

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

For the six months ended 30 September 2006, the Group recorded a consolidated turnover of approximately HK\$49.6 million, representing an increase of approximately HK\$2 million or 4.2% compared to the last corresponding period. The increase was mainly attributable to increased sales in the Group's environmental friendly paper tableware business.

The net loss for the period under review was approximately HK\$3.5 million, representing a substantial decrease of 50% as compared to the net loss of approximately HK\$6.8 million of the last corresponding period. The improvement in overall results was mainly due to an approximately HK\$1.6 million decrease in administrative expenses and no adjustment was needed on the fair value of the Group's investment properties in the period under review (six months ended 30 September 2005: decrease in fair value of approximately HK\$1.5 million).

### Review of Operations

The Group's restaurant operation in Hong Kong continues to provide a stable source of revenue and remains the largest contributor to turnover, generating 86% of the Group's turnover for the period under review. The segment turnover related to the reporting period decreased slightly by 3.3% to 42.6 million, while the segment loss declined by 55% to 1.7 million.

The turnover for the Group's environmental friendly paper tableware operation increased by approximately 96.6% to HK\$6.9 million. Mounting global environmental awareness and encouraging government green policies in our target markets had led to increase in demand for our products. The diversification into the manufacture of paper pulp products from reclaimed paper also contributed partly to the increase in sales and the Group will continue to explore business opportunities in this area. The segment result, however, recorded a loss of HK\$1.3 million, an increase of 32.3% compared to the last corresponding period, reflecting the challenging operating conditions like higher raw material and plant operation costs.

### Liquidity and Financial Resources

The Group's cash and bank balances (including pledged bank deposits) amounted to approximately HK\$12.7 million as at 30 September 2006. As the Group had no bank borrowings, the Group's gearing ratio was zero as at 30 September 2006 and 31 March 2006.

The Group has obtained loan facilities from a related company, Hover City Industrial Limited, which bear interest at 3% below the best lending rate quoted by a bank in Hong Kong. As at 30 September 2006, the sum drawn down by the Group was approximately HK\$18.8 million (31 March 2006: HK\$18.8 million), with accrued interests of approximately HK\$1.5 million (31 March 2006: HK\$1.1 million). The loans are repayable in one lump sum (including accrued interest) by 31 December 2008.

With the cash generated from the Group's operation in its ordinary course of business and the existing unutilised banking and credit facilities, the directors consider that the Group has sufficient working capital for its operation.

### **Foreign Exchange Exposure**

As most of our sales, purchases, cash and bank balances were denominated in Hong Kong dollars, United State dollars, Australian dollars and Renminbi during the period, the Group was not exposed to material foreign exchange risks.

### **Employees and Remuneration Policies**

At 30 September 2006, the Group had approximately 303 staff. Review of the employees' remuneration packages is normally conducted annually and as required from time to time. The salary and benefit levels of the Group's employees are competitive and individual performance is rewarded through the Group's bonus scheme. Other benefits including medical coverage and Mandatory Provident Fund Scheme are also provided to employees.

### **INTERIM DIVIDEND**

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30 September 2006 (for the six months ended 30 September 2005: Nil).

### **PROSPECTS**

The second half of the financial year is traditionally the peak season for the food and beverage industry. The Group expects its restaurant business to achieve positive results in the coming months and to maintain a steady growth amid the generally favorable economic environment. The Group, on the other hand, envisages higher growth potential in its environmental friendly paper pulp business. The Group expects continuous rise in global demand for the environmental friendly paper pulp products. It is anticipated that through business diversification, economies of scale, improvement in the manufacturing process and introduction of more stringent cost control measures, the financial results of this line of business can significantly improve in the foreseeable future.

Management review has been conducted across all business segments of the Group with the aim to better position the Group to meet the challenges ahead and to capture any business opportunities as they arise.