

MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER INFORMATION

BUSINESS REVIEW

For the six months ended 31 October 2002, the Group's unaudited consolidated turnover and the unaudited consolidated net profit attributable to shareholders amounted to approximately HK\$111,191,000 and 4,808,000 respectively representing a drop of approximately 25% and 80% over the corresponding period of 2001, respectively. Overshadowed by the general oversupply in the hotel industry of Zhuhai, hotel operators were vying for customers with cutthroat prices and travel agencies were competing fiercely as well, resulting in a substantial deterioration of the results of the Group's hotel business. The number of visitors of the Fantasy Water World also dropped during the period under review due to the epidemic conjunctivitis in Zhuhai, and, to make matters worse, for the period there was no such HK\$8,554,000 of provision write-back for staff benefits made by the New Yuanming Palace Tourist Co., Ltd. of Zhuhai S.E.Z in the corresponding period of prior year due to the enactment of new laws and regulations in relation to housing reform which rendered the provision unnecessary. As a result, there was a marked drop in the profit contribution of the New Yuanming Palace as compared with the same period last year. As for the passenger transportation business, the number of passenger trips of the ferry services running between Zhuhai and Hong Kong, and Zhuhai and Shekou were on a slight increase. However, owing to the fact that the Zhuhai High-Speed Passenger Ferry Co., Ltd. ("High-speed Passenger Ferry Company") and the Zhuhai Jiuzhou Port Passenger Traffic Service Co., Ltd were exposed and fined for failing to comply with the foreign exchange administration regulations of the PRC by the Guangdong Provincial Sub-bureau of the State Administration for Foreign Exchange ("SAFE") during the period under review, the overall earnings of the two companies paled as compared with the same period last year.

1. Hotel Business

During the period under review, the Zhuhai Holiday Resort Hotel recorded a further drop in market share amid the increasing number of new hotels in Zhuhai. As the supply and demand of hotel rooms falling seriously out of balance, the average occupancy rate of the resort hotel recorded a decrease of approximately 3% as compared with the corresponding period last year. Meanwhile, its room rates were slightly reduced in order to maintain competitive in the market, directly attributable to the drop in revenues from accommodation services and the related catering and recreational facilities. In addition, the travel agency business operated by the Zhuhai Holiday Resort Hotel Co., Ltd. fell off considerably because of fierce competition. As such, the overall performance of the hotel business for the period under review registered a slight loss.

BUSINESS REVIEW *(Continued)***2. the New Yuanming Palace and the Fantasy Water World**

During the period under review, the number of visitors of the New Yuanming Palace and the Fantasy Water World amounted to approximately 315,000 and 128,000 respectively, representing a drop of approximately 9% and 47% respectively as compared with the same period last year. The decrease in the number of visitors of the Fantasy Water World was mainly due to the epidemic conjunctivitis in Zhuhai last summer and the admission fee revenue and park-facilities spending slumped consequently. Besides, the admission fee of the New Yuanming Palace was lowered by over 10% to maintain visitor count, and, to make matters worse, for the period there was no such HK\$8,554,000 of provision write-back for staff benefits made by the New Yuanming Palace Tourist Co., Ltd. of Zhuhai S.E.Z in the corresponding period of prior year due to the enactment of new laws and regulations in relation to housing reform which rendered the provision unnecessary. As a result, there was a marked drop in the profit contribution of the New Yuanming Palace as compared with the corresponding period last year. If the provision write-back factor were to be discarded, the operating profits of the New Yuanming Palace would have recorded a moderate growth, a credit that should be attributed to the management's stringent cost-control measures.

3. Marine Passenger Transportation Business

As for the marine passenger transportation business, the number of passenger trips of the ferry services between Zhuhai and Hong Kong, and Zhuhai and Shekou operated by the High-Speed Passenger Ferry Company recorded a slight increase as compared with the same period last year. However, owing to the fact that High-Speed Passenger Ferry Company and Zhuhai Jiuzhou Port Passenger Traffic Service Co., Ltd were exposed and fined for failing to comply with the foreign exchange administration regulations of the PRC by the Guangdong Provincial Sub-bureau of the SAFE during the period under review, which has been provided for and reflected in the results of this period of the year, the overall earnings of the two companies paled as compared with the same period last year.

PROSPECTS

Looking ahead, the outlook for the hotel industry remains dismal in the second half year of this fiscal year. In light of this, the management will devise more catering events, enhanced value-added services and marketing campaigns to attract more visitors. Obsolete recreational facilities will be updated, and new recreational programs will be added as well to maintain the competitiveness. Recently, the travel agency business arm of the Hotel has been authorized to engage in the business of organizing out-bound tour for citizens of the PRC. The management sees this as a new opportunity for the travel agency business. As for the New Yuanming Palace and the Fantasy Water World, the "Chinese Herbs Treasure Valley" has been opened for business in November 2002 and the number of park visitors is expected to climb. As the economy of China continues to grow, the business activities between Hong Kong and Zhuhai are sure to prosper accordingly, and the board of directors believes that the passenger transportation business will maintain steady growth.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers in the PRC. As at 31 October 2002, the Group has available aggregate banking facilities of approximately HK\$11 million, all of which have been utilized and were secured by legal charges on certain leasehold land and buildings in the PRC owned by the Group. The Group's cash and bank balances and short term bank deposits as at 31 October 2002 amounted to approximately HK\$115 million. The Group's gearing ratio as at 31 October 2002 was approximately 1.2% (30 April 2002: 3.1%), basing on the total bank borrowings of approximately HK\$11 million (30 April 2002: HK\$29 million) and the shareholders' funds of approximately HK\$955 million (30 April 2002: HK\$950 million).

