

REVIEW OF OPERATIONS AND RESULTS

The loss attributable to shareholders of the Company and its subsidiaries (the "Group") for the first half year of 2003 was approximately HK\$163.5 million compared to approximately HK\$73.6 million for the corresponding period in the previous year. The loss was mainly due to downward adjustment on hotel valuation and properties valuation as a result of SARS, the adverse effect of the SARS outbreak on the hotel businesses in both Hong Kong and the Mainland and the finance costs.

The board of directors (the "Board") of the Company does not recommend the payment of any interim dividend for the period (2002: Nil).

Hotel operations

The Rosedale hotels faced challenging economic conditions in the six months ended 30th June, 2003. The worldwide outbreaks of SARS and the Iraq war, depressed the global travel industry and had a severe impact on the performance of the Group's hotel businesses. Following the uplift of travel advisory on Hong Kong and Guangdong Province by the World Health Organization in May 2003, the results of all Rosedale hotels show encouraging recovery trends in particular the Best Western Rosedale on the Park in Hong Kong. It is expected that the hotel businesses will be restored to pre-SARS level in the latter part of the year.

Property leasing

Paul Y. Plaza in Guangzhou continued to provide recurring rental income to the Group. KFC and China Mobile have established their outlets in Paul Y. Plaza and these well known fast-food chain and shop have increased the pedestrian traffic and improved the image of Paul Y. Plaza. During the SARS crisis, the leasing campaign of the podium was temporarily affected by the reduced business activities.

Property development project intended for sale

The superstructure of phase 1 of Tai Shan Oriental Pointe (formerly named as Lang De Dong) in Taishan is closed to completion. This phase consists of residential apartments and villas with a saleable area of approximately 16,500 square meters. The project has started to generate sales income in the third quarter of the year. Intensive marketing campaigns will be launched shortly.

Proposed group reorganisation, capital reorganisation, change of board lot size and change of company name, possible unconditional voluntary offer for the shares in Apex Quality Group Limited ("Apex") and possible conditional mandatory offer for the shares in the Company (the "Proposed Transactions")

On 8th August, 2003, the Company, Ananda Wing On Travel (Holdings) Limited ("Ananda Wing On"), Millennium Target Holdings Limited ("Millennium Target"), Velocity International Limited ("Velocity") and Apex jointly announced the Proposed Transactions. The principal elements of the Proposed Transactions are as follows:

(a) Proposed group reorganisation

At the request of Ananda Wing On, the beneficial controlling shareholder of the Company, the Board places before the shareholders of the Company ("Shareholders") a proposal for the reorganisation of the Group ("Group Reorganisation") which, if implemented and approved, will result in:

- (i) the Company continuing as a public listed company concentrating on business other than hotel and leisure-related businesses which the Group has engaged in the past including property investment and development in the PRC (the "Rosedale Group");
- (ii) Apex, an existing wholly owned subsidiary of the Company, holding principally all assets and liabilities of the Group in relation to the hotel and leisure-related businesses (the "Apex Group"); and
- (iii) the Shareholders whose names appear on the register of members of the Company on the record date to be fixed receiving by way of distribution in specie of shares of Apex ("Apex Shares") on one Apex Share for one Consolidated Share (as hereinafter defined) basis.

The Group Reorganisation is conditional on, amongst other things, completion of the Capital Reorganisation and approval by the independent Shareholders. Ananda Wing On and its associates and concert parties will abstain from voting on the proposed resolution(s) approving the Group Reorganisation.

(b) Capital Reorganisation

The Capital Reorganisation involves:

- (i) cancellation of the paid-up capital of US\$0.018 on each issued share of nominal value of US\$0.02 each in the Company (the "Share") and reduction in the nominal value of each issued Shares from US\$0.02 to US\$0.002 and the cancellation of the entire share premium account of the Company ("Capital Reduction");
- (ii) subdivision of each authorised but unissued Share into 10 reduced shares of US\$0.002 each ("Subdivision"); and
- (iii) every 10 reduced shares of US\$0.002 each arising from the Capital Reduction and the Subdivision will then be consolidated into one consolidated share of US\$0.02 ("Consolidated Share").

