Management Discussion and Analysis

FINANCIAL RESULTS AND POSITION

The net asset value of the Group decreased by HK$261,313,000 to HK$2,088,471,000 as at 30 June 2003 (2002: HK$2,349,784,000) mainly due to (i) the deficit arising from the revaluation of investment and hotel properties and (ii) the impairment losses on property under development amounting to HK$123,860,000 and HK$136,925,000 respectively.

The aggregate market value as at 30 June 2003 of the investment and hotel properties and the property under development was approximately HK$592,000,000 according to the valuation reports dated 30 June 2003 issued by an independent professionally qualified property valuer, who was engaged by the Receivers on 23 June 2003 to carry out the revaluations.

These losses, arising from the revaluations and amounting to HK$260,785,000 in aggregate, were a direct attributable factor leading to the loss attributable to shareholders of HK$261,313,000 (2002: HK$46,252,000) for the year.

INVESTMENTS AND DISPOSALS OF SUBSIDIARIES

During the year, the Group acquired a 100% equity interest in various subsidiaries holding three major projects. The assets directly/indirectly owned by these wholly-owned subsidiaries are the investment properties, hotel properties and the parcel of land under development located in Shanghai, the PRC, as detailed below in the "Business Review" section.

During the year, the Group disposed of five subsidiaries, the assets of which were wireless technology investments. The Group had not generated any profit or loss from the disposal.

There were no other significant investments other than the above three investments.

BUSINESS REVIEW

1. 峻嶺廣場 Jun Ling Plaza

In November 2002, the Group acquired Bowyer Profits Limited ("Bowyer") which owns the investment properties in Jun Ling Plaza, Shanghai, the PRC.

Rental income and profit from operations attributable to the Group from these properties amounted to HK$1,816,000 and HK$1,445,000 respectively.

2. Hotel Yihe Longbai Shanghai ("Hotel Longbai")

In March 2003, the Group acquired those wholly-owned subsidiaries including Longbai which owns Hotel Longbai, Shanghai, the PRC.

Income and profit from operations attributable to the Group amounted to HK$13,290,000 and HK$3,058,000 respectively.

3. Wuzhong Road

In February 2003, the Group acquired those wholly-owned subsidiaries including Hongxin which owns a parcel of land located at Wuzhong Road, Hong Qiao Town in Shanghai, the PRC. The Group has yet to commence the foundation or construction work as at the end of the financial year. As such, there was no income and profit generated from operations attributable to the Group.

4. Capital Commitments

Any further capital expenditure on the above investments is currently deemed inappropriate. Therefore, the Group has neither appropriated nor arranged any funding for any capital expenditure on these investments after the appointment of the Receivers.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash position decreased by HK$921,363,000 to HK$1,321,191,000 as at 30 June 2003 (2002: HK$2,242,554,000). The movement in cash position was mainly due to the acquisition of the above investments, the exercise of the put option to sell all of the Company's interests in the wireless technology investments as detailed in the Directors' Report and the deposits and advances to other parties.

TREASURY

The cash position of the Group as at 30 June 2003 mainly comprised HK dollars, US dollars, Renminbi ("RMB") and Japanese Yen ("JPY") as follows:

	HK$'000	*%*
HK dollars	5,795	–
US dollars	1,301,163	99
RMB	14,211	1
JPY	22	–
Total	1,321,191	100

Most of the Group's income and expenditure are denominated in RMB and HK dollars. By maintaining its cash currencies mostly in RMB, HK dollars and US dollars, the Group was able to minimise its exposure to foreign currency fluctuations.

PLEDGE OF ASSETS, BORROWINGS AND GEARING

During the year, Hongxin and Longbai, purportedly pledged, without the approval of the Board, the property under development and hotel properties respectively to the Shanghai Rural Credit Cooperatives Union (the "SRCC") as alleged security for loans purportedly granted to them.

These purported RMB denominated borrowings, amounting to approximately HK$614,250,000, with interest rates in the range of 5.31% to 5.58% per annum and a maturity term of 1 and 5 years from the respective dates of drawdown, were drawn down without the proper approval of the Board.

As a result of the purported loans, the Group's gearing rose to approximately 29% (gearing ratio was the division of the purported loans by shareholders' funds) as at 30 June 2003 (2002: Nil).

Apart from the above, the Receivers and the Board are unable to determine whether there were any other debt commitments and contingent liabilities as at 30 June 2003.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2003, the Group employed 20 (2002: 9) staff in Hong Kong and approximately 280 (2002: Nil) staff in the PRC. The Group remunerates its employees based on their performance and experience in the context of prevailing industry practice.