NUMBER AND REMUNERATION OF EMPLOYEES

The number and remuneration of employees of the Group has not changed materially from the information disclosed in the most recent published annual report.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Apart from as disclosed under the heading "Share option scheme" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTIONS SCHEME

The following share options were outstanding under the Scheme during the period:

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares***	
	At 1 May 2002	Lapsed during the period	At 31 October 2002				At grant date of options HK\$	At exercise date of options HK\$
Directors								
Mr. Ouyang Guoliang	2,000,000	-	2,000,000	10 February 2000	10 February 2000 to 9 February 2010	0.55	0.73	N/A
Mr. Yu Huaguo	1,300,000	-	1,300,000	4 December 1998	4 December 1998 to 3 December 2008	0.56	0.69	N/A
Ms. Liu Jia	1,300,000	-	1,300,000	4 December 1998	4 December 1998 to 3 December 2008	0.56	0.69	N/A
Mr. Chen Yonglin	1,300,000	-	1,300,000	4 December 1998	4 December 1998 to 3 December 2008	0.56	0.69	N/A
Mr. Liang Han	1,300,000	-	1,300,000	4 December 1998	4 December 1998 to 3 December 2008	0.56	0.69	N/A
Mr. Cai Guangcheng @	2,500,000	(2,500,000)	-	4 December 1998	4 December 1998 to 3 December 2008	0.56	0.69	N/A
Mr. Zhuo Rongliang @	2,000,000	(2,000,000)	-	4 December 1998	4 December 1998 to 3 December 2008	0.56	0.69	N/A
Mr. Liu Tiejun @	1,300,000	(1,300,000)	-	4 December 1998	4 December 1998 to 3 December 2008	0.56	0.69	N/A
Mr. Chen Jinhui @	1,300,000	(1,300,000)	-	4 December 1998	4 December 1998 to 3 December 2008	0.56	0.69	N/A
	<u>14,300,000</u>	<u>(7,100,000)</u>	<u>7,200,000</u>					
Other employees								
In aggregate	1,300,000	-	1,300,000	7 March 2000	7 March 2000 to 6 March 2010	0.68	0.85	N/A
	9,400,000	-	9,400,000	4 December 1998	4 December 1998 to 3 December 2008	0.56	0.69	N/A
	<u>10,700,000</u>	<u>-</u>	<u>10,700,000</u>					
	<u>25,000,000</u>	<u>(7,100,000)</u>	<u>17,900,000</u>					

SHARE OPTION SCHEME *(Continued)*

- @ The share options are exercisable within 12 months from the date Messrs. Cai Guangcheng, Zhuo Rongliang, Liu Tiejun and Chen Jinhui resigned as directors of the Company on 20 June 2001. All of their share options lapsed on 20 June 2002.
- * The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of the grant of the share options is The Stock Exchange of Hong Kong Limited (the "Stock Exchange") closing price on the trading day immediately prior to the date of the grant of the share options.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date are deleted from the register of outstanding share options.

DIRECTORS' INTEREST IN EQUITY SECURITIES

Save as disclosed above, at 31 October 2002, none of the Company's directors or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31 October 2002, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of substantial shareholders that is required to be maintained pursuant to Section 16(1) of the SDI Ordinance:

Name	Note	Number of issued shares held	Percentage of issued shares
Zhuhai Industrial Company Limited	1	236,000,000	29.54
Pioneer Investment Ventures Limited	1	<u>337,000,000</u>	<u>42.18</u>

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Note:

1. In accordance with Sections 8(2), 8(3) and 8(4) of the SDI Ordinance, Zhu Kuan (Hong Kong) Company Limited, Zhu Kuan Group Company Limited and Zhu Kuan Company of the Zhuhai SEZ were deemed to be interested in the 236,000,000 and 337,000,000 shares of the Company held by Zhuhai Industrial Company Limited and Pioneer Investment Ventures Limited, respectively, because:
 - Zhu Kuan (Hong Kong) Company Limited is the immediate holding company of Zhuhai Industrial Company Limited;
 - Zhu Kuan Group Company Limited is the immediate holding company of Zhu Kuan (Hong Kong) Company Limited and Pioneer Investment Ventures Limited; and
 - Zhu Kuan Company of the Zhuhai SEZ is the immediate holding company of Zhu Kuan Group Company Limited.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 October 2002.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31 October 2002, 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 of Hong Kong Limited.

By Order of the Board
Ouyang Guoliang
Chairman

Hong Kong, 24 January 2003