

Management Discussion and Analysis



OVERALL FINANCIAL PERFORMANCE

Turnover

During the year under review, the Group recorded a turnover of approximately HK\$48,941,000, representing an increase of approximately 5 times as compared to last year of HK\$9,722,000. Such significant increase in turnover was mainly due to the Group resumed its securities trading operation during the year. Turnover attributable from securities trading operation amounted to approximately HK\$41,271,000 during the year (2005: Nil), apart from this, rental income, interest income and property management income remained fairly stable as compared to that of 2005.

Except for those turnover generated from the Group's core business, the Group recorded a one-off gain of approximately HK\$6,800,000 for divestment in a property investment project which classified as other revenue.

Results

The Group recorded a net loss from ordinary activities attributable to equity holders of the Company was approximately HK\$41,420,000 (2005: HK\$4,692,000), represent an increase in the loss of approximately 7.8 times as compared to that of 2005. The increase in loss from operations was mainly due to (i) the loss of approximately HK\$26,500,000 in devaluation and impairment loss of the Group's investment properties; and (ii) impairment loss of approximately HK\$19,850,000 recognised for the Group's property development project.

BUSINESS REVIEW AND PROSPECTS

The principal activities of the Group are (i) securities trading; (ii) property investments; (iii) property developments and (iv) property management. Details analyses on each of the business operation has been summarised below:

Securities Trading

During the year, the Group resumed the securities trading operation and recorded a turnover of approximately HK\$41,271,000 (2005: Nil). The result attributable from the securities trading operation was a loss of approximately HK\$12,000 for the year ended 31 December 2006 (2005: Nil). The securities which the Group traded during the year were all listed on the Stock Exchange of Hong Kong Limited ("Stock Exchange").

Management Discussion and Analysis (Continued)

Property Investments and Developments

Hong Kong

As at 31 December 2006, all of the investment properties were located in Hong Kong. During the year under review, the Group's rental income generated from leasing of properties was approximately HK\$1,171,000, representing a decrease of 14.8% as compared to last year of approximately HK\$1,375,000. The average occupancy rate of the Group's investment properties was approximately 50%, which was similar to last year.

The Group engaged an independent firm of surveyors to assess the fair value of the Group's investment properties as at 31 December 2006 and a devaluation and impairment loss of approximately HK\$24,700,000 and HK\$1,800,000 has been recognised in the consolidated income statement during the year. The major reason of a devaluation and impairment loss was mainly due to the fact that the investment properties held by the Group must be used for the purpose of operating nursery and kindergarten in accordance with the deed of mutual covenant and management agreement. The surveyors considered the restricted usage of the investment properties and concluded the fair value of the investment properties held by the Group as at 31 December 2006 was approximately HK\$21,200,000 (2005: HK\$47,700,000).

During the year under review, the result of the Group's property leasing operation had been turnaround from the profit of approximately HK\$5,200,000 in 2005 to the loss of approximately HK\$25,508,000 in 2006. The loss attributable to the property leasing operation was mainly due to the devaluation and impairment loss of approximately HK\$24,700,000 and HK\$1,800,000 respectively recognised during the year.

In view of the low return and occupancy rate of the Group's investment properties, the Board has re-assessed the Group's property portfolio during the year. After considering various factors including the rate of return, monthly cash outflow and quality of the investment properties, the Board decided to restructure the Group's property portfolio. In February 2007, the Group disposed off all of its investment properties to an independent third party with aggregate consideration of approximately HK\$21,200,000. Details of such disposals were disclosed in the circular issued by the Company dated 12 April 2007.

In the future, the Group will search for other investment properties with high return and quality in order to maximize the profit in this business operation.

Shanghai, the PRC

During the year under review, the Group sold its interest in a commercial building construction project in Shanghai at a consideration of approximately HK\$65,000,000. The Group recorded a gain of approximately HK\$6,800,000 from this transaction.

On 26 June 2006, the Group acquired the entire interest in Shanghai Minhang Weixing Horticultural Land ("Weixing") at a consideration of HK\$83,479,610. The Group planned to develop a resort project on the parcel of land owned by Weixing and expected that the resort project will generate a steady rental income for the Group after its completion. However, as at 26 March 2007, being nine months of the acquisition, the legal title of Weixing was not yet transferred to the Group. In order to protect the interest of the Group and minimize the risk for the investment, the Board considered to terminate the acquisition and the vendor, being the owner of Weixing was required to refund the consideration of HK\$83,479,610 plus an interest penalty of HK\$1,502,633 to the Group on or before 30 April 2007. The Group would receive totally HK\$84,982,243 from the termination and intent to use such funding for searching other potential profitable investments in the future.

Management Discussion and Analysis (Continued)

Xian, the PRC

During the year under review, the Group sold one of its property development projects in Xian and received approximately HK\$46,768,000. As at 31 December 2006, one property development project in Xian was remained in the Group which ranked as the second key project of Xian by the local government. This property development project is a high-class villa-type residential construction project in Xian and the construction process of which was satisfactory during the year. The Group's property development team has been closely monitoring the project and expects the property development project will bring positive return to the Group in coming year.

