

Management Discussion and Analysis

FINANCIAL RESULTS AND POSITION

The net asset value of the Group decreased by HK\$158,293,000 to HK\$1,944,823,000 as at 30 June 2004 (2003: HK\$2,103,116,000, restated). The loss attributable to shareholders during the year was HK\$158,293,000.

The aggregate open market value of the investment and hotel properties and the property under development as at 30 June 2004 was HK\$464,940,000 (2003: HK\$592,000,000), according to the valuation reports issued by an independent professionally qualified property valuer, giving rise to a net deficit amounting to HK\$127,060,000. The valuation of the hotel properties and property under development is based on a forced sale basis.

The net loss from revaluations together with the legal and professional fees and administrative expenses incurred during the year were direct attributable factors leading to the loss attributable to shareholders of HK\$158,293,000 (2003: HK\$246,668,000, restated) for the year.

INVESTMENTS IN SUBSIDIARIES

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

BUSINESS REVIEW

Property investment

(峻嶺廣場) *Jun Ling Plaza*

Based on available records, rental income and profit from the leasing of investment properties in Jun Ling Plaza, Shanghai, the PRC during the year attributable to the Group amounted to HK\$1,383,000 (2003: HK\$1,816,000) and HK\$884,000 (2003: HK\$1,445,000) respectively.

Based on available records, the occupancy ratio during the year was approximately 37% (2003: 57%).

Hotel investment

(上海逸和龍柏飯店) *Hotel Longbai*

Income and profit from Hotel Longbai's operations during the year attributable to the Group amounted to HK\$51,885,000 (2003: HK\$13,290,000) and HK\$19,397,000 (2003: HK\$3,058,000) respectively.

The occupancy ratio during the year was approximately 64% (2003: 50%).

Property development

(吳中路) *Wuzhong Road*

The Group has yet to commence the foundation and construction work on the land at Wuzhong Road as at the balance sheet date and there was neither income nor profit generated attributable to the Group during the year.

CAPITAL COMMITMENTS

Given the purported loan transactions with Shijidadao SRCC and Liuli SRCC (collectively "SRCC") and the judgments issued by the Intermediate Court on 17 and 19 November 2004 against Hongxin and Longbai respectively and the current legal proceedings with Shanghai Nongkai, the Receivers decided that it would not be appropriate 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.

Management Discussion and Analysis *(Continued)*

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash position decreased by HK\$57,872,000 to HK\$1,263,319,000 as at 30 June 2004 (2003: HK\$1,321,191,000) due to operation and administrative expenses, and legal and professional fees.

TREASURY

The cash position of the Group as at 30 June 2004 mainly comprised US dollars, HK dollars, Renminbi ("RMB") and Japanese Yen ("JPY") as follows:

	<i>HK\$'000</i>	<i>%</i>
US dollars	1,241,344	98
HK dollars	10,969	1
RMB	10,987	1
JPY	19	–
Total	<u>1,263,319</u>	<u>100</u>

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

PLEDGE OF ASSETS, BANK BORROWINGS AND GEARING

As at 30 June 2004, the land at Wuzhong Road and Hotel Longbai remained purportedly pledged by Hongxin and Longbai respectively to SRCC as security for loans purportedly granted to these two subsidiaries.

Pursuant to the Hongxin Purported Loan Agreements dated 27 March 2003 signed by the former legal representative of Hongxin, the land at Wuzhong Road was purportedly pledged as the security for a loan of RMB300,000,000 (equivalent to HK\$283,500,000) purportedly granted by Shijidadao SRCC to Hongxin for a term of one year commencing from 27 March 2003 with interest payable quarterly at an interest rate of 5.31% per annum.

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

The Receivers understand that these purported loans had not been duly authorised and approved by the Board. Accordingly, the Receivers have not authorised any interest payments to SRCC since they took over the management of Longbai in late December 2003 and one of the Receivers became the legal representative of Hongxin on 15 January 2004.

SRCC has taken out legal actions against Longbai and Hongxin in relation to the purported loans and judgments of which have been issued by the Intermediate Court, details of which are set out in Notes 33g and 33h to the financial statements.

The Group's gearing ratio was approximately 32% (gearing ratio is calculated by dividing the purported loans by shareholders' funds) as at 30 June 2004 (2003: 29%).

Management Discussion and Analysis *(Continued)*

PLEDGE OF ASSETS, BANK BORROWINGS AND GEARING *(Continued)*

According to information available to the Receivers, a sum of US\$3,600,000 (approximately HK\$28,080,000) has been pledged to Shijidadao SRCC by the former management of Hongxin. As of the date of this report, the Receivers are unable to obtain any information in relation to the pledged deposits.

Apart from the above and the disclosures in the notes to the financial statements, the Receivers are unable to determine whether there were any other debt commitments and contingent liabilities as at 30 June 2004.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2004, the Group employed 12 (2003: 20) staff in Hong Kong and approximately 340 (2003: 280) staff in the PRC. The Group remunerates its employees based on their performance and experience in the context of prevailing industry practice.