

Management Discussion and Analysis

romantic



BUSINESS REVIEW

1. Marine Passenger Transportation Business

As for marine passenger transportation business, continuously benefited from the opening of individual visits to Hong Kong and Macau and the prosperous development of the tourist industry in Zhuhai, the number of passenger trips of the ferry services between Zhuhai and Hong Kong, and Zhuhai and Shekou, operated by Zhuhai High-Speed Passenger Ferry Co., Ltd. ("Ferry Company") was 1,203,000 and 447,000 respectively, representing a growth of approximately 9% and 3% respectively as compared with last year. It was attributable to the sales strategy of launching a series of ticket price concessions to attract visitors in the peripheral regions. In August and September during the year under review, the ticket price was adjusted upward moderately. As such, the operating income achieved an increase of over 13%. Oil price remained high during the year, leading to an increase in the cost of fuel consumed by the vessels, which in turn partially offset the growth in operating income. The operating profit of the Ferry Company this year recorded a growth of over 40% as compared with last year. The operating income derived from ticket agency business and the utilisation of pier facilities of Zhuhai Jiuzhou Port Passenger Traffic Service Co., Ltd. ("Jiuzhou Port Company") increased approximately by 4% as compared with last year. Coupled with the effective human resources reform launched during the year which reduced staff costs, the overall operating profit of Jiuzhou Port Company increased by approximately 2% as compared with last year.

2. Hotel Business

During the year under review, the average occupancy rate of our hotel was approximately 64%, which remained at the similar level as compared with last year. However, its average room rates were slightly reduced in order to maintain its competitiveness in the market. Since certain new hotels of relatively small scale in peripheral regions were completed during the year, the hotel industry was still under intense competition, and accordingly revenue from accommodation services of the resort hotel decreased slightly, marking a drop from approximately 36% of the operating income of the Hotel Business last year to approximately 32% of the operating income of the Hotel Business this year. The travel agency business operated by Zhuhai Holiday Resort Hotel Co., Ltd. achieved better growth than the corresponding period last year, marking a rise from approximately 27% of the operating income of the Hotel Business last year to approximately 33% of the operating income of the Hotel Business this year. However, the keen competition of the travel agency industry makes the profit margin to decrease slightly. As for catering and sale of food, particularly for large scale functions such as social gatherings for Chaozhou people around the world (世界潮人聯誼會) and sale of mooncakes, the Group has obtained good operation effectiveness. In general, the overall result of the Hotel Business during the year was similar to that of last year.

BUSINESS REVIEW *(Continued)*

3. The New Yuanming Palace and the Fantasy Water World

During the year under review, the number of visitors of the New Yuanming Palace and the Fantasy Water World were approximately 715,000 and 289,000 respectively, representing an increase of approximately 24% respectively as compared with last year. During the year under review, the New Yuanming Palace and the Fantasy Water World modified their operating strategy by reducing the average ticket price in order to enhance its sources of visitors. As for the New Yuanming Palace, a new night show “Sea War in Qing Dynasty(大清海戰)” was introduced to enrich the contents of shows performed in the Palace. Tickets for night admission to the Palace was specially introduced to attract more visitors. The frequent launch of featured programmes and activities such as the Lotus Festival also boosted up the number of visitors. However, due to the increase in advertising expenses and the preparation and production costs for the new drama during the year under review, the overall result decreased slightly as compared with the corresponding period last year. As for the Fantasy Water World, the newly added skiing facilities such as twister waterslides and tidal wave waterslides and the additional night shows presented by Russian acrobatic during the year, coupled with the favourable weather, resulted in a remarkable growth in the number of visitors. Therefore, the overall operating profit of the Fantasy Water World business for the year increased by over 22% as compared with last year.

PROSPECTS

Looking forward to the coming year’s development, it is expected that the existing business of the Group will sustain stable growth. To increase the attraction and enhance the reputation of the hotel under the listed Group, its management will further decorate and renovate certain villas district and the exterior of main buildings of the hotel, and reinforce its personnel training and assessment for the full collaboration of its hardware and software. The New Yuanming Palace will devise more festive programmes to attract more visitors. As for marine passenger transportation business, the sustained economic growth in the PRC and particularly the vigorous growth in tourist and commercial industries of the peripheral regions like Hong Kong and Macau, are poised to further boost tourist development and business activities in Zhuhai. Accordingly, the Board of Directors believes that the marine passenger transportation business will maintain steady growth.

As the Group’s resort hotel and attractions have been in operation for years, some facilities have depreciated or become outdated. In addition, to consolidate the brand of resort hotel and enrich the content of the Group’s travel projects, the Group has started to engage internationally renowned consultancy firms to carry out comprehensive planning, transformation and maintenance on the Group’s hotels and attractions, in order to enhance the Group’s competitiveness, optimise its resources and create better results with such transformation.

