

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP REORGANISATION

On 2 January 2007, the Company's ultimate controlling party, Mexan Group Limited ("MGL") entered into a share sale agreement (the "Agreement") with Winland Wealth (BVI) Limited ("Winland Wealth"), pursuant to which Winland Wealth agreed to acquire 964,548,303 shares of Mexan Limited ("the Company") from MGL, representing approximately 73.58% of the existing issued share capital of the Company. Completion of the Agreement is subject to, inter alia, approval by independent shareholders of the Company of the special cash dividend and the group reorganisation (the "Group Reorganisation").

Pursuant to the Group Reorganisation, (i) the Company will continue to be a listed company, together with its subsidiaries (the "Remaining Group") will be carrying on the Group's business of hotel investment and operation (the "Remaining Business"); (ii) Inventive Limited ("Inventive") and its subsidiaries (the "Inventive Group") will be carrying on the businesses of the Group, including the Group's toll road operation and management as well as investment holding, other than the Remaining Business; and (iii) the shareholders will receive by way of distribution in specie the share of Inventive on the basis of one share of Inventive for each share of the Company held.

RESULTS

As resulted from the proposal of the disposal of Inventive Group, the results generated from the Remaining Group and the Inventive Group were represented as continuing operations and discontinued operations respectively.

Turnover of the Group for the year ended 31 March 2007 amounted to approximately HK\$239.3 million, representing an increase of 40% compared to last year. Turnover for the year under review included the turnover generated from continuing operations, i.e. the operation of Mexan Harbour Hotel (the "Hotel") of approximately HK\$79.4 million, while the turnover of the Hotel amounted to approximately HK\$75.7 million for last year. Turnover for the year under review also included the turnover of approximately HK\$159.8 million generated from discontinued operations, mainly from the turnover generated from the full year operation of the Ningbo Beilun Port Expressway (the "Expressway") of approximately HK\$159.7 million, while turnover from discontinued operations for last year mainly included the turnover generated from the operation of the Expressway for about 4 months from December 2005 to March 2006 (approximately HK\$41.5 million) and the property rental generated from Elizabeth House for about 8 months from April 2005 to November 2005 (approximately HK\$53.3 million). In December 2005, the Group completed a very substantial acquisition to acquire the remaining 55.1% equity interest in Ningbo Beilun Port Expressway Company Limited ("Beilun Company") and in November 2005, the Group completed a very substantial disposal to dispose Winsworld Properties Limited, the owner of an investment property in Elizabeth House at the date of disposal.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS (continued)

The Group recorded a loss of approximately HK\$92.3 million for the year ended 31 March 2007, which comprised of the loss of approximately HK\$46.2 million generated from continuing operations and the loss of approximately HK\$46.1 million generated from discontinued operations. The loss of approximately HK\$108.9 million for last year comprised of the loss of approximately HK\$42.8 million generated from continuing operations and the loss of approximately HK\$66.1 million generated from discontinued operations. The loss was reduced as there was a cost on the disposal of the property investment operation last year whilst no such cost was incurred in the year under review.

BUSINESS REVIEW

Mexan Harbour Hotel, an 800-room four-star hotel in Tsing Yi, maintained an average occupancy rate of approximately 89% for the year under review, while according to the figure provided by the Census and Statistics Department, the average hotel accommodation occupancy rate is approximately 87% in the year 2006. There was an increase of approximately 5% in turnover generated from the Hotel compared with last year.

The Group, through its wholly-owned subsidiary, Beilun Company, owns the operating right of Ningbo Beilun Port Expressway. Ningbo Beilun Port Expressway is an important route that connects Beilun Port (a major natural deep water port) to the prosperous regions in Zhejiang including Hangzhou, Wenzhou and Taizhou. Beilun Company contributed a significant amount of turnover for the year under review as full year operation was accounted for. However, the interest expenses recorded in Beilun Company during the current year amounted to approximately HK\$96.8 million, which also caused significant impact to the results.

OUTLOOK

On 12 April 2007, the Group completed the Group Reorganisation. The Group will be carrying on the business of hotel investment and operation.

Tourism sector is foreseen to flourish by the approaching events, such as (i) the completion of the revamp and expansion plans of Ocean Park by phases; (ii) the 2008 Olympic Games in Beijing, with the equestrian events to be hosted in Hong Kong, and with more to come. We anticipate that these new tourist attractions will stimulate demands in hotel rooms and we are optimistic on the hotel business.