Property Management

For the year ended 31 December 2006, the Group recorded a turnover of approximately HK\$4,713,000 attributable from its property management operation, represent a decrease of 26% as compared to approximately HK\$6,399,000 for the year ended 31 December 2005. The decrease was mainly due to the Group terminated one of the building management contracts during the year. Nevertheless, the Group maintains one building management contract in Shanghai which provided a stable income sources for the Group.

The result of the property management operation has also decreased from HK\$1,935,000 for the year ended 31 December 2005 to approximately HK\$941,000 for the year ended 31 December 2006. Such decrease was mainly due to the increase of the cost of security section in the property management operation.

Interest in Associate

As at 31 December 2006, the Group had 27% interest in an associate of the Company, 通化恆安藥業股份有限公司 (the "Associate"), which is principally engaged in the manufacture and production of pharmaceutical products in the PRC. For the year ended 31 December 2006, the turnover and profit of the Associate was approximately HK\$96,000,000 and HK\$2,600,000 respectively. The performance of the Associate was encouraging that indicated the Group would benefit from this investment and expect a future return from the Associate.

To further enhance the operation of the Associate, the Group acquired technical know-how of two pharmaceutical products and assigned to its associate company for the production of the pharmaceutical products. In return, the Group would receive a royalty income from the associate company for such assignment of technical know-how. The Board considered such investment would benefit to the Group because (i) the Group can receive royalty income from the Associate and (ii) the Group will benefit from the performance of the Associate. For the year ended 31 December 2006, the royalty income was approximately HK\$617,000 which classified as other revenue in the consolidated income statement.

DIVIDENDS

The Board has resolved not to recommend any final dividend for the year ended 31 December 2006 (2005: Nil).

Management Discussion and Analysis *(Continued)*

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operation with internally generated cashflow. During the year under review, the Group recorded a net cash inflow of approximately HK\$772,000 (2005: HK\$9,537,000).

The Group expressed its gearing ratio as a percentage of bank borrowing over total shareholders' equity. As at 31 December 2006, the Group's gearing ratio was approximately 0.04 (2005: 0.04).

The Group is of good liquidity and sufficient solvent ability. As at 31 December 2006, the Group's current ratio was approximately 7.0 (2005: 8.2).

The debt to equity ratio was approximately 0.07 while it was 0.1 in 2005. The ratio was calculated by dividing the total liabilities of approximately HK\$25,113,000 (2005: HK\$40,763,000) by the total shareholders' equity of approximately HK\$353,551,000 (2005: HK\$394,915,000).

The Board believes that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.



Management Discussion and Analysis (Continued)

CAPITAL STRUCTURE AND TREASURY POLICIES

Capital Structure

The capital structure of the Group as at 31 December 2006 has been summarised below:

	2006 HK\$'000	2005 HK\$'000
Current Assets	176,184	213,704
Current Liabilities	25,113	26,056
Shareholders' equity	353,551	394,915

Current assets include cash and cash equivalent of approximately HK\$22,312,000 (2005: HK\$20,815,000) and short term loan receivables of HK\$45,000,000 (2005: HK\$31,005,000) and investment deposits of HK\$83,480,000 which will repay within one year.

Current liabilities mainly comprised of tax payable, accrual and other payables.



Treasury Policies

During the year ended 31 December 2006, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. The Board does not consider that the Group is significantly exposed to any foreign currency exchange risk. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. For the year ended 31 December 2006, the Group did not employ any financial instruments for hedging purpose and did not engage in foreign currency speculative activities.

Management Discussion and Analysis (Continued)

BORROWINGS AND BANKING FACILITIES

As at 31 December 2006, total bank borrowing of the Group was approximately HK\$14,823,000 (2005: HK\$15,442,000) which was denominated in Hong Kong dollars. The bank borrowing mainly consisted of mortgage loan granted for the purpose of facilitating the investment properties of the Group. The mortgage loan is not at fixed interest rates and is secured by the investment properties held by the Group.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2006, the Group had no material contingent liabilities (2005: Nil) and capital commitments (2005: Nil).

PLEDGE AND CHARGES OF GROUP ASSETS

As at 31 December 2006, properties with net book value of approximately HK\$21,200,000 (2005: HK\$47,700,000) had been pledged to secure the mortgage loan of the Group.

MATERIAL ACQUISITIONS/DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group had no material acquisitions/disposal of subsidiaries and associated companies during the year under review.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2006, the Group employed 53 full time employees (2005: 58 employees) in Hong Kong and the PRC. Employee remuneration packages are structured and reviewed with reference to the nature of the jobs, market condition and individual merits. The Group also provides other employee benefits which included year end double pay, mandatory provident fund and medical insurance. Total staff costs for the year ended 31 December 2006 were approximately HK\$3,260,000 (2005: HK\$3,198,000).

