Financial Review

Turnover of the Group for the year ended 31 March 2006 was approximately HK$39,962,000 (2005: HK$24,735,000), an increase of 62% over last year. The increase in fair value of the Group's investment properties and the operating profit from leasing of investment properties were largely offset by the loss from consumer finance business, resulting in a profit after tax of approximately HK$3,861,000 (2005 (restated): HK$27,083,000).

Liquidity and Capital Resources

As at 31 March 2006, the Group had secured mortgage borrowings of HK$164,580,000 (31 March 2005: HK$177,992,000) which bear interest with reference to HIBOR (Hong Kong Interbank Offered Rate) or the best lending rate offered by the Group's principal bank and will be repayable by instalments till 2013. The Group has other secured banking facilities of HK$116,000,000 (31 March 2005: HK66,000,000) granted by several banks in Hong Kong, which were secured by the investment properties, pledged deposits of approximately US$2,597,000 plus its interest thereupon, a floating charge over the assets of a subsidiary of the Company, and a corporate guarantee and certain properties of related companies. All these banking facilities bear interest with reference to the HIBOR and were utilized up to HK$48,500,000 as at 31 March 2006 (31 March 2005: HK$Nil).

As at 31 March 2006, the Group had amounts due to a related company in the principal amount of HK$20,000,000 and RMB5,000,000 respectively (31 March 2005: HK$Nil), which bear interest with reference to the best lending rates offered by the Group's principal banks, and are unsecured and repayable in 2006. Besides, the Group had amounts due to minority shareholders in the principal amount of RMB15,000,000 and HK$3,000,000 respectively (31 March 2005: HK$Nil), which bear interest with reference to the best lending rates offered by the Group's principal banks, and are unsecured and repayable in 2006 and 2007 respectively. At present, the Group has not used any derivative to hedge against the interest rate risk exposure.

On 5 August 2004, the Company issued convertible notes with a nominal value of $70,000,000 to a related company with a maturity date on 5 August 2007. The notes are interest free and may be converted into ordinary shares of the Company at a conversion price of $0.17 per ordinary share, subject to adjustment upon the occurrence of certain events. Upon full conversion, the notes shall be converted into 411,764,705 ordinary shares of the Company.

On 31 December 2004, the Company issued convertible notes with a nominal value of $30,000,000 to another related company with a maturity date on 5 August 2007. The notes are interest free and may be converted into ordinary shares of the Company at a conversion price of $0.129 per ordinary share, subject to adjustment upon the occurrence of certain events. Upon full conversion, the notes shall be converted into 232,558,140 ordinary shares of the Company.

The convertible notes were split into liability and equity components. As at 31 March 2006, the liability component amounted to HK$88,904,000 (31 March 2005: HK$100,000,000).

As at 31 March 2006, the Group had maintained adequate liquidity with cash and bank balances of HK$26,292,000 (31 March 2005: HK$13,314,000). The gearing ratio as at 31 March 2006, measured as total liabilities to total assets, was 52.52% (31 March 2005 (restated): 49.09%).

The Group's transaction and monetary assets are principally denominated in Hong Kong dollars, United States dollars and Renminbi. The consumer finance services were all provided in the PRC and conducted in Renminbi. With relatively stable exchange rates of Renminbi to Hong Kong dollar and Hong Kong's linked exchange rate between United States dollar and Hong Kong dollar, the Group's exposure to foreign exchange risk remained low.

Charges on the Group's Assets

As at 31 March 2006, the bank loans and banking facilities granted to the Group were secured by:

(i) a legal charge over investment properties with an aggregate carrying value of HK$454,900,000 (31 March 2005: HK$415,000,000);

(ii) an assignment of the rental income derived therefrom;

(iii) a share charge of a subsidiary, Perfect Manor Limited, together with the subordination of the Company's loans to Perfect Manor Limited;

(iv) floating charge over assets of Rongzhong Group Limited; and

(v) a fixed deposit of approximately US$2,597,000 plus accrued interest.

As at 31 March 2006, the guarantee facilities granted to the Group were secured by the security deposits in an aggregate amount of approximately HK$18,848,000 (31 March 2005: HK$Nil).

As at 31 March 2006, the bank loans and banking facilities granted to the Group's jointly controlled entity were secured by:

(i) the Group's 25% equity interest in the jointly controlled entity, Nanjing City Plaza Construction Co., Limited; and

(ii) the assignment of dividends, profits and other monies derived therefrom.

Contingent liabilities

At the balance sheet date, there were contingent liabilities in respect of the following:

(i) the Company has given a guarantee of US$3,750,000 (equivalent to approximately HK$29,250,000) in respect of banking facilities granted to a jointly controlled entity, the Group also pledged its attributable equity interests in its jointly controlled entities for such banking facilities;

(ii) the Company has given a guarantee to a bank to secure a bank loan;

(iii) during the current year, the Company entered into funding, allocation and distribution agreements in respect of a new bank loan of RMB148,977,000 (equivalent to approximately HK$143,247,000) borrowed by a jointly controlled entity.

Pursuant to such agreements, the Company has taken on the funding undertakings and buy-back undertakings, details of which were set out in the Company's circular dated 14 June 2005. All these undertakings are in aggregate subject to a maximum of 16.7% of the outstanding amounts and any other associated costs from time to time in respect of such loan, under which the Company will, pursuant to the agreements, purchase the residential units in the North Tower of Phase 1 of Nanjing International Center at RMB5,000 per square metre or, if required by the bank, arrange a refinancing facility; and

(iv) the Group has contingent liabilities of RMB142,397,000 (equivalent to approximately HK$136,920,000) in relation to the provision of the guarantee services in the PRC.