(c) Change of board lot size

The Board proposes to change the board lot size from 2,500 Shares to 5,000 Consolidated Shares upon the Capital Reorganisation becoming effective.

(d) Change of company name

The Board also proposes that the Company changes its name to "China Land Group Limited" and adopts a Chinese name of "中國置地集團有限公司", for identification purposes only, upon completion of the Group Reorganisation.

(e) Possible unconditional voluntary offer for the shares in Apex ("Apex Offer")

Subject to (1) the Group Reorganisation being implemented in full and (2) the approval by the independent shareholders of Ananda Wing On of the possible major and connected transactions for Ananda Wing On as a result of making of the Apex Offer, Tai Fook Securities Company Limited, on behalf of Millennium Target (a wholly owned subsidiary of Ananda Wing On), will make a general offer to acquire from all the shareholders of Apex the Apex Shares, other than those then owned by Millennium Target and parties acting in concert with it, at HK\$0.26 per Apex Share.

(f) Possible conditional mandatory offer for the shares in the Company (the "Rosedale Offer")

The Board has been informed by Ananda Wing On that it has entered into an agreement (the "Rosedale Share Sale Agreement") with Velocity on 9th July, 2003 pursuant to which and subject to, inter alia, the implementation of the Group Reorganisation in full, Velocity agreed to acquire 1,366,666,666 Shares (equivalent to 136,666,666 Consolidated Shares) from Ananda Wing On, which Shares represent approximately 49.3% of the then issued share capital of the Company, for HK\$88 million, equivalent to about HK\$0.0644 per Share (or HK\$0.644 per Consolidated Share).

Subject to the completion of the Rosedale Share Sale Agreement, Kingston Securities Limited will, on behalf of Velocity, make a conditional cash offer to acquire all Consolidated Shares not already held by Velocity and parties acting in concert with it at HK\$0.644 per Consolidated Share, which Consolidated Shares will be acquired ex entitlement to the distribution in specie of the Apex Shares under the Group Reorganisation.

Details of the Proposed Transactions have been set out in the joint announcement of the Company, Ananda Wing On, Millennium Target, Velocity and Apex dated 8th August, 2003.

Liquidity and financial resources

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

From 31st December, 2002 to 30th June, 2003, short-term borrowings increased from approximately HK\$30 million to HK\$165 million and long-term borrowings decreased from approximately HK\$979 million to HK\$852 million. Total borrowings amounted to HK\$1,017 million as at 30th June, 2003, representing a slight increase of 0.8% over total borrowings of HK\$1,009 million on 31st December, 2002. These borrowings were mainly deployed for acquisition of hotel business in 2002 and the property development projects.

As at 30th June, 2003, approximately 93% of the Group's borrowings bear interest at floating rates, 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 and currency swaps or other financial activities. As at 30th June, 2003, the Group did not have any committed borrowings 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 and hotel business.

The Group's borrowings are repayable as follows:

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|---|-------------|
| Within one year | 16% |
| More than one year, not exceeding two years | 17% |
| More than two years, not exceeding five years | 45% |
| More than five years | 22% |
| | <hr/> |
| | 100% |
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Over the period, the Group's gearing ratio increased to 1.09 (31.12.2002: 1.03), which is calculated based on long term borrowings of HK\$852 million and total shareholders' funds of HK\$784 million. Cash and cash equivalents decreased from approximately HK\$57 million to approximately HK\$19 million. Most of the Group's 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 business in the areas of the currencies concerned.

Contingent liabilities and pledge of assets

Details of contingent liabilities and pledge of assets of the Group are set out in notes 18 and 19 to the condensed financial statements respectively.

Employees and staff benefits

At 30th June, 2003, the Group had approximately 950 full-time employees in Hong Kong and the PRC. Remuneration package is determined with reference to their performance and the prevailing salary levels in the market. The Group also provides to employees training, provident funds and medical insurance cover.

Prospects and plans for the future

Subject to the completion of the Proposed Transactions, the Group will be split into the Rosedale Group that continues to operate those businesses principally related to property development and investment and the Apex Group comprising principally the hotel operations and other leisure-related businesses. The Shareholders could at their discretion retain their investments in both the Rosedale Group and the Apex Group or to accept the Rosedale Offer and/or the Apex Offer.