

Management Discussion and Analysis

The Company and its subsidiaries (the "Group") recorded a turnover of approximately HK\$6.13 million for the year ended 31 March 2006. Compared with last year, there was an increase by an amount of approximately HK\$2.21 million. The increase is mainly attributable to the increase of dividend income from investments in listed securities, rental income from PRC properties and interest income. Compared to previous year, the revenue from investments in financial instruments segment and property investment segment have increased approximately 61% and 40% respectively. With a stable occupancy rate, the rental income will continue to provide a steady cashflow to the Group in the coming year. Although volatility of the market performance gave pressure on the performance of the Group's securities investments, the improvement of the market performance in the second half of the year improved the performance of the securities investments. For the year ended 31 March 2006, loss arising from fair value changes of investments held for trading (classified as investments in securities in previous year) were approximately HK\$4.00 million. In preceding year, the realized gain and unrealized loss on investments held for trading was approximately HK\$10.82 million and HK\$6.36 million respectively. It is expected that certain issues will lead to the fluctuation of the market such as fluctuation of oil price, wars in the Middle East, macro economic control policy in the PRC and movement of the exchange rate of RMB, all of which can affect the market sentiment. The Group also recorded an impairment loss of available-for-sale investments in an amount of approximately HK\$4.13 million. As a result of adoption of new Hong Kong Accounting Standard ("HKAS") 39 and HKAS 32 in relation to recording convertible loan notes at fair value, the Group has a loss on redemption of convertible notes of approximately HK\$3.33 million and a huge gain arising from fair value changes of derivative financial instruments in the amount of HK\$18.51 million for the year ended 31 March 2006. Finance costs increased from approximately HK\$0.83 million for preceding year to approximately HK\$10.77 million for the year. The reason of such increase is mainly due to the increase in interest expenses for the two outstanding convertible notes (including the actual convertible notes interest payment and computed effective interest expense of the convertible notes as a result of adopting the new HKAS) during the year, both of which were issued in January and March of 2005 and interest expenses of two short term loans (details of the short-term loans are set out in the following paragraph). The administration expenses of the Group for the year amounted to approximately HK\$13.56 million which included expenses relating to the acquisition of interest of and further capital increase in Shijiazhuang Shuanghuan Automobile Co. Limited. 石家莊雙環汽車有限公司 ("Shuanghuan"), a foreign investment enterprise incorporated in the PRC which is principally engaged in manufacturing, integrating and sales of sport light vehicles, and sales of auto parts. The competition in PRC automobile industry has been getting fierce. The profit of Shuanghuan decreased for the period from 1 April 2005 to 31 March 2006. The profit after taxation from this associate, Shuanghuan, shared by the Group for the year ended 31 March 2006 was approximately HK\$36.67 million. Overall, net profit for the year was approximately HK\$25.50 million as compared to the net loss of approximately HK\$10.09 million in the preceding year.

As at 31 March 2006, the Group had bank balances and cash of HK\$83.65 million. Fair value of investments held for trading was in an amount of approximately HK\$212.83 million. During the year, the Group borrowed two one-year short term loans in an aggregate principal amount of HK\$45.00 million. The interest rate charged on the loan is at prime rate plus 5% per annum. The loans were repaid before the year ended 31 March 2006. The Group had two unsecured convertible notes originally issued on 31 January 2005 and 31 March 2005 with outstanding principal amount of HK\$16.20 million and HK\$60.00 million respectively. They bear 3% interest rate per annum and mature on the third anniversary of date of issue. As at 31 March 2006, the total net book value of the convertible notes was approximately HK\$64.10 million. Save for the abovementioned convertible notes, the Group had no borrowing and loan from banks or financial institutions as at 31 March 2006. The gearing ratio as at 31 March 2006 was approximately 17.67% based on the net book value of the convertible notes in the amount of approximately HK\$64.10 million and the shareholders' fund in the amount of approximately HK\$362.17 million.

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With stable occupancy rate of the Group's investment properties, it will be expected to bring steady rental income to the Group and thus will continue to contribute cashflow to the Group. It is expected that the market will still fluctuate as many issues such as fluctuation of oil price, wars in the Middle East, macro economic control policy in the PRC and movement of the exchange rate of RMB can affect the market sentiment. The Group will continue to explore potential business opportunities in order to improve its earning capacity and diversify the market risk that the Group will confront in long run.

