

Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 30 June 2006, the Group was principally engaged in property investment, manufacturing and trading of equipment and accessories for broadband and cable television. The subsidiary company in Zhuhai accumulated a loss of over RMB7 million since the investment was made in 2001. The management did not foresee any prospect of this business and disposed the subsidiary to a third party in January 2006.

TURNOVER

The total turnover for the year was approximately HK\$43 million, 100% contributed from the property segment.

GROSS PROFIT

The gross profit of the group was approximately HK\$2.1 million (2005: HK\$3.5 million).

NET LOSS

The Group's net loss for the year was approximately HK\$24 million (2005: net profit HK\$15.2 million).

INCREASE ON PROPERTY REVALUATION

On the closing date of this financial year, the Group's properties at Charity Plaza in Shanghai were valued at HK\$18.45 million, representing an increase of HK\$5.2 million.

LOSS ARISING FROM SETTLEMENT OF DISPUTE OVER THE PROPERTIES HELD FOR SALE

The dispute of the property held for sale by Welchem Development Limited, a subsidiary of the Group, was settled during the year, the loss represents amount written off the book value of such properties.

EXPENSES

Administrative and other operating expenses amounted to HK\$13,978,000 (2005: HK\$10,287,000). The increase was mainly due to additional legal and professional fees incurred for the resumption proposal, and obtained the legal title in respect of the ownership of the properties in Shanghai.

Total finance costs were HK\$10,092,000 (2005: HK\$8,734,000). The increase in amount was mainly due to the increase in interest rates during the year.

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REVERSAL OF PROVISIONS

Provision of HK\$5 million was made in 2004 in respect of a guarantee issued in connection with a purchase made by a former related company. No claim was received in the past two years.

Provision of HK\$5.8 million was made in 2005 in respect of an indemnity which was granted in respect of liabilities of a former subsidiary. An opinion was obtained from the Company's lawyer that the Group has no obligation to pay such indemnity.

The directors are in the opinion of that the above two provisions are no longer required and reversed in this financial year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2006, the gearing rate of the Group increased to 315% (2005:264%). It was computed on the basis of the aggregate interest bearing loans, which comprise short and long term loans, divided by the amount of shareholders' equity.

As at 30 June 2006, the Group had short-term loan approximately amounted to HK\$1.5 million (2005: HK\$19 million) and long-term borrowings amounted to HK\$21.4 million (2005: HK\$66 million). The loans were charged with interests at prevailing commercial lending rates.

All of the Group's bank balances and borrowings were denominated in Hong Kong dollars.

CHARGE ON GROUP ASSETS

As at 30 June 2006, the Group has no property pledged to any financial institutions.

WORKING CAPITAL

After the disposal of the properties in Hong Kong and in Shanghai, the Directors are in the opinion that the Group has sufficient working capital to meet its working capital requirements for coming two years.

STAFF POLICY

There was no change on the staff policy during the year under review. A comprehensive and competitive remuneration retirement scheme and benefits package has been provided to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contribution. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance, for its employees in Hong Kong.