Looking forward, the current management will regularly conduct review of the Group's financial position and business activities in order to formulate its business and strategic development plans and continue to explore further suitable investment opportunities for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL INFORMATION

During the year under review, cashflow of the Group was mainly generated from business operations. As at 31 March 2007, the Group's total borrowings amounted to approximately HK\$2,068 million compared with approximately HK\$2,012 million as at 31 March 2006. The increase of the Group's total borrowings was due to the appreciation of RMB in RMB denominated borrowings when converted into HKD.

As at 31 March 2007, cash and bank balances amounted to approximately HK\$53 million, together with cash deposited with a securities firm of approximately HK\$84 million compared with cash and bank balances of approximately HK\$20 million, and cash deposited with a securities firm of approximately HK\$82 million last year. The Group's net assets as at 31 March 2007 amounted to approximately HK\$1,202 million compared with approximately HK\$1,260 million last year.

Gearing ratio of the Group which is expressed as a percentage of total borrowings to equity attributable to equity holders of the Company was approximately 172% as at 31 March 2007 compared to approximately 160% as at 31 March 2006. Net gearing ratio of the Group which is expressed as a percentage of net borrowings (total borrowings less cash and bank balance) to equity attributable to equity holders of the Company was approximately 168% compared with approximately 158% last year.

Of the Group's total borrowings as at 31 March 2007, approximately HK\$54 million (2.6%) would be due within one year, approximately HK\$160 million (7.8%) would be due in more than one year but not exceeding two years, approximately HK\$553 million (26.7%) would be due in more than two years but not exceeding five years and the remaining balance of approximately HK\$1,301 million (62.9%) would be due after five years.

The borrowings were denominated in HKD and RMB. Approximately HK\$1,629 million (78.8%) was denominated in RMB and approximately HK\$439 million (21.2%) was denominated in HKD. An amount of approximately HK\$59 million out of the total borrowings of approximately HK\$2,068 million bears a fixed interest rate.

The above borrowings of approximately HK\$439 million for continuing operations, including bank borrowings and other borrowings, were secured by the hotel property, corporate guarantee from the Company and Winland Wealth's director's and related parties' guarantees.

The above bank borrowings of approximately HK\$1,629 million for discontinued operations were secured by the operating right of the Ningbo Beilun Port Expressway and guarantee from a related company of Mr. Lau Kan Shan (executive director of the Company as at 31 March 2007).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL INFORMATION (continued)

Subsequent to the year end, the Group refinanced its borrowings for continuing operations with the existing bank to extinguish the original bank loans and other loan by (i) instalment loans of HK\$255 million repayable in monthly instalments over a period of 15 years and (ii) a revolving loan of HK\$177 million with a revolving period of one to three months. The new borrowings were secured by the hotel property and corporate guarantee from the Company.

TREASURY POLICIES

The Group generally financed its operations with internally generated resources and credit facilities. The bank deposits are mainly denominated in HKD and RMB.

FOREIGN EXCHANGE EXPOSURE

The Group has limited exposure to foreign exchange fluctuations as the Group's transactions including the borrowings are mainly recorded in the currency most connected with the Group's businesses in the countries concerned and the borrowings were balanced by assets in the same currencies.

In addition, the Group had not implemented major hedging or other alternative measures during the year ended 31 March 2007 as the foreign currency risk exposure was considered to be minimal. As at 31 March 2007, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivative.

EQUITY

Total equity of the Group as at 31 March 2007 was approximately HK\$1,202 million compared with approximately HK\$1,260 million last year. The reduction was resulted from the loss of approximately HK\$92 million incurred during the year, which is balanced off by the increase in exchange reserve of approximately HK\$34 million when RMB was converted into HKD in the financial statements of Beilun Company.

EMPLOYEE INFORMATION

As at 31 March 2007, the total number of employees of the Group was 296 (2006: 178). Remuneration packages are generally structured by reference to market terms and individual qualifications. The remuneration policies of the Group are normally reviewed on a periodical basis. The Group participates in pension schemes which cover all the eligible employees of the Group.

CONTINGENT LIABILITY

As at 31 March 2007, the Company had provided guarantees to a bank and Winland Wealth's related company in respect of loans granted to its subsidiary amounting to approximately HK\$380,207,000 and approximately HK\$59,413,000 respectively.