

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group was mainly financed by cash from operations, disposal of under-performing investments, bank borrowings and financial resources from affiliate companies.

As at 31st December, 2003, the Group's cash and bank balances amounted to approximately HK\$4.8 million while the total assets and the net assets were approximately HK\$613.7 million and HK\$333.2 million respectively. Most of the Company's bank deposits were deposited with banks as short-term deposits and denominated in either Hong Kong dollars or Renimbi, which are directly related to the Group's business in the areas of currencies concerned.

Upon the completion of the Group Reorganisation in December 2003, the total short term borrowings increased to approximately HK\$80.0 million as at 31st December, 2003 while the long term borrowings decreased substantially from approximately HK\$978.6 million as at 31st December, 2002 to approximately HK\$50.0 million as at 31st December, 2003. The borrowings were mainly deployed for the acquisition of hotel business in 2002 and the property development projects. The Group's gearing ratio decreased to 0.15 (31/12/2002: 1.03) which is calculated based on long term borrowings of HK\$50.0 million and the total shareholders' fund of HK\$333.2 million.

As at 31st December, 2003, the Group's borrowings bear interest at floating rates. Since all the borrowings were denominated in Hong Kong dollars, there were no any foreign exchange risk. The Group did not enter into any material foreign exchange contracts, interest or currency swaps or other financial activities. However, the Group will continue to seek other refinancing opportunities in the market to further reduce the borrowing costs of the Group. As at 31st December, 2003, the Group did not have any committed borrowing facilities.

Borrowing requirement are not seasonal as they tend to follow the pattern of capital expenditure and investment. The Group also benefits from a steady inflow of income from its leased properties.

The Group's borrowings are repayable as follows:

Within 1 year	62%
More than 1 year, but not exceeding 2 years	38%
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	100%
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Velocity International Limited, the largest major shareholder of the Group, has confirmed to the Group its intention to provide financial support to the Group to enable the Group to meet its liabilities as and when they fall due. Based on the internal resources of the Group and taking into account the financial support agreed to be provided by Velocity International Limited, the Group will have sufficient working capital for its requirement.

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GROUP REORGANISATION

With reference to the joint announcement of the Company, Velocity International Limited, Wing On Travel (Holdings) Limited (formerly known as Ananda Wing On Travel (Holdings) Limited) and Millennium Target Holdings Limited on 8th August, 2003 and 12th December, 2003, the Group Reorganisation was completed on 12th December 2003 which included the followings:

(a) Capital Reduction

On 26th November, 2003, the nominal value of the issued share capital of the Company was reduced from US\$0.02 to US\$0.002 by cancelling the paid up capital of US\$0.018 on each of the ordinary shares of US\$0.02 each in the capital of the Company in issue. The entire credit arising from this capital reduction, amounted to HK\$389,481,000 were transferred to the contributed surplus account of the Company. The entire share premium account of the Company, amounted to HK271,023,000, was cancelled and transferred to the contributed surplus account of the Company.

(b) Subdivision

On 26th November, 2003, each authorised and unissued ordinary shares of US\$0.02 each in the share capital of the Company was subdivided into 10 ordinary shares of US\$0.002 each.

(c) Share Consolidation

On 26th November, 2003, the issued and unissued ordinary share of US\$0.002 each in the share capital of the Company resulted from the Capital Reduction and Subdivision as described above were consolidated on the basis of every 10 issued shares of US\$0.002 each into one issued share of US\$0.02 each and every 10 unissued shares of US\$0.002 each into one unissued of US\$0.02 each.

(d) Group Reorganisation

On 12th December, 2003, Apex Quality Group Limited, a wholly owned subsidiary, acquired from the Company all interests of the Group relating to hotel and leisure-related businesses. The Company then distributed the entire holdings in Apex Quality Group Limited, out of the contributed surplus account of the Company, in specie to the shareholders of the Company.

CHANGE OF NAMES

On 20th January, 2004, the name of the Company was changed to China Velocity Group Limited.

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NUMBER OF EMPLOYEES AND REMUNERATION POLICY

At the end of 2003, the Group employed a total of approximately 110 staff in Hong Kong and the PRC.

The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective individuals concerned.

PLEDGE OF ASSETS

As at 31st December, 2003, the Group has pledged certain part of properties under/held for developments with a carrying value of HK\$16.6 million (2002: 16.6 million) to a bank for banking facilities utilised by a third party.