The Group had 5 staff as at 31 March 2006. The staff costs (excluding directors' emoluments) was around HK\$1.93 million for the year. Staff remuneration package are normally reviewed annually. The Group has participated in Mandatory Provident Fund Scheme. In addition, the Group provides other staff benefits which include double pay and medical benefits. The Group has no share option scheme.

On 1 April 2005, an agreement was entered into among Shuanghuan, Tian Yang (HK) Company Limited ("Tian Yang") (a wholly owned subsidiary of the Company) and Shijiazhuang Shuanghuan Automobile Company ("Shuanghuan Holding") to increase the registered capital of Shuanghuan from USD4.98 million to USD35.18 million (the "Agreement"). Tian Yang agreed to contribute USD30.20 million to Shuanghuan to increase its shareholding from 25% to 50% (the "Capital Increase"). Details of the Capital Increase were disclosed in the Company's announcement dated 14 April 2005 and the circular dated 6 June 2005. An ordinary resolution for approving the Capital Increase was passed by the independent shareholders of the Company at its extraordinary general meeting on 23 June 2005. However, as the undertaking given on 8 January 2005 by Shuanghuan Holding to obtain approval from the PRC government to extend the period of Shuanghuan's joint venture agreement to not earlier than 28 December 2017 (the "Extension") within six months from the date of the undertaking (details of the undertaking were disclosed in the Company's announcement dated 10 November 2004 and circular dated 31 December 2004 in respect of the acquisition of 25% interest in Shuanghuan) could not be fulfilled and the approval of the Capital Increase from relevant PRC government authorities could not be obtained on or before 31 July 2005 (being the long stop date of the Agreement) because of encountering resistance from the relevant PRC government authorities in respect of the approval of the profit guarantee given by Shuanghuan and Shuanghuan Holding in the Agreement (the "Profit Guarantee"), an extension letter to extend the deadline for Extension for three more months and a supplemental agreement to extend the long stop date from 31 July 2005 to 31 October 2005 (the "Supplemental Agreement") were signed by relevant parties on 29 July 2005. Details of which were disclosed in the Company's announcement dated 29 July 2005.

On 28 September 2005, the Company announced that the relevant PRC government authorities did not approve the Profit Guarantee; therefore, the condition precedents set out in the Agreement could not be fulfilled. After negotiation, Shuanghuan, Tian Yang and Shuanghuan Holding entered into a second supplemental agreement on the even date (the "Second Supplemental Agreement"). The Second Supplemental Agreement is mainly to remove the Profit Guarantee, to further extend the long stop date to 30 April 2006 and to reduce the amount to be injected by the Company from US\$30.20 million to US\$28.689 million. Details of which were disclosed in the Company's announcement dated 28 September 2005.

On 25 January 2006, Shuanghuan, Shuanghuan Holdings and Tian Yang entered into an agreement (the "Cessation Agreement") to cease the Agreement, Supplemental Agreement and Second Supplemental Agreement (the "Shuanghuan Agreements"). Pursuant to the Cessation Agreement, the Shuanghuan Agreements and terms thereof together with the transactions contemplated thereunder should cease. Details of which were disclosed in the Company's announcement dated 26 January 2006.

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On 20 April 2006, the Company entered into a placing agreement with Tai Fook Securities Company Limited (“Tai Fook”), pursuant to which, Tai Fook agreed to place, on a best effort basis, the convertible notes in an aggregate principle amount of HK\$49.80 million with interest at a rate of 5% per annum. The convertible notes will carry a right to convert into new share of HK\$0.10 each in the capital of the Company at the conversion price of, subject to adjustment, HK\$0.145 per share from the date of issue of the convertible notes to the date immediately before the first anniversary of the date of issue of the convertible notes, HK\$0.160 per share from the first anniversary of the date of issue of the convertible notes to the date immediately before the second anniversary of the date of issue of the convertible notes, HK\$0.176 per share from the second anniversary of the date of issue of the convertible notes to the date immediately before the third anniversary of the date of issue of convertible notes which is the maturity date of the convertible notes. Details of the placing of the convertible notes were disclosed in the Company’s announcement dated 21 April 2006.