Management Discussion and Review

FINANCIAL REVIEW

For the year ended 30th June, 2006, the turnover of the Group increased by approximately HK$1.21 million to approximately HK$30.46 million (2005: HK$29.25 million), representing an increase of approximately 4% from last year. Increases in business activities in both investment and financial services, and distribution and trading contributed to the overall increase in turnover of the Group. With the adoption of a prudent approach in managing the Group's business in investment and financial services, gross loss of the Group decreased from approximately HK$9.26 million to HK$2.21 million for the year under review, representing a decrease of approximately 76%.

The loss attributable to shareholders of the Group for the year under review reduced significantly by approximately HK$34.91 million to approximately HK$13.8 million (2005: HK$48.71 million), representing a dramatic decrease of approximately 72% as compared with previous financial year. The remarkable reduction in loss in current year resulted mainly from decreases in unrealized holding loss on securities investments held-for-trading, and no allowance for short-term loans receivable was needed for the year under review.

BUSINESS REVIEW

During the year under review, the beneficial effects from the on-going business rationalization were gradually reflected and a marked reduction in loss for the year was achieved. The reshuffling of the Group's portfolio of investment securities continued and financial resources previously parked with non-performing listed securities investments were gradually released, and funds so generated were applied to support business operations. Due to lower than expected market liquidity of some of the listed shares investments in the portfolio, the gradual liquidation of these listed shares investments inevitably caused pressure to their then prevailing market prices, which in turn led to disposals below their respective costs. Hence, a gross loss was still recorded during the year under review.

As the local economic sentiment continued to improve, the Group kept reinforcing its business activities in investment and financial services, and in parallel, deploying more resources to expand its distribution and trading business. Apart from the distribution of lubricant oil additives sourced from America, the Group started to trade children's playground equipment, rubber tiles and related accessories, and also commenced the promotion and marketing of supply chain management system software.

Management Discussion and Review

Investment and financial services, and distribution and trading remained the core components in the Group's turnover in current year, while a prudent approach was taken in operating other core business segments due to keen competition and the expected huge initial capital outlays. Hence, no turnover was recorded for these other core business segments during the year under review, namely, (1) provision of website, advertising and design services; (2) provision of travelling agency services; (3) provision of entertainment services; and (4) provision of telecommunications services. However, the Group would not preclude the possibilities of re-activating these other core business segments in future when opportunities arise. The major consideration of the Group whether or not to re-activate these other core business segments depended very much on finding suitable business partners.

Effective cost control measures taken during the year under review had successfully controlled the Group's operating expenses. To cope with the dramatic increases in office rentals at Central where the Group's office previously located, the Group had relocated its office to North Point in November 2005 upon the expiry of its previous office lease, which assisted in controlling the fixed overheads.

(1) Investment and financial services

Non-performing listed share investments were gradually reduced in the Group's investment portfolio and by the on-going reshuffling, a balanced and controlled mix of investment portfolio was rebuilt and consisted mostly of blue-chip listed shares investments.

The money lending business of the Group was cautiously expanded to avoid recoverability issues. New loans granted to borrowers during the year under review were fully repaid by the respectively borrowers. The Group continued to adopt strict credit evaluation on selection of potential customers to limit the Group's financial risks, and as far as possible, tangible security was requested from respective borrowers to enhance protection to the Group.

(2) Distribution and trading

Marketing campaigns on lubricant oil additives were launched during the year and the main product "MT-10 Metal Treatment" was sent to a local renowned university for laboratory testing with favourable testing results. The testing certificate so granted together with a series of marketing and promotion efforts contributed to the fast penetration of the lubricant oil additives in local markets.

In February 2006, the Group was successfully granted an exclusive distribution agreement to distribute supply chain management system software tailored made for established knitting manufacturers. No payment is needed for granting of the exclusive distribution rights. This supply chain management system software is supplied by e-Jing Technologies Limited, a spin-off company from the Chinese University of Hong Kong. System sales engineers were recruited and had just finished intensive training programs offered by e-Jing Technologies Limited. Marketing and promotion activities have been launched to attract targeted local knitting manufacturers.

Management Discussion and Review

The Group started the trading of children's playground equipment, rubber tiles manufactured from recycled rubber shreds, and the related accessories in May 2006. Suitable manpower was in place to further expand the business to the design and building of children playground facilities. The Group recently has been successfully granted the exclusive distribution rights in Hong Kong and Macau for the distribution of children playground equipment designed and produced by an international renowned manufacturer of Denmark, Kompan A/S. No payment is needed for granting of the exclusive distribution rights.

FUTURE PROSPECTS

The Group will continue to reshuffle the investment portfolio to further strengthen the financial position so as to enable the Group to grasp emerging business opportunities. The current procedures requiring a close and careful scrutiny of potential borrowers' financial standing will be followed when expanding the Group's money lending business. Investment and financial services will continue to be the prime contributor to the Group's turnover.

With the recent successful establishment of the Group's marketing entity in Guangzhou, the distribution of lubricant oil additives to corporate customers in the PRC market will be reinforced as scheduled. The product line will be further expanded to cater for the needs of local customers. Marketing efforts will be made to solicit corporate customers, such as mass public transportation companies, shipping companies and logistic companies operating a fleet of trucks.

Marketing campaigns are planned to contribute the sales of supply chain management system software in the months to come, including seminars and exhibitions specifically conducted to attract established knitting manufacturers. With the assistance from our supplier, the distribution of software would not require significant working capital financing from the Group because no inventories will be needed to carry and payment terms to the supplier will be back-to-back with that of customers.

The Group will further enhance the business in the design and building of children playground facilities due to expected better profit margins, and in parallel, will devote efforts in sourcing related new products such as outdoor furniture.

The Group will continue to evaluate emerging business opportunities to yield diversified sources of revenue, yet priority would be given to those new projects without intensive capital investments to limit the Group's financial risks.

Management Discussion and Review

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains its adequate financial position with cash and cash equivalents of approximately HK$5.75 million (30th June, 2005: HK$12.44 million). The Group is basically debt-free and at a net cash position.

As at 30th June, 2006, the Group had a net current assets of approximately HK$5.22 million (30th June, 2005: HK$15.71 million). The shareholders' equity was approximately HK$6.31 million (30th June, 2005: HK$20.11 million) and there is no outstanding bank loan and other borrowings, and accordingly the gearing ratio was zero (30th June, 2005: zero).

FINAL DIVIDEND

The Directors do not recommend the payment of an annual dividend for the year ended 30th June, 2006.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30th June, 2006, the Group employed approximately 16 employees. The Remuneration Committee and the Directors of the Group reviewed remuneration policies regularly. The structure of the remuneration packages would take into account the level and composition of pay and the general market conditions in the respective countries and businesses.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied throughout the year ended 30th June, 2006 with the Code on Corporate Governance Practice (the "Code") as set out by the Stock Exchange in Appendix 14 to the Listing Rules, except that the independent non-executive Directors of the Company were not appointed for a specific term but are subject to retirement by rotation according to the provisions of the Company's Bye-Laws.

SHARE OPTION SCHEME

The Company has a share option scheme to enable the directors of the Company to grant options to eligible employees, including executive directors, of the Company and its subsidiaries to subscribe for shares in the Company. No share options were granted during the year and there are no share options outstanding as at 30th June, 2006.