

# Management Discussion and Analysis

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## FINANCIAL RESULTS AND POSITION

The net asset value of the Group decreased by HK\$45,983,000 to HK\$1,898,840,000 as at 31 December 2004 (30 June 2004: HK\$1,944,823,000). The loss attributable to shareholders during the six months ended 31 December 2004 was HK\$45,983,000.

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 according to the valuation reports issued by an independent professionally qualified property valuer. The valuation of the hotel properties and property under development is based on a forced sale basis.

In view of the enforcement resumption notices issued by the Intermediate Court against these properties as set out in “Actions relating to Longbai” and “Actions relating to Hongxin” in the Statement from the Receivers, no updated valuation of the properties has been conducted.

Legal and professional fees, interest expenses and administrative expenses incurred during the interim period were direct attributable factors leading to the loss attributable to shareholders of HK\$45,983,000 for the six months ended 31 December 2004 (2003: HK\$40,057,000).

## INVESTMENTS IN 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*

Based on available records, rental income and profit from the leasing of investment properties in Jun Ling Plaza, Shanghai, during the six months ended 31 December 2004 attributable to the Group amounted to HK\$1,381,000 (2003: HK\$944,000) and HK\$991,000 (2003: HK\$780,000) respectively.

Based on available records, the occupancy ratio during the six months ended 31 December 2004 was approximately 85% (2003: 49%).

### Hotel investment

(上海逸和龍柏飯店) *Hotel Longbai*

Income and profit from Hotel Longbai’s operations during the six months ended 31 December 2004 attributable to the Group amounted to HK\$32,825,000 (2003: HK\$25,921,000) and HK\$13,353,000 (2003: HK\$8,789,000) respectively.

The occupancy ratio during the interim period was approximately 80% (2003: 63%).

### 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 interim period.

# Management Discussion and Analysis *(Continued)*

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## CAPITAL COMMITMENTS

Given the purported loan transactions with Shijidadao SRCC and Liuli SRCC (collectively "SRCCs") and the judgments issued by the Intermediate Court on 17 and 19 November 2004 against Hongxin and Longbai respectively and the current legal actions with Shanghai Nongkai, 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.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash position decreased by HK\$29,792,000 to HK\$1,233,527,000 as at 31 December 2004 (30 June 2004: HK\$1,263,319,000) due to operation and administrative expenses, and legal and professional fees.

## TREASURY

The cash position of the Group as at 31 December 2004 mainly comprised US dollars, HK dollars, Renminbi ("RMB") and Japanese Yen ("JPY") as follows:

	<i>HK\$'000</i>	%
US dollars	1,210,063	98
HK dollars	9,474	1
RMB	13,970	1
JPY	20	–
Total	<u>1,233,527</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

- a. 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.

These purported loans had not been duly authorised and approved by the Board. Accordingly, the Receivers have not authorised any interest payments to the SRCCs since they took over the management of Longbai and became the legal representative of Hongxin.

# Management Discussion and Analysis *(Continued)*

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

The SRCCs had taken out legal actions against Longbai and Hongxin in relation to the purported loans and judgments of which had been issued by the Intermediate Court in favour of SRCCs. As at 31 December 2004, the land at Wuzhong Road and Hotel Longbai remained purportedly pledged under their respective loan agreements.

The Group's gearing ratio was approximately 32% (gearing ratio is calculated by dividing the purported loans by shareholders' funds) as at 31 December 2004 (30 June 2004: 32%).

- b. 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 at the date of this report, the Receivers are unable to obtain any information in relation to the pledged deposits.

Save as disclosed above, the Receivers are unable to determine whether there were any other debt commitments and contingent liabilities as at 31 December 2004.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2004, the Group employed 12 (30 June 2004: 12) staff in Hong Kong and approximately 341 (30 June 2004: 340) staff in the PRC. The Group remunerates its employees based on their performance and experience in the context of prevailing industry practice.

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

During the six months ended 31 December 2004, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

## DIVIDEND

No payment of dividends for the interim financial period ended 31 December 2004 was recommended (2003: Nil).

# Management Discussion and Analysis *(Continued)*

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

As at 31 December 2004, 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 pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" were as follows:

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

Name of Directors	The 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 (Note 1)	The Company	Corporate interest	Beneficial owner	2,288,521,317	75
Tan Lim Heng	The Company	Personal interest	Beneficial owner	14,840,000	0.49
Mr. Chau	New Nongkai (Note 2)	Personal interest	Beneficial owner	1	100

#### Notes:

- (1) 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 largely 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.
- (2) New Nongkai was the ultimate holding company of the Company as at 31 December 2004.

Save as disclosed above, as at 31 December 2004, the Receivers are unable to determine whether there were 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 for Securities Transactions by Directors of Listed Issuers".

# Management Discussion and Analysis *(Continued)*

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

As at 31 December 2004, 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 5% 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 largely 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.
- (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.

# Management Discussion and Analysis *(Continued)*

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## 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 5% or more of the voting power at any general meeting of the Company *(Continued)*

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

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 2004, the Receivers are unable to confirm whether there were 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 six months ended 31 December 2004, no options were outstanding, granted, exercised, cancelled or lapsed pursuant to the Company's share option scheme adopted on 23 October 2001.

