

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

During the year under review, the Group recorded a turnover of HK\$37.2 million (2005: HK\$39.6 million). Loss attributable to shareholders amounted to HK\$24.9 million (2005: profit of HK\$21.2 million). Basic loss per share was 1.10 cents (2005: basic profit per share of 1.10 cents). At 30 April 2006, the Group's net cash position amounted to HK\$40.44 million (2005: HK\$3.19 million) representing 27.7% (2005: 2.8%) of shareholders' equity of HK\$146.24 million (2005: HK\$113.53 million). Total borrowings were HK\$100 million (2005: HK\$100 million).

### REVIEW OF OPERATIONS AND FUTURE PROSPECTS

Upon resumption of trading of its shares on 15 August 2005, the Company, in furtherance of its business plan as submitted to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in support of its application to resume trading of the Company's shares through the facilities of the Stock Exchange, proposed a rights issue on the basis of three rights shares for every ten shares held by shareholders. The rights issue was completed on 28 September 2005 and raised approximately HK\$55 million for the Company.

In or around September 2005, the Company was approached by an independent third party who expressed an interest to subscribe for new shares of the Company upon completion of the abovementioned rights issue (the "Proposed Subscription"). However, while the Company's negotiations with the proposed subscriber are still continuing, the terms and conditions with respect to the Proposed Subscription have not yet been finalized but it is possible that as a result of the Proposed Subscription, the independent third party may, pursuant to the definition of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") become a substantial or controlling shareholder of the Company.

During the year under review, the Group's investment properties in Hong Kong and Shanghai continued to generate steady rental income.

On 10 November 2005, the Company entered into a conditional agreement for the acquisition of 51% of the issued share capital of Rich Crown Enterprises Limited (the "Rich Crown Acquisition") for an aggregate consideration, subject to adjustment, of about HK\$168 million. The properties to be acquired under the Rich Crown Acquisition comprise commercial and office units with a gross floor area of approximately 13,000 square meters and 135 car parks in the Hoi Tung Securities Building which is located at the Huangpu District, Shanghai, PRC and a large scale residential property development project known as the "Great Garden" to be developed on a parcel of land with a site area of about 76,000 square meters and located at the Bao Shan District, Shanghai, PRC.

Completion of the Rich Crown Acquisition took place on 24 May 2006.

On 23 December 2005, Sincere Vantage Limited ("Sincere Vantage"), a wholly-owned subsidiary of the Company, entered into a conditional agreement (the "Agreement") with Lion Castle Limited (the "Purchaser"), pursuant to which Sincere Vantage, subject to the terms and conditions as therein set out, agreed to sell and the Purchaser, subject to the terms and conditions as therein set out, agreed to purchase the entire issued share capital of State Empire Limited ("State Empire") and the loan outstanding from State Empire and its subsidiaries to Sincere Vantage as at completion (the "Sale Loan") at a consideration (the "Consideration") equivalent to the face value of the Sale Loan plus the consolidated net asset value of State Empire as at completion (the "State Empire Disposal").

## MANAGEMENT DISCUSSION AND ANALYSIS

State Empire is an investment holding company incorporated in the British Virgin Islands on 3 July 2003. Save that it is and was at all material times hereto holding the entire issued share capital of Harbour Wealth Investment Company Limited (“Harbour Wealth”), State Empire does not have any other assets and neither has it carried on any other business since its incorporation. Harbour Wealth is an investment holding company incorporated in Hong Kong on 15 July 1986, the sole asset of which is its entire interest in the “Right Emperor Commercial Building” (the “Property”), a property situated at No. 122, 124 and 126 Wellington Street in Central, Hong Kong, together with the messuages erected thereon being a 24-storey commercial building with a total gross floor area of approximately 41,950 sq. ft. and which has been available for use as offices and shops since 1991.

Pursuant to the Agreement, Sincere Vantage and the Purchaser agreed with each other that the value of the Property should be fixed at HK\$112 million for the purposes of calculating the Consideration.

Completion of the State Empire Disposal took place on 19 June 2006.

Since completion of the acquisition of Kamboat Bakery Limited on 16 June 2004, the Group produces and distributes bakery products under the brandname of “Kamboat Bakery”. Due to escalating rents and fierce competition during the year under review, the bakery business of the Group was further trimmed down in order to reduce losses suffered from the business.

The Group has been of the view that the future of its trading business depended significantly on the Group’s sole and exclusive distributorship (the “Distributorship”) in Hong Kong and Macau of cordless telephones and accessories thereto of a world-renowned manufacturer (the “Manufacturer”). However, as a result of the Manufacturer restructuring its Asian business with effect from January 2006, the Distributorship was not renewed. Accordingly the Group’s trading business has been put in abeyance pending the identification of other suitable trading opportunities.

During the year under review, the Company continued to carry out its consultancy business pursuant to two consultancy agreements with hotels in the Shanghai area with a view to advising and assisting each of these hotels to achieve 5 star status. The consultancy business is not capital intensive and generated steady income for the Group during the year under review.

Whilst the Group will continue to focus on pursuing its present businesses, including property investment and development, bakery and food, consultancy and general trading, the Group will continue with its business restructuring and in this respect it will continue to explore and evaluate new businesses and investment opportunities. At present, the Group has identified for its consideration certain new projects which are involved in the business of environmentally friendly, energy-generating, including renewable energy-generating, projects in various provinces in the PRC. The Company is in the process of seeking and obtaining further information in respect of these projects which prima facie appear to the Company to warrant further exploration.

To facilitate the Group’s acquisition of suitable investments and to further enhance the Group’s working capital, if and when considered necessary, the Group will approach banking and financial institutions for new banking and/or credit facilities and/or raise additional funds through various means, which shall include the issue of new shares of the Company and/or debt financing.

## MANAGEMENT DISCUSSION AND ANALYSIS

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 April 2006, the Group had borrowings amounting to HK\$100 million. The Group believes that its liquid asset value and future revenue will be sufficient to fund existing working capital requirements. The gearing ratio of the Group, based on total borrowings to shareholders' equity, was 68% as at 30 April 2006 (2005: 106%).

### EMPLOYEE AND REMUNERATION POLICIES

As at 30 April 2006, the Group had 25 employees in Hong Kong and the PRC (2005: 75). Remuneration is determined by reference to market rates and the performance, qualifications and experience of individual employees. The Group also provides employees with year-end double pay, a contributory provident fund, performance-related bonuses and medical insurance.

### CHARGE ON THE GROUP'S ASSETS

As at 30 April 2006, borrowings in the sum of HK\$100 million were secured by legal charges over the shares and shareholders' loan of State Empire Limited and Harbour Wealth Investment Company Limited, both of which are wholly-owned subsidiaries of the Company, and an investment property with a book value of approximately HK\$115 million (2005: HK\$130 million).

### CONTINGENT LIABILITIES

The Group did not have any significant contingent liability as at the balance sheet date.

### FOREIGN EXCHANGE AND CURRENCY RISKS

Significant foreign currency exposure was not expected by the Group since most of the revenue generated from the sales and the payment for purchases of materials, equipment and salaries are made in Hong Kong dollars, Renminbi or US dollars. No financial instruments for hedging purposes are used by the Group.