tender for land – challenges and opportunities**

Since August 2003, Shanghai implemented open tender system for the granting of using right of saleable land, including those of the redevelopment of decadent urban area. As of December 2003, a total of 184 pieces of land (16.8768 million square metres in area) by 9 batches were put into open tender. Such practice indicates that the government controls the supply of land through open tendering with strict evaluation and approval process, and at the same time it will also in certain extent increase the development costs for the real estate developers.

The Group considers the new system both a challenge and an opportunity. By participating in open tender of land, the requirements on our market competitiveness, cost control and efficiency on project development will be further explored. The Group at present and will have cost advantage over the cost for open tendering. The Baoshan region - Luodian New Town development project of the Group is expected to generate opportunity on the preferential acquisition of land.



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### **More diversified means of competition and financing**

The People's Bank of China ("PBC") promulgated the 2003 Third Quarter Currency Policy Report in October 2003. It indicated that at the same time of regulating the real estate loan on credit, the PBC will coordinate with relevant departments in providing channels for fund-raising by real estate developers, particularly through funding by stock ownership and project finance, to sustain the healthy development of the real estate market. A new plan on setting up real estate capital trust will also be launched in support of financing by the real estate enterprises.

The mode of real estate business competition in 2004 will be realized by ways of merger, acquisition and mutual cooperation, which will lead to a reshuffling and quality improvement of the market resources of real estate sector. In such respects, the various market shares and concentration of the major realtors will be greatly enhanced, and the focus of product competition will be rested on the quality of nature and prices.

The Group will build on the advantages of its established brand name and competitive edge, and will acquire and strengthen its capital for development and for providing support on the construction management, sales, cost control and timely completion and delivery of housing projects in order to attain the projected investment returns. At the same time, the Group will take opportunities to acquire projects that have profit potential through merger and acquisition.

The Group believes that it will keep its core competency in developing high quality properties, construction works and the development of residential housing technology.

– *To continuously optimize the structure and combination of business*

Basing on the foundation of established real estate development, the Group participated in Baoshan – Luodian New Town development, one of the major "one city and nine towns" project. The Group, by restructuring the business portfolio of its affiliates, developed the construction and housing technology to optimize the business structure and resources in property and real estate development. The composite competitiveness of the Group has been enhanced.

– *Profitable project resources*

The Group insists on the concept of sustainable development and attaches the importance on the reserve of land resources, particularly on the accumulation of land reserve that has appreciation potential. The Group at present holds ownership on low-cost and quality land reserve of some 0.9 million square metres which will be sufficient for 3-5 years' continuous development.

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– *Reputable market position*

The “Oasis Garden” brand owned by the Group is one of the most popular property brands in Shanghai. The brand name has earned good reputation in the market and was ranked amongst the top 50 brands in the prestigious real estate developers in Shanghai. Its commercial, economic and development potential and community contribution had made the Group more attractive and competitive in the Shanghai real estate market.

– *Vast and stable community resources*

The Group keeps amiable relationship and communication channels with relevant supervisory departments in Shanghai and strategic partnership with the Shanghai Construction Industry Group, Modern Architectural Design Group, Huadong School of Architectural Design, Swedish SWECO Architectural Design Co, China Great Wall Asset Management Co and various commercial banks. 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 indispensable resources necessary for developing high-quality housing and construction-related technologies.

– *Professional and dedicated management team*

The group values the intellectual and energetic assets as well as the professionalism and self-development of the senior management team. 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 and integrity to attain the objectives of “providing housing with a living environment of high-quality modern lifestyle, hi-tech services and convenient transportation facilities”.

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### Future Strategies

2004 is an important year for China in intensifying reforms, expansion of market openness and fostering development. The Group aims at consolidating its strategies and achieving the necessary returns by entering into a era of high growth. The Group will continue with its efforts to enhance the image of the “Oasis Garden” brand name in the real estate sector. It will adapt its business with stable development in the regulated and competitive market and with plan to take profit from the scheduled completion of existing projects. The Group further insisted its objective of “management service, growing economic return and sustainable development”. In order to realize the objective, the Group will implement the following strategies for 2003:

- *To improve the organization structure and to optimize system*

The Group will continue to work on the improvement and optimization of its management system to ensure accountabilities and mutual cooperation by clearly defining the roles and responsibilities of the decision-making, business operation and supervisory units through the separation of powers and check-and-balance. Apart from continuous training and strengthening of the management team, the Group will raise the management standards by disseminating to the work teams the performance objectives and by reinforcing the appraisal system. Four committees, namely on investment decision, development of external cooperation, management on quality, safety and costs and auditing and finance, will be established.

- *To strengthen management and to coordinate operations*

The Group will strengthen its management on building technology, daily operations, sales strategy and human resources with aims to improving project management, technological support, construction works, coordination with government authorities, concept on sales and brand management, the recruitment, training, appraising and motivation of workforce and the awareness of service, continuous learning, readiness for change and company’s mission for the Group at large.

- *Persist in developing innovative projects in pursuing excellence*

The Group will continue its effort to promote innovation, originality of design, and distinct theme for its properties development based on the experience and brand tradition of Universal Mansion, Beverly Oasis Garden, Long Island Oasis Garden, etc, so as to offer premium theme for all its projects and ultimately to strengthen market competitiveness and to maximize returns.



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– *To control costs, reduce expenditure and obtain high yield*

The Group will implement tendering system for design, construction specifications and hotel apartments and office building management. At the same time, the affiliate companies and responsible departments will endeavor to reduce the operating expenses. The financial department will plan and maintain a stable finance policy and prudent utilization on capital fund, whilst the audit department will strengthen their examination and control on project development costs and others as well as overall cost control management. As such, the expectation on optimal investment returns for shareholders could be fulfilled.

– *To strengthen supervision and prevent risk for steady development*

The Group will follow the line of full-fledged prudent and balanced business development by means of innovative and coordinative management incentives. The factors of changes and risk on business operations will be tactfully assessed and the upholding of prudent financial and risk management policy will be maintained in coping with the growth of business and the attainment of yields on investment.

– *To acquire new project resources and opportunities*

The Group will take advantage of its established real estate property brand and the vibrant market situation in Shanghai to further consolidate and optimize its business opportunities. The current development projects will be completed as scheduled and by tactful management so that they will generate the necessary returns from sale or leasing. The Group will also increase its investment by acquiring potential projects through timely acquisitions to obtain sustainable development and growth.