

FINANCIAL REVIEW

Liquidity and financial resources

At 30 September 2005, the Group had cash balance of HK\$78.5 million (31/3/2005: HK\$46.3 million). The gearing of the Group was 2,752% (31/3/2005: 244.8%) which was calculated based on the total liabilities over shareholders' fund. The significant increase of the gearing ratio was due to increase of total borrowings of the Group by 40% upon our consolidation of a new subsidiary and the change of accounting policies on hotel properties leading to substantial decrease of shareholders' fund. At 30 September 2005, the current ratio of the Group was 0.74 as compared with 0.73 as at 31 March 2005.

At 30 September 2005, the total borrowings of the Group were approximately HK\$227 million (31/3/2005: HK\$162.2 million). The borrowings consist of bank loans of RMB219 million (HK\$205.9 million) (31/3/2005 : HK\$141 million) and a renewed six-month term loan of HK\$21.2 million (31/3/2005 : HK\$21.2 million). Majority of the borrowings are secured by corporate guarantee given by the Company and/or a subsidiary and certain bank loans and the six-month term loan are also secured by the pledging of certain assets of the Group. The loans were primarily borrowed to finance the business operations and general working capital of the Group.

At 30 September 2005, the current liabilities of the Group included an outstanding amount of HK\$9.5 million in respect of the secured promissory note and the principal amount of HK\$155 million of the expired convertible note (collectively as the "Notes"). Subsequent to the balance sheet date, the Company received a letter from the holder of the Notes regarding the revised repayment schedule of which the Company has to repay the outstanding amount under the Notes on or before 23 December 2005. Since then, the Company has fully settled the final instalment of the promissory note and repaid HK\$26,000,000 under the Convertible note to the holder of the Notes. The management has, however, been liaising with the holder for a more favourable repayment schedule. The Company is also in negotiation with financial institutions regarding financing arrangement of the hotel properties. The management of the Company is confident that the Company will be able to meet its liabilities commitment and may consider using the Group's internal funding, including the PRC trust fund investment upon maturity (subject to the permission of the relevant PRC authorities), for such purpose.

The Company has set up a special working team with an aim to improve the gearing of the Group. The team is responsible to liaise with the relevant creditors, to make arrangement on re-financing issues and to study any other alternatives for the Group. During the period, our major shareholder, Open Mission Assets Limited, continued to give financial support to the Group and has undertaken to give continuous financial support to the Group in the future. Thus, the management believes that the Group shall be able to meet its working capital.

As at 30 September 2005, the Group had trust fund investments of RMB146,900,000 (HK\$138,086,000) which have been placed with an independent trust investment company in the PRC. The funds are managed by the trust investment company and transacted with the assets/trust assets under its management. The trust investment company guaranteed the annual rate of return on the trust fund investments at 4%. In accordance with the terms of the trust fund contracts, the trust period of the funds will expire in May 2006.

Charge on assets

(a) At 30 September 2005, the entire equity interests of the Group in Risdon Limited (together with the shareholder's loan due from Risdon Limited) and Harbour Plaza Kunming Co. Ltd., the wholly-owned subsidiary of Risdon Limited, were pledged to secure against the Company's obligations under the non-transferable promissory note dated 24 July 2002 and the expired convertible note dated 8 November 2002 in relation to the acquisition of the entire equity interest in Risdon Limited by the Company from Hutchison Hotels Holding (International) Limited.

- (b) At 30 September 2005, (i) first floating charges over all undertaking assets and property of the Company and one of its subsidiaries, (ii) share mortgage over all the issued shares in that subsidiary, (iii) assignment of shareholders' loan owed by the Group to the Company's major shareholder and (iv) personal guarantee from a director of the Company were pledged with a financial institution to secure against the relevant subsidiary's obligation under the six-month term loan agreement and its supplemental agreement.
- (c) At 30 September 2005, the leasehold premium for land with net book value of RMB3.68 million (HK\$3.46 million) and plant and machinery with net book value of approximately RMB65.78 million (HK\$61.83 million) of a subsidiary of the Company were pledged with two PRC banks to secure against its obligation under the relevant loan agreements.

Exposure to fluctuations

As the Group's earnings and borrowings are primarily denominated in Hong Kong dollars, United States dollars or Renminbi, it has no significant exposure to foreign exchange rate fluctuation.

Contingent Liabilities

As at 30 September 2005, the Company had contingent liabilities amounting to HK\$162.2 million (31/3/2005: HK\$162.2 million) due to the provision of corporate guarantee in connection with the borrowings granted to its subsidiaries.

OUTLOOK

Besides continuing its existing business, the Group will emphasize on the expansion of the media sector which funding will be come from the internal resources of the Group and/or future financial support by the major shareholder. To mark a good start, the Company has entered into an agreement with Shanghai ee-media Co. Ltd. which is a holding company of the Hunan entertainment channel under the Hunan Broadcasting Group for joint production and distribution of a 20-chapter TV series "Super Diva" in the PRC. It is expected that the TV program shall be introduced in April 2006. Hunan TV is a TV channel having high audience share in the PRC which produces high quality and viewing entertainment programs and currently has 60% share of the total advertisement revenue in Hunan province. The cooperation will facilitate the Group to expedite its development in the media business. As backed up by a team of professional and experienced personnel in the media and marketing fields, the Group has formulated strategy to develop an integrated media platform that will achieve maximum and effective penetration to the target customers and is committed to becoming the industry leader in the Greater China Region.

EMPLOYEES

As at 30 September 2005, the Group employed about 697 employees, of which 446 are the employees of the Harbour Plaza Kunming Co. Ltd. (the "Hotel Company") under the management of Harbour Plaza Hotel Management Limited. The employees of the Hotel Company are rewarded on a performance related basis within the general framework of the hotel's salary and bonus system which is reviewed annually. The remuneration policy and package including basic salaries, medical coverage, insurance plan and discretionary bonus are subject to periodical review of the respective management. In addition, training and development programs are provided on an ongoing basis to employees of the Group to raise productivity and to maintain a high standard of service for the hotel. The Group does not have any share option scheme.