## CODE OF BEST PRACTICE

The Receivers are unable to confirm whether the Company has complied throughout the six months ended 31 December 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in force prior to 1 January 2005.

## COMPLIANCE OF MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

On 23 March 2004, the Company adopted a Model Code for Securities Transactions by Directors (the "Model Code") on terms no less exacting than the required standard of the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules.

Confirmation on compliance with the Model Code (the "Confirmation") had been sent to all Directors. As at the date of this interim report, Confirmations have been received from Ms. Gong Bei Ying (ceased to act as Executive Director effective from 4 February 2005), Mr. Ho Yau Hoo, Ronald, Mr. Koo Hoi Yan, Donald, Mr. Liu Lit Man (resigned as INED on 11 November 2004), Mr. Mok Chiu Kuen, Mr. Shan Zhenglin (resigned as Executive Director on 3 November 2004) and Mr. Tan Lim Heng that they had complied with the Model Code for the six months ended 31 December 2004. No Confirmations have been received from the other Directors of the Company, namely Mr. Chau Ching Ngai, Mr. Jiang Dong Liang, Mr. Mao Wei Ping and Ms. Fan Cho Man.

# **Management Discussion and Analysis** *(Continued)*

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## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Mr. Mok Chiu Kuen was appointed as the Company's INED and a member of the Audit Committee by the Board on 11 July 2002.

Mr. Ho Yau Hoo, Ronald was appointed as the Company's new INED at a Board meeting held on 28 September 2004. Mr. Ho's appointment was proposed by one of the INEDs of the Company and approved by the Receivers pursuant to the December 2003 Order. He was also appointed as Audit Committee member of the Company on the same date.

Mr. Liu Lit Man tendered his resignation as an INED and Audit Committee member effective from 11 November 2004. After his resignation, the Company has only two INEDs and the number of Audit Committee member was reduced to two. This does not meet with the requirement of the Listing Rules. The Company is required to appoint at least one new INED to meet the minimum requirement of three INEDs within three months of the effective date of Mr. Liu Lit Man's resignation, i.e. by 10 February 2005.

## **REVIEW OF INTERIM FINANCIAL REPORT BY THE AUDIT COMMITTEE**

The Audit Committee comprised three Independent Non-executive Directors ("INED") of the Company but the number was reduced to two following the resignation of Mr. Liu Lit Man as an INED on 11 November 2004. This does not meet the requirement of the Listing Rules that the Audit Committee must comprise a minimum of three members.

The Audit Committee had reviewed and discussed the interim financial report with the Receivers and the Board. The members of the Audit Committee were unable to satisfy themselves as to whether the interim financial report presented a true and fair view and, under such circumstances, the Audit Committee was unable to make recommendation to the Board in accepting and/or adopting the interim financial report of the Group for the six months ended 31 December 2004.

## **AUDIT COMMITTEE**

The Audit Committee comprised three INEDs of the Company but the number was reduced to two following the resignation of Mr. Liu Lit Man as an INED on 11 November 2004. This does not meet the requirement of the Listing Rules that the Audit Committee must comprise a minimum of three members.

## **OTHER INFORMATION**

In November 2004, shortly following the resignation of Mr. Liu Lit Man, Mr. Ho Yau Hoo, Ronald requested the Company Secretary to convene a board meeting to consider the appointment of a third INED and an additional member of the Audit Committee to replace Mr. Liu Lit Man in compliance with the Listing Rules. A Board meeting was held on 1 December 2004 whereby a candidate put forward for nomination as an INED by Mr. Jiang, an Executive Director, was approved by a majority of votes of the Directors present at the meeting. The decision, however, was not clearly supported by four Directors of the Company.

The Receivers had intended to hold an EGM immediately after the Adjourned AGM on 4 February 2005 to appoint INED(s) to meet the minimum requirement under the Listing Rules. On 19 January 2005 the Receivers issued a notice of an EGM to be held on 4 February 2005 to the shareholders. The nominations of three candidates were put forward for consideration at the EGM so as to give the shareholders more choices of candidates.

## **Management Discussion and Analysis** *(Continued)*

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Mr. Jiang objected to the convening of the EGM to appoint INED and instructed his lawyers to write to demand the withdrawal of the notice of the EGM and threatened to apply to the Court for injunctive relief if the demand was not complied with.

In the circumstances and in order to avoid incurring unnecessary costs in contentious proceedings to challenge the legal basis for the Receivers to act, an announcement was made on 24 January 2005 that the notice of the EGM was withdrawn as a result of the objection from Mr. Jiang.

The Receivers are in the process of obtaining directions from the Court as to whether the Receivers are empowered to nominate candidates for the consideration of shareholders at general meetings.

### **OUTLOOK**

The Receivers will continue to consider all feasible options to maximise the value of the Company for the benefit of its shareholders and creditors and this will include, but not limited to, legal actions taken to secure and safeguard the assets of the Company. At this juncture, the Receivers are not in a position to determine when the receivership will conclude.

For and on behalf of  
**Shanghai Land Holdings Limited**  
*(Receivers Appointed)*

**Stephen Liu Yiu Keung**  
**Yeo Boon Ann**  
*Joint and Several Receivers*

Hong Kong, 22 March 2005