

MANAGEMENT DISCUSSION AND ANALYSIS AND BUSINESS OUTLOOK

04

BUSINESS REVIEW AND OUTLOOK

The management has completed its program to restructure the Group's business activities during the year with an aim to enhance the Group's earning potential. As a result, the online and telecommunication operations, general trading, financial advisory services, securities and property investment activities were discontinued. Starting from the year, the management puts the Group's resources in the property development operations. The change of name of the Company signals the primary business focus of the Group into the property development and related businesses.

During the year, the Group has recorded a loss from operation of HK\$4.8 million which was narrowed down from the loss of HK\$47.5 million in the year 2004. The streamlining program undertaken by the directors in the year has put an end to the loss-producing operations which had led to a loss of HK\$2.2 million. During the year, the Group was contracted as a project manager in two property development projects in Guangzhou. Yet the operation of this new business has not reflected a full year extent in the profit and loss account of the year, the management believes the operating performance in the coming year will turn around.

The Company's investment in the development project in the North Tianhe District of Guangzhou in December 2005 marks the commencement of the new business focus. The Group keeps aggressively looking for business opportunities in property development. The Group will focus on developing properties mainly in the premiere grade property niche market in Guangzhou. Adhering to a prudent land reserve strategy emphasizing quality, the management will consider purchasing premium quality land in the Guangzhou city or, if appropriate, other suitable regions in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

Capital structure and liquidity

Due to the placing and rights issue of shares during the year which has brought about a net proceed of HK\$165 million in cash, the Group's liquidity position has been strengthened with a bank balance of HK\$83.7 million at the balance sheet date. The current assets and current liabilities of the Group were HK\$84.2 million and HK\$1.8 million respectively such that the current ratio rose from 1.2:1 as at 31 December 2004 to 45.8:1 at the current year-end date. This was accompanied with a decrease in the Group's gearing ratio (the ratio of total liabilities over total assets) from 41.9% to 23.1%.

The Group's liabilities mainly consist of a convertible note in a principal amount of HK\$60 million that was fully converted into shares subsequent to the balance sheet date on 20 February 2006. The conversion leads the Group virtually with a minimal liability position. Taking into the effect of the conversion, the proforma gearing ratio becomes 0.74%.

Bank borrowings and pledge of assets

As at 31 December 2005, the Group had pledged its 49% shares of Yaubond Limited, an associate of the Group engaged in the property development business in Guangzhou, the PRC, to secure for the warranties given by the Group for the appointment of a subsidiary of the Group as the property project manager by Yaubond Limited. The Group had no bank borrowing as at 31 December 2005.

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FOREIGN CURRENCY MANAGEMENT

The Group's major investment is the interest in an associate operating in the PRC, which is engaged in property development activities. The Group also contracts with suppliers for goods and services that are denominated in Renminbi. The Group does not hedge its foreign currency risks as the rate of exchange between Hong Kong dollar and Renminbi is controlled within a narrow range. However, any permanent changes in foreign exchange rates in Renminbi may have an impact on the Group's results.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2005.

MATERIAL ACQUISITION DURING THE YEAR UNDER REVIEW

On 16 December 2005, the Group completed a transaction to acquire a 49% equity interest in a company, Yaubond Limited ("Yaubond"), together with the shareholders' loan advanced to Yaubond (the "Acquisition") for a total consideration of approximately HK\$166 million. The terms of the Acquisition were determined after arm's length negotiations and were concluded on normal commercial terms. Yaubond's subsidiary owns a piece of land which has a site area of approximately 7,217 square metres and is engaged in property project development in Guangzhou, the PRC. The Group is obliged to provide shareholder loan for Yaubond and its subsidiary to finance the need for the property development project. Full details of the Acquisition are contained in the Company's announcement dated 5 October 2005 and the Company's circular dated 8 November 2005.

EMPLOYEES

As at 31 December 2005, including 4 executive directors, the Group employed 22 employees in Hong Kong and the PRC. The Group's staff costs amounted to approximately HK\$3.9 million for the year ended 31 December 2005. Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions.