

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION

The Group continued to hold commercial properties for rental income and invest in debt securities for interest income during the year. The Group's turnover for the year ended 31 March 2006 amounted to HK\$125.1 million (2005: HK\$100.3 million), an increase of 24.7% from last year. The increase was due to the increase in rental income and securities trading activities during the year.

The Group's gross rental income for the year ended 31 March 2006 amounted to HK\$37.6 million (2005: HK\$30.6 million), an increase of 22.9% from last year. The increase was due to the full year contribution of rental income from the purchase of the property at Shop F, Burlington House, Tsimshatsui last year, and the upward revision of rental for the Group's shops and office properties upon lease renewal during the year. The Group's share of gross rental income from an associate amounted to HK\$10.6 million (2005: HK\$9.4 million), an increase of 13.4% from last year. The Group's rental portfolio continued to achieve a high average occupancy rate of 98% during the year.

The Group's sale of debt securities and listed shares for the year ended 31 March 2006 amounted to HK\$87.2 million (2005: HK\$69.6 million), an increase of 25.4% from last year. The Group held a total of HK\$29.9 million in debt securities investments at 31 March 2006, a decrease of HK\$35.5 million from last year. The investments were denominated in U.S. currency, and focused on quality corporate and banking bonds with high coupon rate. The Group did not hold any investment in listed shares at 31 March 2006.

RESULTS

The Group's profit for the year ended 31 March 2006 amounted to HK\$129.9 million (2005: HK\$424.2 million), a decrease of 69.4% from last year. The decrease was due primarily to the less increase in the fair value of investment properties of the Group and its associate upon revaluation at the balance sheet date compared with those of last year. The other factors for the decrease in the profit for the year included higher interest expense and the gain on disposal of investment properties recorded last year, alleviated by higher rental income and lower deferred tax provision for the year. The Group's share of results of associates after taxation amounted to HK\$29.7 million (2005: HK\$95.2 million), a decrease of 68.8% from last year. The decrease was due to the less increase in the fair value of investment properties of an associate upon revaluation at the balance sheet date compared with those of last year.

Earnings per share for the year ended 31 March 2006 were HK\$0.42 (2005: HK\$1.38). The proposed final dividend of HK2.3 cents (2005: HK2.0 cents) per share will make a total distribution of interim and final dividends of HK3.8 cents (2005: HK3.2 cents) per share for the full year, an increase of HK0.6 cent from last year.

BANK BORROWINGS AND FINANCE COSTS

At 31 March 2006, the Group's banking facilities amounting to HK\$312.2 million (2005: HK\$329.3 million) were fully secured by its investment properties with an aggregate carrying value amounting to HK\$845.6 million (2005: HK\$896.7 million). At 31 March 2006, these facilities were utilised to the extent of HK\$169.6 million (2005: HK\$171.8 million).

MANAGEMENT DISCUSSION AND ANALYSIS

At 31 March 2006, the total amount of outstanding bank borrowings net of time deposits, bank balances and cash of HK\$23.9 million were HK\$145.7 million (2005: HK\$159.2 million), a decrease of HK\$13.5 million from last year. The decrease was due to the use of proceeds from the sale of investments in securities to repay part of the bank borrowings during the year. The gearing ratio, which is the ratio of net bank borrowings to shareholders' funds, was still at a low level of 11.5% (2005: 13.9%).

Of the total bank loans at 31 March 2006, 0.1% are repayable within one year, 97.3% are repayable after one year but within five years and 2.6% are repayable after five years.

The Group's finance costs for the year ended 31 March 2006 were HK\$5.6 million (2005: HK\$1.8 million), an increase of HK\$3.8 million from last year. The increase was due to the financing at higher average level of bank borrowings amid higher market interest rate during the year.

SHAREHOLDERS' FUNDS

At 31 March 2006, the Group's shareholders' funds amounted to HK\$1,267.1 million (2005: HK\$1,147.9 million), an increase of 10.4% from last year. The net asset value per share was HK\$4.12 (2005: HK\$3.73). The increase in shareholders' funds was due to the increase in the fair value of the Group's investment properties upon revaluation at the balance sheet date.

RISKS OF FLUCTUATIONS IN EXCHANGE RATE AND INTEREST RATE

Over 95% of the Group's bank borrowings are denominated in Hong Kong dollars and are secured by the properties in Hong Kong. The remaining bank borrowings are denominated in Canadian dollars and are secured by the properties in Canada. Only the equity portion of the Canadian properties is subject to exchange rate risk. The amount involved is 1% of the Group's net assets.

Most of the Group's bank borrowings are revolving loans with floating interest rate based on HIBOR. Since the Group's gearing ratio is low, the interest rate risk associated with the bank borrowings is not substantial.

The investments in debt securities are denominated in U.S. dollars. Since the exchange rate of the Hong Kong currency is pegged against the U.S. currency, the exchange rate risk of these investments is minimal. However they are subject to interest rate risk. To minimise the interest rate risk, the Group invests in those securities with short to medium maturity period and high coupon rate. The quality and liquidity of the investments are also considered in the Group's investment decisions with market monitoring on a daily basis.

EMPLOYEES AND REMUNERATION POLICY

At 31 March 2006, the total number of staff of the Group was 11 (2005: 11). The total staff costs including Directors' emoluments amounted to HK\$7.5 million (2005: HK\$6.9 million).

The Group reviews staff remuneration annually. The review is based on individual performance and merit.