

## CHAIRMAN'S STATEMENT

### BUSINESS REVIEW

The Group's turnover for the year ended 31st March, 2006 was approximately HK\$842.3 million, representing an increase of 122% as compared with the comparative period of HK\$379.4 million. This substantial increase is mainly due to the expansion in the activity of securities investment, being part of the Group's strategy in short term treasury management, which contributed HK\$503.5 million to the Group's turnover during the year under review.

During the year, there was an increase in interest expense of HK\$29.3 million mainly due to the issue of convertible notes which interest expenses were calculated with reference to the effective interest rate on adoption of new accounting standard. An impairment loss for goodwill of HK\$21.9 million has been charged to the income statement. In addition, the Group has carried out a review of the recoverable amount of manufacturing plant and equipment used in medicine and health food segment which resulted in an impairment loss of HK\$25.9 million. As a result, the Group incurred a loss for the year of HK\$73.1 million. The loss per share for the current year was 17.2 cents.

### Property Development and Investment

During the year, the Group has been actively looking for investment opportunities in properties. In February 2006, the Group entered into an agreement to acquire the entire issued share capital of Everight Investment Limited ("Everight", together with its subsidiaries "Everight Group") and certain loan owed by Everight to a vendor for an aggregate consideration of HK\$140 million, which was to be satisfied as to HK\$80 million by cash and HK\$60 million by issue of convertible notes. Everight Group is principally engaged in operation of golf club, hotel, resorts and development and management of luxurious residential properties in Lotus Hill, Panyu, Guangdong and Yalong Bay, Sanya, Hainan. The acquisition enables the Group to diversify into the PRC property market and to develop luxurious residential properties in Guangzhou. In addition, the Group can further expand its investment portfolio into hotel and resort facilities. Furthermore, with golfing becoming a popular activity, the operation of golf club, hotel and resort facilities will provide the Group with an additional growing source of revenue. To facilitate the development of luxurious residential properties by Everight Group, in accordance with a shareholders' agreement of a non wholly-owned subsidiary of Everight, the Group agreed to provide a shareholder's loan for the first two years commencing from the date of the shareholders' agreement up to a maximum amount of HK\$80 million. The acquisition has been completed in June 2006.

In March 2006, the Group entered into an agreement to acquire 40% of the issued share capital of Orient Town Limited ("Orient Town", together with its subsidiaries "Orient Town Group") for a cash consideration of HK\$280, which principal asset is its indirect interest in 14 parcels of leased land in Estrada de Sac Pai Van, Macau. In addition, the Group agreed to advance a shareholder's loan of HK\$885 million to Orient Town in order to partially finance its indirect investment in the land. The chance of acquiring significant block of land in Macau at the current location does not come by very often, this acquisition enables the Group to diversify into the property market in Macau and to have an interest in a quality residential properties and service apartments development project of total gross saleable area of approximately 600,000 m<sup>2</sup>. The acquisition has been completed in June 2006.

There are 24 residential units and 1 commercial unit at Talon Tower on Connaught Road West remain unsold at 31st March, 2006.

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### Securities Investment

During the year, the Group has expanded its activity in securities investment with an aim to maximising the short term yield from the surplus cash balances. A net loss of HK\$3.4 million was reported for this segment. At the year end, the Group held investments held-for-trading in aggregate of HK\$9.0 million, all of which are shares listed in Hong Kong.

### Manufacture and Trading of Medicine and Health Food

Since Tung Fong Hung Investment Limited and Jean-Marie Pharmaco Company Limited (collectively the "Medicine Business") were acquired by the Group around end of April 2004, their results for the eleven months ended 31st March, 2005 had been accounted for by the Group in the comparative period. After taking into account this factor, as compared with the comparative period, the segment turnover for the year is HK\$324.8 million, increased by 10% from that of 2005. However, due to recognition of an impairment loss in respect of goodwill arising from acquisition of the Medicine Business of HK\$21.9 million and an aggregate impairment loss of HK\$25.9 million in respect of the manufacturing plant and equipment, this segment incurred a loss of HK\$30.5 million as compared with a profit of HK\$2.9 million for 2005.

