Management Discussion and Analysis

FINANCIAL REVIEW

For the year under review, the turnover of the Group was approximately HK$10.6 million (2005: HK$67.1 million) representing a reduction of 84.2% comparing to the last year.

The net loss attributable to shareholders of the Group was HK$15.3 million comparing to last year's loss of HK$11.6 million. Net loss per share for the year was 2.28 cents (2005: 1.73 cents). The increase in net loss was a result of

a) reduction in trading volume which correspondingly brings in less gross profit; and

b) an one-off written off of the impairment loss in respect of goodwill for HK$8.5 million.

In fact, excluding the one-off written off of the impairment loss in respect of goodwill, the Group has improved its operating results. Due to the selection of orders in logs trading, the Group managed to achieve a slight improvement in gross profit margin from 9.6% in 2005 to 10.3% in 2006. Substantial reduction has also been achieved in both the administrative expenses (HK$7.3 million in 2006 vs. HK$13.0 million in 2005) and other operating expenses (HK$0.5 million in 2006 vs. HK$5.1 million in 2005) through streamlining of operation, reduction of unnecessary headcount and the relocation of principal place of business in Hong Kong.

REVIEW OF OPERATION

Due to the negative sentiment widely spread in the world following the successive 14 times interest rate hike by the Federal Reserve Bank of the United States and the politically instability that lead to the fluctuation and in general upward trend of the oil and gasoline prices, the Group's performance has been suffered.

The reduction in turnover was a result of the Group's move in reconsidering the appropriate strategy with respect to the trading of timber business and/or expanding further to grasp a bigger market share and in achieving an economy of scale.

Vertical or horizontal integrations through acquiring the rights in the upstream operations and the getting of additional suppliers had not been realised.

The acquiring of the upstream operations, i.e. the rights of logging operations either in Asia or Africa had subsequently been discarded due to

a) the inability to recruit suitable staff in supervising the operations of trimming sector, in particular, the language barrier;

REVIEW OF OPERATION (Continued)

b) the unclear title right as to the ownership and the other legal and political factors that may lead to the change/cancellation of the title right; and

c) the continuous pooling of fund to support the operations, especially during the rainy season, may worsen the Group's financial position.

With the fluctuation and in general upsurge in the oil and gasoline prices which in turn causes the increase in freight charges, the profit margin generated from the trading of logs from Africa to the People's Republic of China (the "PRC") is very fluctuating. The situation is getting worse during the latter part of the year not to mention the subsequent much undermined profit margin due to the slowdown of the property market in the PRC. These, together with

a) the requirement to pay a higher unit price over the logs in view of the increasing production costs, i.e. costs of repair & maintenance of trucks incurred by the supplier;

b) the requirement to place additional number of personnel to the forest so as to monitor and to get the priority in getting the logs and to provide a larger amount of deposits to finance the supplier's operation due to the construction of roads leading to the inner part of the forest for trimming; and

c) the unstable supply of logs and poor transportation caused by the rainy season,

had made the Board decided to take back the said deposits from the supplier and would transact the logs on an ad hoc basis with consideration paid after each deal.

In view of the slowdown of the property market both in Hong Kong and the PRC due to the continuous increase in discount rate by the Federal Reserve Bank of the United States (thereby pushing Hong Kong banks to raise prime lending rate as well) and measures adopted by the PRC government to cool down the overheated and speculative PRC property market, the Group is adopting a prudent policy toward bidding for projects relating to the supply of fire-rated timber door sets. As such, the submission of bid for projects will be restricted to quality developers with good financial standing. Only a minimal turnover has thus been recorded during the year 2005/06 and the Board does not anticipate a jump in the operation in this area for the forthcoming years unless there are signs of recovery. Nonetheless, the Board is glad to mention that it has managed to recover the long overdue receivables brought forward from last year.

LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, in order to manage the risk associated with an uncertain market environment, the Group has continued its prudent financial management policy and maintains a sound financial position.

The financial position of the Group is even better than last year and ready for future expansion while keeping a sufficiently high level of cash and bank balances.

The liquidity of the Group has been improved since the second half of the financial year despite additional loss incurred and circa HK$10.0 million had been paid in the acquisition of land in Tuen Mun. This was due to the withdrawn of the deposits previously lodged for logs as the Group has preferred reassigning the fund for a more meaningful utilisation.

