

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's net profit for the year ended 30 June 2005 decreased to approximately HK\$2.2 million compared to approximately HK\$22.8 million for the last year representing a decrease of 90.5%.

The turnover of the Group for the year ended 30 June 2005 decreased to approximately HK\$70.9 million compared to approximately HK\$136.9 million for the last year, representing a decrease of approximately 48.2%. The decrease is attributable to several months suspension of service of the cruise ship and change of route of the cruise ship and change of mode of business from operating the cruise ship to licensing it.

The gross profit of the Group for the year ended 30 June 2005 decreased to approximately HK\$27.9 million compared to approximately HK\$72.0 million for the last year, representing a decrease of approximately 61.3%. The drop in gross profit is generally in line with the decrease in turnover. The gross profit margin of the Group for the year ended 30 June 2005 decreased to approximately 39.3% compared to 52.6% for the last year, representing approximately 25.2% decrease. The decrease is mainly attributable to fixed overhead (including depreciation of the cruise ship) which continue to incur during the months when the service of the cruise ship was suspended.

The general and administration expenses of the Group for the year ended 30 June 2005 decreased to approximately HK\$18.1 million compared to approximately HK\$20.0 million for the last year, representing a decrease of approximately 9.5%.

The finance costs of the Group for the year ended 30 June 2005 increased by approximately 73.43% to approximately HK\$0.9 million compared to HK\$0.5 million for the last year. The change reflects the full year effect of the Floating Rate Notes (as described in the next paragraph) in the year under review as compared to the about five months effect in the preceding year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2005, net current liabilities and net assets of the Group amounted to approximately HK\$8.0 million (2004: net current asset HK\$43.6 million) and approximately HK\$174.7 million (2004: HK\$172.5 million) respectively. As at 30 June 2005, the Group had cash and cash equivalents amounted to approximately HK\$1.3 million (2004: HK\$20.8 million). The current ratio of the Group as at 30 June 2005 was approximately 74% (2004: 242%).

On 20 January 2004, the Company issued Secured Guaranteed Floating Rate Notes due 2006 in the principal amount of US\$10,000,000 (the "Floating Rate Notes"). The Floating Rate Notes carry interest at the rate equivalent to LIBOR for deposits in US Dollars for one month plus a margin of 1.5% per annum and are repayable on 20 January 2006. As at 30 June 2005, the outstanding principal amount of the Floating Rate Notes was US\$2,112,500. The Floating Rate Notes are guaranteed by certain executive directors of the Company and are also secured by certain assets of the Group as detailed in note 22 of notes to the accompanying financial statements.

The gearing ratio, which is found by dividing the financial indebtedness by the shareholders' equity, reduced from approximately 18.3% as at 30 June 2004 to 9.4% as at 30 June 2005. The improvement in the gearing ratio was mainly due to the decrease in the outstanding balance of the Floating Rate Notes.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES *(continued)*

As at 30 June 2005, the Company had 409,222,500 shares in issue with total shareholders' funds of the Group amounting of approximately HK\$174.7 million (2004: HK\$172.5 million).

With respect to foreign exchange exposure, as the Group's earnings are primarily denominated in Renminbi and the exchange fluctuation between Renminbi and Hong Kong dollar was not material during the period under review, the Group has no significant exposure to foreign exchange rate fluctuations.

There were no significant capital commitments as at 30 June 2005 which would require a substantial use of the Group's present cash resources or external funding.

During the year ended 30 June 2005, the Group has not used any financial instruments for hedging purpose.

CONTINGENT LIABILITIES

As at 30 June 2005, the Group and the Company did not have any significant contingent liabilities.

HUMAN RESOURCES

As at 30 June 2005, the Group employed 8 (2004: 356) full time employees, of which none (2004: 343) was based in Mainland China. The headcount of the Group drops significantly as the Group has changed from operating the cruise ship to licensing it to a business partner. The remuneration of the employees is based on their duties, performance, experience and prevailing industry practices.

DISPOSAL OF SUBSIDIARIES

The Group have not acquired nor disposed of any of its subsidiaries and associated companies during the year ended 30 June 2005.

BANKING FACILITIES

As at 30 June 2005, the Group had no outstanding banking facilities.