PROSPECTS *(Continued)*

Moreover, the Group will continue to explore potential investment opportunities to broaden its profit base, rationalize its internal resources and open up more businesses efficiently with the objective to bring better returns for its shareholders.

To this end, the Group has, subsequent to the balance sheet date, signed 2 letters of intent for the initial study of certain potential projects, including (1) the land for Zhuhai villas districts and the relevant recreational facilities located outside the main building of the Zhuhai Holiday Resort Hotel, (2) the enterprise for public transportation services in Zhuhai and (3) Zhuhai circuit and the relevant land resources. The Group had paid approximately HK\$144 million refundable earnest money deposits for these projects and has therefore obtained first right of acquisition in respect of the above projects (see also note 42 to the financial statements). The Group is currently considering these projects and as at the date of this annual report, no agreement which is notifiable has been reached. The Board of Directors will notify the shareholders of the Company in due course should any projects be finalized or should there be any further information.

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 30 April 2006, the Group has no outstanding banking borrowings (30 April 2005: Nil). The Group's cash and bank balances and short term bank deposits as at 30 April 2006 amounted to approximately HK\$163.7 million (30 April 2005: HK\$226.3 million), of which approximately HK\$129.4 million (30 April 2005: HK\$217.8 million) were denominated in Renminbi and the remaining were all in Hong Kong Dollars. In addition, the Group held short term investments in financial instruments of approximately HK\$175.3 million as at 30 April 2006 (30 April 2005: HK\$0.7 million) of which approximately HK\$166.3 million were denominated in Renminbi (30 April 2005: Nil) and the remaining were all in Hong Kong Dollars (30 April 2005: HK\$0.7 million). The short term financial instruments comprised mainly investment in very low risk debt instruments and money market funds with a view to enhance the Group's return on the surplus working capital. Since the Group has no outstanding banking borrowings as at 30 April 2006 and 30 April 2005 respectively, and based on the total bank borrowings in relation to shareholders' fund, the Group's gearing ratio as at 30 April 2006 and 30 April 2005 respectively was zero.

NUMBER AND REMUNERATION OF EMPLOYEES

At the year end, the Group had approximately 1,520 employees. Remuneration of employees is determined and reviewed annually with reference to the market standard, individual performance and working experience, and certain staff is entitled to commission and share options. In addition to the basic salaries, the Group also provides, depending on the results of the Group and individual performance, staff benefits including discretionary bonus, contributory provident fund or mandatory provident fund, and professional tuition/training subsidies in order to retain quality employees.

CONTINGENT LIABILITIES

As at 30 April 2006, the Group had no significant contingent liabilities.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 30 April 2006, the Group had no future plans for material investments or capital assets, saved for those disclosed under the heading "Management Discussion and Analysis — Prospects".

FOREIGN EXCHANGE EXPOSURE

Most of the businesses of the Group are operated in the Mainland China, and the principal revenues and costs were denominated in Renminbi or Hong Kong Dollars. Therefore, the management believes that there is no need for the Group to make use of financial instruments for hedging purposes.

As the assets and liabilities of the Group are mostly in Renminbi, the management considers that no significant exposure to foreign exchange exists.

CAPITAL STRUCTURE

On 4 April 2006, the Company placed 159,800,000 warrants of HK0.55 cent each to certain independent institutional or private investors. Each warrant carries the right to subscribe for one ordinary share of HK\$0.10 each in the Company at a subscription price of HK\$0.55 per share from the date of issue to 3 April 2007.

The net proceeds of approximately HK\$85.6 million, upon full exercise of the subscription rights attaching to the 159,800,000 warrants, will be utilized by the Group for overhaul and medium repair and maintenance and overall planning of the tourist attractions and hotel facilities of the Group.

CAPITAL STRUCTURE *(Continued)*

During the year, 43,178,000 shares of HK\$0.10 each were issued pursuant to the exercise of the Company's warrants for a total cash consideration, before issue expenses, of approximately HK\$23,748,000. The net proceeds arising therefrom of approximately HK\$23.3 million were placed as cash at bank and short-term deposits. Out of the 43,178,000 warrants, subscription proceeds in respect of 9,588,000 warrants were received immediately prior to balance sheet date and shares in the Company were issued to the subscribers subsequent to the balance sheet date.

As at 30 April 2006, the number of issued ordinary shares was 832,590,000 shares in aggregate and the shareholders' equity of the Group was approximately HK\$992 million.

MATERIAL INVESTMENT HELD, SIGNIFICANT ACQUISITION AND DISPOSALS

During the year, there was no acquisition or disposal of material investment, subsidiary or associated company.