

# Management Discussion and Review

## FINANCIAL REVIEW

For the year ended 30th June, 2005, the Group's turnover was approximately HK\$29.25 million (2004: HK\$11.26 million), representing an increase of 160% as compared with last year's turnover. An upsurge in turnover generated from the Group's investments and financial services was the prime contributor to the increase.

The loss attributable to shareholders of the Group for the year ended 30th June, 2005 decreased by HK\$60.6 million, or approximately 55.4%, to approximately HK\$48.71 million (2004: HK\$109.31 million) as compared with previous financial year. The remarkable reduction in loss in current year was resulted mainly from decrease in impairment loss on investment securities, reduction in administrative expenses, decrease in allowance for short-term loans receivable and reduction in provision for trade and other receivables.

## BUSINESS REVIEW

As part of the business rationalization and the Group's strategies in further strengthening its cash position, its portfolio of investments in securities was gradually reduced during the year under review. Due to lower than expected market liquidity of some of the listed share investments in the portfolio, the gradual but continuing disposals of these listed shares investments would inevitably put pressure on the market prices, which led to disposals below the respective carrying values. This was reflected by the widening of gross loss during the year despite an increase in turnover.

During the year under review, favourable financial market sentiments continued to prevail in Hong Kong generally, and as planned, the Group had continued the fostering of business activities in investment and financial services, while a prudent approach was adopted in operating other core business segments, for the sake of stiff competitions encountered. Hence, little or no turnover was recorded for these other core business segments, namely, (1) distribution and trading; (2) provision of website, advertising and design services; (3) provision of travel agency services; (4) provision of entertainment services; and (5) provision of telecommunications services.

The Group had implemented successful cost control measures during the year under review, which contributed a remarkable reduction in administrative expenses by HK\$10.44 million, representing a decrease of almost 61% to HK\$6.75 million (2004: HK\$17.19 million).

# Management Discussion and Review

## **(1) Distribution and trading**

Following the signing of the distribution agreement on lubricant oil additives in February 2005, the Group has been actively developing the marketing channels in both Hong Kong and in mainland China. Some trial orders were received and positive feedbacks were obtained from various customers.

## **(2) Website, advertising and design services**

The rapidly changing market conditions confirmed the Group's strategy of limiting unnecessary capital investments in this segment. To reduce initial setup costs, the Group had been seeking viable proposals to team up with established business partners possessing strong technical capabilities.

## **(3) Travel agency services**

Stiff competitions in travel agency market continued to make this sector unattractive. The Group has been making extra cautions in evaluating any further investments in this sector.

## **(4) Investment and financial services**

Liquidating non-performing share investments, even though below carrying costs, had been fostering the Group's cash position, which rendered the Group to become financially capable of grasping emerging business opportunities in a timely manner. This could be beneficially to the Group in the longer term.

The money lending business of the Group was generating reliable and stable interest income. Strict credit evaluation on potential customers had been conducted to limit the Group's financial risks. Where circumstances warrant, tangible security was sought from respective borrowers to bring additional protection to the Group.

## **(5) Entertainment services**

Keen competitions in this section had confined the Group's interests in investing in this sector, unless business risks could be mitigated by teaming up with established business partners, hence, the Group had been exploring business proposals only with those well established partners who had been actively involved in this line of business.

## **(6) Telecommunication services**

Given the capital intensive nature, the Group was extremely prudent in exploring business opportunities in this sector.

# Management Discussion and Review

## FUTURE PROSPECTS

The Group will concentrate on further developing the sale of lubricant oil additives to corporate customers operating fleets of transportation vehicles and vessels. With the continuous supports from the American lubricant oil additives manufacturer, the tapping of the vast market in mainland China looks rather promising.

The Group will continue to explore other tradable products, yet extra cautions will be taken in screening and evaluating new projects. Priority will be given to those products that can quickly bring in positive cashflow but without the need for the Group to commit huge marketing costs on them.

Resources will continue to pool towards the expansion of the Group's money lending business which provides a stable and constant stream of interest income. Priority will be given to old customers with sound repayment track records and those other borrowers who can offer tangible security.

Rationalization and re-shuffle of the share investment portfolio will continue and coupled with the on-going cost control measures, the Group's financial positions and cost-competitiveness will be further strengthened.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains its adequate financial position with cash and cash equivalents of approximately HK\$12.44 million (30th June, 2004: HK\$6.82 million). The Group is basically debt-free and at a net cash position.

As at 30th June, 2005, the Group had a net current assets of approximately HK\$15.71 million (30th June, 2004: HK\$38.51 million). The shareholders' equity was approximately HK\$20.11 million (30th June, 2004: HK\$68.81 million) and there is no outstanding bank loan and other borrowings, and accordingly the gearing ratio was zero (30th June, 2004: zero).

## FINAL DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 30th June, 2005.

# Management Discussion and Review

## CONTINGENT LIABILITIES

On 10th November, 2000, the Company was named as a defendant in a legal action in which a claim was made against the Company for failure to pay, as the guarantor, an amount of approximately HK\$5,996,000 and interest thereon. In January 2003, the Company's lawyers had sought discovery of the original copies of the relevant documents from the plaintiff and yet the plaintiff had failed to respond or furnish any of the requested documents. The plaintiff had since then not taken any further steps to activate the proceedings which had then become dormant for over a year. In July 2004, the Company was informed by the plaintiff of its decision of re-activating the proceedings. The directors after seeking legal advice had decided to make a provision of HK\$5,996,000 for potential liability during the year ended 30th June, 2004. The Company during the year applied for an order to strike out the proceedings. Subsequent to the year end date, the application for striking out was dismissed and the legal case will go for trial.

## EMPLOYMENT AND REMUNERATION POLICIES

As at 30th June, 2005, the Group employed approximately 7 employees. The Directors of the Group reviewed remuneration policies regularly. The Remuneration Committee was established after the year end date to review remuneration policies and packages. The structure of the remuneration packages would take into account the level and composition of pay and the general market conditions in the respective countries and businesses.

## CORPORATE GOVERNANCE

A separate and detailed statement on the Company's corporate governance practices is included under the heading "Corporate Governance Report".

## SHARE OPTION SCHEME

The Company has a share option scheme to enable the directors of the Company to grant options to eligible employees, including executive directors, of the Company and its subsidiaries to subscribe for shares in the Company. No share options were granted during the year and there are no share options outstanding as at 30th June, 2005.