## FINANCIAL REVIEW

During the year, the entire remaining principal of HK\$90 million of the 3-year convertible notes were converted into approximately 215.9 million shares in the Company. To strengthen its resources for expanding the activity in property investment, the Group has further issued 5-year convertible notes in August 2005 to raise HK\$1,000 million, which can be converted into shares of the Company at an initial conversion price of HK\$0.44 per share and repayable at the fifth anniversary from the issue date (or the next following business day if it is not a business day). Unless they are previously converted, redeemed or purchased and cancelled prior to their maturity, will be redeemed at 110% of their principal amount. In accordance with the new accounting standard adopted by the Group during the year, an amount of HK\$160.9 million representing the estimated equity component of the 5-year convertible notes was recorded to increase the reserve of the Group. As a result, after offsetting by the loss of HK\$73.1 million incurred for the year, the net asset value of the Group was increased by 79% from HK\$248.8 million at 31st March, 2005 to HK\$445.8 million at the year end. During the year, an aggregate principal amount of HK\$24 million of the 5-year convertible notes was converted into approximately 54.5 million shares in the Company and the outstanding principal amount of the 5-year convertible notes at the year end was HK\$976 million.

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. In addition to the above convertible note payables in aggregate of HK\$976 million outstanding at the year end, a variety of credit facilities is maintained so as to meet its working capital requirements of the Group. At the end of the year, total bank borrowings amounted to HK\$45.2 million, which is repayable within one year.

The net gearing ratio of the Group, calculated with reference to the total bank loans of HK\$45.2 million and the fair value of the liability component of convertible note payables of HK\$838.5 million, offsetting with the pledged bank deposits and the bank and cash balances of HK\$708.5 million, and the Group's shareholders' funds of HK\$445.0 million, was 0.39 at 31st March, 2006.

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All the bank borrowings were interest-bearing with reference to Hong Kong inter-bank offer rate or prime rate. The management believes that interest rate remains stable in the capital market and therefore no hedge is to be made against interest rate fluctuation. Most of the assets and liabilities of the Group were denominated in Hong Kong dollars, and hence the Board considers that the Group was not subject to any material exchange rate exposure.

## NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 31st March, 2006, the number of employees was 583 (2005: 515). Employees are remunerated according to their qualifications and experience, job nature and performance, under the pay scales aligned with market conditions. During the year, the Group had also provided other benefits such as medical, insurance cover and retirement schemes to the employees.

## OUTLOOK

Due to the opening up of the casino business, tourism in Macau is enjoying a rapid growth which in turn boosts its economy in various sectors. It is generally anticipated that there will be a significant rise in the future population of Macau, which includes certain number of expatriates of the high income cluster. The Macau property market has been strong in all sectors, including residential, shops, office, hotels and industrial properties. Quality residential units, which are currently of limited supply in Macau, will suit the increasing demand for better living conditions of the Macau residents in line with ongoing improvement of their household income. It is expected that the investment in Orient Town Group will contribute a substantial return to the Group in the coming years.

After the acquisition of Everight Group, the development of luxurious residential properties in Guangzhou, an affluent city with rapid growth in its economy in which there is increasing demand of quality residential units, is expected to accelerate the future growth of the Group. In addition, Yalong Bay is one of the preferred destinations for leisure travelling in the PRC which has already been developed into high-end leisure spot, the development of hotel and resort facilities within the golf club in Sanya will contribute considerable recurring revenue to the Group. After the scheduled expansion of the golf course from existing 18 holes to 27 holes and completion of the club house and ancillary facilities, full operation of the golf club in Sanya is expected in late 2006 which will be in time to capture business growth in the coming peak season.

Subsequent to the year end, the Group has further raised in aggregate of approximately HK\$1,500 million through the issue of 5-year convertible notes due 2011 and share placing. Having abundant resources, in addition to financing the above property development projects, the Group is actively and cautiously exploring suitable investment opportunities, with its primary focus on the property markets in Macau and its surrounding area.

## PLEDGE OF ASSETS

As at 31st March, 2006, the Group's properties held for sale in an aggregate value of approximately HK\$58.5 million, bank balance of HK\$3.0 million, and certain property, plant and equipment of a subsidiary of the Company of approximately HK\$2.9 million had been pledged to banks and financial institutions to secure general credit facilities granted to the Group.

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### CONTINGENT LIABILITIES

As at the year end, the Group had contingent liabilities in respect of a tax indemnity given upon disposal of a subsidiary at HK\$60 million.

### SECURITIES IN ISSUE

During the year, the Company had issued 112,698,063, 103,197,616 and 54,545,453 ordinary shares upon conversion of convertible notes at the conversion prices of HK\$0.414, HK\$0.42 and HK\$0.44 per share respectively. In addition, share options of 27,300 shares were cancelled or lapsed and there were no share options granted and outstanding at the year end. As at 31st March, 2006, there were 631,436,639 shares in issue.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31st March, 2006.

### APPRECIATION

I would like to take this opportunity to express my appreciation to the shareholders for their support, to the management and staff for their dedicated efforts and to our client, consultants and partners for all their valuable assistance offered during this past year.

**Cheung Hon Kit**

*Chairman*

Hong Kong, 27th July, 2006