The Group continues to maintain a strong cash position. As at 31 March 2006, the Group had cash and bank balances amounted to approximately HK$30.0 million which was more than sufficient to pay off its normal engagement. Additionally, circa HK$5.0 million had been vested in equity investments, the readily available financial assets which would bring in both potential dividends and/or capital appreciation.

The Group was basically in a cash rich position with the liabilities restricted to current payables of HK$2.2 million (2005: HK$5.5 million). The Group's gearing ratio which is defined as total liabilities over equities is correspondingly low at 4.9% (2005: 9.3%). In fact, the Group was at a net cash position of HK$27.8 million (2005: HK$5.9 million) after charging the liabilities with the cash and bank balances and even the equity investments of HK$5 million has not been included.

The Group had a net current asset of HK$34.4 million (2005: HK$50.7 million) as at 31 March 2006. The current ratio, calculated on the basis of current assets divided by current liabilities of the Group was 16.6 (2005: 10.2) as at 31 March 2006.

The Group continues to adopt a conservative treasury policy with all bank deposits in Hong Kong dollars, keeping a minimum exposure to foreign exchange risks. As the majority of the inflow and outflow are both denominated in Hong Kong Dollars and the United States Dollars which are pegged together, the Group has not adopted any hedging policy or entered into any derivative products which are considered not necessary for the Group's treasury management activities.

As at 31 March 2006, the Group had provided corporate guarantee of HK$1.6 million (2005: HK$3.4 million) to certain financial institutions in connection with hire purchase contracts granted to certain disposed subsidiaries. Yet, this is counter-indemnified by the buyer of the disposed subsidiaries. The buyer has honoured all his obligations to the financial institutions up to the date of this report. Accordingly, no delinquent record was noted and none of the guarantees had been called.

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

Save for the potential commitment entered into on 30 March 2006 of the acquisition of 100% interest in Youngrich Limited (the "Youngrich") (see Very Substantial Acquisition below and announcement dated 6 April 2006) which is subjected to the shareholders' approval, the Group does not have any significant commitment as at 31 March 2006.

There is no change in the share capital structure of the Company during the year under review.

All in all, the liquidity continues to be healthy and the existing financial position can facilitate us to capitalise on future business opportunities and has sufficient working capital to meet its present and anticipated obligations.

VERY SUBSTANTIAL ACQUISITION

The Group has on 30 March 2006 entered into a conditional sale & purchase agreement for acquiring 100% interest in Youngrich which holds 49% of Worth Perfect International Limited (the "Worth Perfect"), a company that get "profit stream" from Sat Ieng Sociedade Unipessoal Limitada (the "Sat Ieng"), a licensed junket operator at the Sands Macao's Paiza Club gaming rooms. Total consideration is HK$539 million which is to be satisfied by

a) cash of HK$160 million;

b) a 10-year convertible bond of HK$134.4 million at 5% coupon rate with clause of pre-mature retirement possible; and

c) a 10-year promissory note of HK$244.6 million at 5% coupon rate with clause of pre-mature retirement possible.

More details about the deal including the opinion from the independent financial adviser would be provided in the circular to be dispatched to the shareholders in due course.

Some salient features of the deal are that,

a) it is an alternative type of "junket" operation which is more regulated, whereby the "junket operator" is responsible for "introducing" clients to the casino while the win/loss would be the sole responsibility of the casino (vs. the "traditional" type which have to pay a minimum to the concessionaire while bearing the risk of win/loss);

b) while acquiring effectively 49% of the profit stream of Worth Perfect which receives 0.4% rolling turnover of Sat Ieng provides a good investment opportunity for the Group in entering into the booming Macau gaming sector at a prudent manner - as a pure investment, not involving in the daily operation, not affected by the expenses and risk elements of being a junket operator;

VERY SUBSTANTIAL ACQUISITION (Continued)

c) the convertible bonds can be converted only starting the third year and at a rate of 10% of the convertible bonds (or 2% of the existing issued shares of the Company) per year. The dilution effect would be none in the first two years and carefully controlled in the subsequent years; and

d) translating the acquisition price to price earning multiple, the junket operation is acquired at a price earning multiple of circa 7.3 times for the first year and circa 4.4 times for the second year with the profit of which be guaranteed for the first two years (vs. the listed stocks of the same industry trading at higher than 30 times in the market).

Material capital expenditures will be incurred for the acquisition. The Board considers the acquisition a rare and commendable investment and is confident that the project paves the way for the Group in entering into the fast growing and highly rewarding Macau business sentiment. The Group expects the project can generate sufficient cashflow in meeting its obligation upon due.

