

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Company and its subsidiaries (the "Group") were mainly financed by proceeds from placing and subscription of shares, issue of convertible note and promissory note, cash from operations, disposal of under-performing investments, banking facilities and loans from affiliate companies.

From 31st December, 2001 to 31st December, 2002, short-term borrowings increased slightly from approximately HK\$28 million to approximately HK\$29 million and long term borrowings increased from approximately HK\$632 million to HK\$978 million. Total borrowings amounted to HK\$1,007 million as at 31st December, 2002, representing an increase of 52.6% over total borrowings of HK\$660 million on 31st December, 2001. These borrowings were mainly used for acquisition of hotel businesses in Hong Kong and the People's Republic of China (the "PRC").

As at 31st December, 2002, approximately 93% of the Group's borrowings bear interest at floating rates and the remaining 7% are at fixed rates. Since over 99% of the borrowings were denominated in Hong Kong dollars, exposure to foreign exchange risk was minimal. The Group did not enter into any material foreign exchange contracts, interest or currency swaps or other financial activities. However, the Group will continue seeking other refinancing opportunities in the market to further reduce the borrowing costs of the Group. As at 31st December, 2002, the Group did not have any committed borrowing facilities.

Borrowing requirements 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	3%
More than 1 year, but not exceeding 2 years	28%
More than 2 years, but not exceeding 5 years	45%
More than 5 years	24%
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	100%
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Over the year, the Group's gearing ratio increased to 1.03 (31.12.2001: 1.0), which is calculated based on long term borrowings of HK\$978 million and total shareholders' funds of HK\$947 million. Cash and cash equivalents increased from approximately HK\$46 million to approximately HK\$57 million. Most of the Company's bank deposits were deposited with banks as short-term deposits and denominated in either Hong Kong dollars or Renminbi, which are directly related to the Group's businesses in the areas of the currencies concerned.

GROUP REORGANISATION

References are made to the joint announcements of the Company, China Strategic Holdings Limited ("CSH") and Ananda Wing On Travel (Holdings) Limited ("Ananda") on 26th July, 2002, 7th November, 2002 and 3rd December, 2002 in relation to an extensive group reorganisation. The group reorganisation was completed in December 2002 which included the following:

(a) Placing

On 29th November, 2002, 45,000,000 new shares (the "Placing Shares") in the Company were issued to independent third parties at a price of HK\$0.20 per share. Net proceeds received from placing of shares amounted to approximately HK\$8.9 million.

(b) Issue of convertible note

On 29th November, 2002, the Company issued a convertible note to an independent third party in the principal amount of HK\$66 million and bearing interest at a rate of 2% per annum.

(c) Subscription of shares

On 2nd December, 2002, 1,000,000,000 new shares (the "Subscription Shares") in the Company were issued to a wholly owned subsidiary of Ananda at a subscription price of HK\$0.30 per share. Net proceeds received from subscription of shares amounted to approximately HK\$295 million.

(d) Acquisitions

- (i) On 2nd December, 2002, the Company acquired from Paul Y. - ITC Construction Holdings Limited its entire interest in Best Western Rosedale On the Park located in Causeway Bay, Hong Kong at a cash consideration of about HK\$250 million.
- (ii) On 2nd December, 2002, the Company acquired from Hutchison Hotels Holdings (International) Limited its entire 95% interest in Rosedale Hotel & Suites ■ Beijing located in Beijing, the PRC at a consideration of HK\$515 million. The consideration was satisfied by cash payment in the amount of HK\$150 million and the issue of a promissory note for the principal amount of HK\$365 million bearing an interest at HIBOR rate plus 2% per annum.
- (iii) On 2nd December, 2002, the Company acquired from Ananda the right to acquire 60% interest in Golden Gulf Hotel located in Luoyang, the PRC (the "Right") at a consideration of about HK\$110 million. The consideration was satisfied by the issue of 366,666,666 new shares (the "Consideration Shares") of the Company at HK\$0.30 per share. Up to the date of this report, the Group has not exercised the Right.

(e) Increase in authorised share capital

Subsequent to an increase in authorised share capital of the Company from US\$38 million to US\$60 million pursuant to an ordinary resolution passed by the shareholders of the Company on 31st May, 2002, the authorised share capital was further increased from US\$60 million to US\$380 million pursuant to an ordinary resolution passed by the shareholders of the Company on 28th October, 2002 to facilitate the issue of the Subscription Shares, the Consideration Shares and the Placing Shares and for future expansion of the Company.

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(f) Change of Company name

To reflect the principal business of the Company after the group reorganisation, the name of the Company was changed to "Rosedale Hotel Group Limited" on 9th December, 2002.

The aggregate net proceeds received from subscription of shares, placing of shares, issue of convertible note amounted to HK\$369.9 million and were used for funding the group reorganisation.

OTHER MATERIAL ACQUISITIONS AND DISPOSALS

In June 2002, the Group acquired from a business partner certain residential properties in Hong Kong in exchange for the Group's 15% interest in a residential property development project in Beijing, the PRC. The purchase and sale considerations are approximately HK\$43 million and HK\$43 million respectively. Those residential properties acquired were subsequently realised at market prices. The transaction enables the Group to improve its financial liquidity through realisation of non-current assets.

In November 2002, the Group disposed of its entire 60% interest in a toll road located in Shenzhen, the PRC at a net consideration of HK\$60.4 million. A part of the proceeds received was used for funding the group reorganisation.

In April 2003, the Company and two subsidiaries of the Company entered into a conditional sale and purchase agreement to dispose of the Group's entire interest in Shenzhen Development Centre at a net consideration of HK\$30 million.

COMMENTS ON SEGMENTAL INFORMATION

The loss attributable to the Group for the year was approximately HK\$99.8 million compared to approximately HK\$393.7 million in the previous year. The loss was mainly attributable to the provision for impairment loss on toll highway and properties and the finance costs for financing the construction of the Shenzhen Highway and other operations.

NUMBER OF EMPLOYEES, STAFF BENEFITS AND SHARE OPTION SCHEME

At 31st December, 2002, the Group had approximately 1,300 full-time employees in Hong Kong and the PRC. The Group provides comprehensive benefits to its employees such as competitive medical insurance for staff in Hong Kong. Pursuant to the share option scheme of the Company adopted on 4th June, 2002, the Board may grant options to, among others, executive directors and full-time employees of the Company or any of its subsidiaries to subscribe for shares. No share options were granted or exercised during the year.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

Details of pledge of assets and contingent liabilities of the Group at 31st December, 2002 are set out in note 44 and 43 to the financial statements.