

Management Discussion and Analysis

FINANCIAL RESULTS AND POSITION

During the six months ended 31 December 2003, the net asset value of the Group decreased by HK\$25,412,000 to HK\$2,063,059,000. The loss attributable to shareholders during the interim period was HK\$40,057,000. A prior period adjustment of HK\$14,645,000 was made and credited to the consolidated accumulated losses as at 30 June 2003.

INVESTMENTS AND DISPOSALS OF SUBSIDIARIES

There were no significant changes in any of the Group's investments during the interim period.

BUSINESS REVIEW

Property investment

(峻嶺廣場) *Jun Ling Plaza*

Rental income and profit from the leasing of investment properties in Jun Ling Plaza, Shanghai, the PRC during the six months ended 31 December 2003 amounted to HK\$944,000 (2002: HK\$744,000) and HK\$780,000 (2002: HK\$582,000) respectively.

The occupancy ratio during the interim period was approximately 49%.

Hotel investment

(上海逸和龍柏飯店) *Hotel Longbai*

Income and profit from the Hotel Longbai's operations during the six months ended 31 December 2003 amounted to HK\$25,921,000 (2002: Nil) and HK\$8,789,000 (2002: Nil) respectively.

The occupancy ratio during the interim period was approximately 63%.

Property development

(吳中路) *Wuzhong Road (the "Land")*

The Group is yet to commence the foundation and construction work on the Land as at the balance sheet date and there was neither income nor profit generated for the Group during the interim period.

CAPITAL COMMITMENTS

The Board and the Receivers have decided that it would not be appropriate at the moment to incur any further capital expenditure on the above investments. Hence, the Group has neither appropriated nor arranged funding for any future capital commitments on the above investments.

LIQUIDITY AND FINANCIAL RESOURCES

In the six months ended 31 December 2003, the Group's cash position decreased by HK\$38,993,000 to HK\$1,282,198,000 due to operation and administration expenses, legal and professional fees, and exchange differences (In the six months ended 30 June 2003, the Group's cash position decreased by HK\$893,999,000 to HK\$1,321,191,000).

Management Discussion and Analysis *(Continued)*

TREASURY

The cash position of the Group as at 31 December 2003 mainly comprised HK dollars, US dollars, Japanese Yen ("JPY") and Renminbi ("RMB") amounting to HK\$1,282,198,000.

Cash and Bank Currency Profile

	Total	
	<i>HK\$'000</i>	%
US dollars	1,261,676	98.4
HK dollars	4,779	0.4
RMB	15,718	1.2
JPY	25	-
Total	<u>1,282,198</u>	<u>100.0</u>

Most of the Group's income and expenditure are denominated in either RMB or 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, BANK BORROWINGS AND GEARING

As at 31 December 2003, the Land and Hotel Longbai remained purportedly pledged by Hongxin and Longbai respectively to a financial institution as security for loans purportedly granted to these two subsidiaries.

Pursuant to the purported loan agreement dated 27 March 2003 signed by the legal representative of Hongxin in the PRC, the Land was purportedly pledged as the alleged security for a loan of RMB300,000,000 (equivalent to HK\$283,500,000) purportedly granted from Shanghai Rural Credit Cooperatives Union (上海市農村信用合作社聯合社) ("SRCC") to Hongxin for a term of one year commencing from 27 March 2003 with interest payable quarterly and charged at an interest rate of 5.31% per annum.

Pursuant to the purported loan agreement dated 11 April 2003 signed by the legal representative of Longbai in the PRC, Hotel Longbai was purportedly pledged as the alleged security for a loan of RMB350,000,000 (equivalent to HK\$330,750,000) purportedly granted from SRCC to Longbai for a term of five years commencing from 18 April 2003 with interest payable quarterly and charged at an interest rate of 5.58% per annum.

In accordance with the purported loan agreements signed by Hongxin and Longbai with SRCC, interest of approximately RMB99,520,000 has to be paid in the event of an early termination.

The Receivers understand that these purported loans were not duly authorised and approved by the Board. Accordingly, the Receivers have written to SRCC to request information and documents in relation to the purported loans. To date, the Receivers have not received any official reply from SRCC. Given the above, the quarterly interest payment of approximately RMB4,880,000 due on 20 March 2004 on Longbai's purported loan was not paid.

According to available information, the term of Hongxin's purported loan is set to expire on 27 March 2004.

The Receivers recently met with the representatives of SRCC who demanded that Longbai and Hongxin make the repayments as per the purported loan agreements and have reserved SRCC's rights to take action if the Receivers fail to do so.

The Group's gearing ratio was approximately 30% (gearing ratio is calculated by dividing the purported loans by shareholders' funds) as at 31 December 2003 (30 June 2003: 29%).

Apart from the above and disclosures in the interim financial report, the Board and the Receivers are unable to determine whether there were any other debt commitments and contingent liabilities as at 31 December 2003.