EMPLOYMENT AND REMUNERATION POLICY

Due to the streamlining of the timber trading operation, as at 31 March 2006, the Group reduced the number of employees to 7 (2005: 15). Accordingly, the staff costs incurred were reduced to HK$3.7 million this year (2005: HK$6.2 million).

If the material acquisition has been approved by the shareholders at the forthcoming general meeting, the Board intends to recruit additional staff to look after the operation in ensuring the compliance of anti-money laundering and in keeping track on the operational performance of Sat Ieng.

The Group believes that the key to success lies in its people and would strive to create an environment that enables the staff in creating a sound of belongingness. The Group recruits individuals based on their competencies, merit and development potential. The Group's remuneration policies are formulated on the performance of individual employees, company performance, individual qualifications and performance and on the basis of the salaries trends and will be reviewed regularly. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded according to the assessment of individual performance for the purpose of providing competitive package and long term retention of management talents. However, no share option has yet been granted under the scheme up to date of this report.

Emphasis would also be placed on the provision of training and development opportunities.

FUTURE PROSPECTS

With the surplus fund on hand following the recovery of the long overdue receivables and the re-possession of the deposits previously paid for the timber operation, the Group has identified two investment opportunities, namely,

1) the acquisition of a piece of land in Tuen Mun. Although an impairment loss of HK$0.4 million was incurred in current financial year, the Board is still confident over its potential and prospect; and

2) the investment in Youngrich (see Very Substantial Acquisition above), the acquisition of which will bring in steady cashflow at a minimal risk. In fact, based on the financial information provided, the Board is confident in the profitability and cashflow position for the coming years and shareholders will be rewarded accordingly.

The investment in the Youngrich represents the very first step for the Group to see and evaluate whether additional resources would be allocated to the area and get the key to the rapidly growing economy in Macau.

In fact, the acquisition will position the Group to capture the high growth potentials of the Macau emerging market and strengthen the long term profitability. The move has facilitated the Group in entering into the Macau business circle in possibly gaining bids for the provision and installation of fire-rated timber door sets and the provision of interior decoration and renovation services from developers, either in the commercial, hotel or residential aspects of the Macau construction sector.

Nonetheless, the Group would continue the bidding of projects and the trading of logs but at a very prudent angle, i.e.

a) positive contribution to the Group's profit;

b) a reasonable profit margin; and

c) no or low risk on the recovery of receivables or of good standing customers (i.e. big developers or government).

On the operation aspect, the Group would continue to focus on stringent cost control, overhead reduction and efficiency enhancement. The directors will continue to closely monitor the Group's finance costs and improve the gearing ratio (if the Very Substantial Acquisition is approved) so as to enhance the Group's profitability and liquidity.

With the investments achieved or underwent, the management is fully confident in the competitive edge of its partner in Worth Perfect and hence, is optimistic about the future development and is confident that the Group will weather through the winter timing and achieve turnaround results in the coming years.

FUTURE PROSPECTS (Continued)

Meanwhile, we will continue to fine-tune the execution of these projects/policies in order to keep the Group's growing in the right direction. As a matter of self-monitoring, more and more internal controls will be deployed to regulate the growing process.

The year 2006/07 and the following couple of years will witness the Group's dramatic growth. The plan established is based on a self-financed model once it has been kicked off. We are fully confident of achieving the goals in the near future and thereafter our shareholders can enjoy the benefit of a rapid growing cash cow company.

INVESTOR RELATIONS

The Group recognises and appreciates the significance of communicating important information to shareholders and the investors community in a professional and timely manner.

It is the Group's management philosophy to maintain a high degree of transparency and to provide appropriate and prompt disclosure of the Group's corporate strategies and new business development.

The Groups would place great emphasis on providing clear information to investors regarding its business strategy and direction, the progress of its projects and the industry environment in which the Group operates.

The Group's financial and operational information will be disseminated in the annual and interim reports. Annual general meeting will provide a communication channel between the Board and the shareholders.

Senior management intends to regularly meet with research analysts and institutional investors, attend investors' conferences and participate in non-deals roadshows in both Hong Kong and overseas.

Site visits would be arranged when deem necessary for analysts and investors to fully understand our business.

Additionally, the Group is also building up its own web-site so as to ensure prompt information would be posted and delivered to the public. The domain name is www.teemfoundationgroup.com.