Management Discussion and Analysis *(Continued)*

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2003, the Group employed 14 (30 June 2003: 20) staff in Hong Kong and approximately 300 (30 June 2003: 280) staff in the PRC. The Group remunerates its employees based on their performance and experience in the context of prevailing industry practice.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 31 December 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIVIDEND

The Board does not recommend any payment of dividends for the interim financial period ended 31 December 2003 (2002: Nil).

DIRECTORS' INTERESTS IN SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2003, the interests or short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Long positions in the shares of the Company and its associated corporations

Name of Directors	Company/Name of associated corporations	Nature of interest	Capacity	Number of ordinary shares in interest	Approximate percentage of the issued share capital of the Company/ associated corporations
Mr. Chau <i>(Note)</i>	Company	Corporate interest	Beneficial owner	2,288,521,317	75
Tan Lim Heng	Company	Personal interest	Beneficial owner	14,840,000	0.49
Mr. Chau	New Nongkai	Personal interest	Beneficial owner	1	100

Note:

Mr. Chau was deemed by virtue of his beneficial holding of the entire issued share capital of New Nongkai to be beneficially interested in the total of 2,288,521,317 shares which were charged by New Nongkai in favour of Bank of China (Hong Kong) Limited (the "Chargee") and were held for the account of Bank of China (Hong Kong) Nominees Limited (the "Nominee") as the nominee of the Chargee. These interests were detailed and duplicated with the interests as shown in the paragraph "Substantial shareholders' and other persons' interests in securities of the Company" pursuant to Part XV of the SFO below.

Save as disclosed above, as at 31 December 2003, the directors are not aware of any other interests or short positions of the directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Management Discussion and Analysis *(Continued)*

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SECURITIES OF THE COMPANY

As at 31 December 2003, the following persons had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions of substantial shareholders who were entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of the Company

Name of the person / Company Name	Notes	Nature of interest	Capacity	Number of ordinary shares in interest	Approximate percentage of the issued share capital of the Company
New Nongkai	1	Corporate interest	Beneficial owner	2,288,521,317	75
Mr. Chau	1 & 2	Corporate interest	Beneficial owner	2,288,521,317	75
The Nominee	1	Corporate interest	The Chargee's nominee	2,288,521,317	75
The Chargee	1	Corporate interest	Security interest	2,288,521,317	75
BOC Hong Kong (Holdings) Limited ("BOC Holdings")	1	Corporate interest	Interest of controlled corporations	2,288,521,317	75
BOC Hong Kong (BVI) Limited ("BOC BVI")	1	Corporate interest	Interest of controlled corporations	2,288,521,317	75
BOC Hong Kong (Group) Limited ("BOC Group")	1	Corporate interest	Interest of controlled corporations	2,288,521,317	75
Bank of China ("BOC")	1	Corporate interest	Interest of controlled corporations	2,288,521,317	75

Notes:

- (1) The above references to 2,288,521,317 shares relate to the same block of shares in the Company. The total of 2,288,521,317 shares were charged by New Nongkai in favour of the Chargee and were held for the account of the Nominee as the nominee of the Chargee. On 2 December 2003, the Company received three notices pursuant to Section 324 of Part XV of the SFO from the Chargee, BOC Holdings and BOC respectively. According to such notices, the Nominee was wholly owned by the Chargee, which in turn was wholly owned by BOC Holdings. BOC Holdings was owned as to 75.98% (as at 10 November 2003) by BOC BVI, which was a wholly owned subsidiary of BOC Group which in turn was wholly owned by BOC. Accordingly, the Chargee, BOC Holdings, BOC BVI, BOC Group and BOC were deemed to be interested in 2,288,521,317 shares held by the Nominee under Part XV of the SFO.

Management Discussion and Analysis *(Continued)*

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SECURITIES OF THE COMPANY *(Continued)*

Long positions of substantial shareholders who were entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of the Company *(Continued)*

- (2) Mr. Chau was deemed to be beneficially interested in the total of 2,288,521,317 shares held by New Nongkai by virtue of his beneficial holding of the entire issued share capital of New Nongkai.

All the interests disclosed above represent long positions in the shares of the Company.

There was no other person who was entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company.

Save as disclosed above, as at 31 December 2003, the directors are not aware of any other persons who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTION SCHEME

During the interim period, no options were outstanding, granted, exercised, cancelled or lapsed pursuant to the Company's 23 October 2001 share option scheme.

CODE OF BEST PRACTICE

None of the directors of the Company are aware of any information that would reasonably indicate that the Company is not, or was not for any time during the six months ended 31 December 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") except that the non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

AUDIT COMMITTEE

The Company's audit committee comprises of two independent non-executive directors. An audit committee meeting was convened to approve the Company's Interim Report on 23 March 2004, however, as a quorum was not present, the meeting did not proceed and the audit committee did not approve the Interim Report.

By order of the Board

Koo Hoi Yan, Donald
Director

Hong Kong, 23 March 2004