

# Management Discussion and Analysis

## REVIEW OF OPERATIONS

Unity Investments Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") announced that for the financial year ended 31 December 2006 (the "Year"), the Group registered a turnover of HK\$295,055,810 (2005: HK\$162,620,520) and a net profit of HK\$12,204,259 (2005: net loss of HK\$44,513,118). The increase in net profit principally reflected the realised gain on disposal of available-for-sale investments. The Group's investment strategy remains at targeting on under-valued, mid- and small-capitalisation listed companies with quality management and good business prospects in different sectors and industries, with the anticipation that the possible re-rating of the Group's investee companies will eventually offset any short-term depreciation of investment values. In this regard, the Group did not make frequent unscheduled disposals of assets, leading to unavoidable impairment loss of loan receivable and change in fair value of investments.

To facilitate diversification and reduce market risks, the Company during the Year under review has enhanced its shareholders base and strengthening its shareholders' equity by way of two share placements and witnessed a 55.61% increase in the size of its shareholders' equity. As at 31 December 2005, the Group's shareholders' equity amounted to only HK\$136,408,333 and managed to grow significantly to HK\$212,261,266 as at 31 December 2006.

In terms of diversification, the Group's current investment portfolio covers a wide range of industries and sectors, including, but not limited to, securities investment companies and companies engaged in the businesses of infrastructure, manufacturing, trading, information technologies, media, energy, property investment, securities investment etc. The Group also invested in convertible notes during the Year which will provide the Company with fixed income so as to build its recurrent revenue base and will also provide the opportunity to gain in any upside appreciation. In fact, the Group's dividend income from listed investment securities grew by approximately 69.68% to HK\$3,058,244 (2005: HK\$1,802,376).

## LIQUIDITY AND CAPITAL RESOURCES

During the Year, the Company completed two share placements to enhance its capital structure and to promote greater financial flexibility for seizing appropriate investment opportunities as they arisen.

By an ordinary resolution passed on 27 February 2006, the Company agreed conditionally to place 250,000,000 ordinary shares of HK\$0.10 each of the Company on a fully underwritten basis to independent investors at a price of HK\$0.14 per share and raised net proceeds of approximately HK\$34.12 million.

By an ordinary resolution passed on 15 May 2006, the Company agreed conditionally to place, on a best-effort basis, 145,000,000 ordinary shares of HK\$0.10 each of the Company on a fully underwritten basis to independent investors at a price of HK\$0.20 per share and raised net proceeds of approximately HK\$28.22 million.

As most of the Group's transactions, investments and bank deposits were denominated in Hong Kong dollars, the Group's exposure to foreign exchange risk was not significant, foreign exchange loss for the Year was HK\$316,520 (2005: Nil).

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## INVESTMENT PORTFOLIO

The breakdown of the Group's investment portfolio as at 31 December 2006 was:

	Market value HK\$	Percentage of the Group's Portfolio
Available-for-sale investments	36,093,113	16.20%
Investments held for trading	186,108,664	83.54%
Bank balances and cash	576,359	0.26%
	222,778,136	100%

The size of the Group's investment portfolio had experienced substantial growth when compared with the portfolio size of HK\$170,197,843 recorded as at 31 December 2005. The Group's portfolio covers a wide array of industries and sectors including, but not limited to, securities investment companies and companies engaging in the businesses of infrastructure, manufacturing, trading, information technologies, media, energy, property investment, securities investment etc.

Pursuant to the requirements stipulated in chapter 21.12 of the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Group discloses its 10 largest investments as follows:

Code	Name	Number of shares	Cost HK\$	Market value HK\$	Unrealized gain/ (loss) HK\$	Dividends/ interest income HK\$
1224	Qualipak International Holdings Limited	75,770,000	15,473,174	37,885,000	22,411,826	822,480
75	Y.T. Realty Group Limited	21,168,000	25,439,400	28,153,440	2,714,040	522,500
5206	Universal Technology Systems Inc.	20,001,000	28,675,269	22,771,275	(5,903,994)	—
412	Heritage International Holdings Limited	810,900,000	17,717,878	19,461,600	1,743,722	—
PACSP	Pacific Century Regional Developments Limited	11,000,000	21,121,548	18,975,000	(2,146,548)	—
273	Willie International Holdings Limited	157,460,000	39,469,480	17,478,060	(21,991,420)	—
1083	Panva Gas Holdings Limited	2,912,000	13,802,996	14,268,800	465,804	—
985	China Sci-Tech Holdings Limited					
	— Convertible Notes	—	11,000,000	11,000,000	—	281,534
	— Shares	25,312,000	2,792,016	2,505,888	(286,128)	—
488	Lai Sun Development Company Limited	33,200,000	11,267,500	9,130,000	(2,137,500)	—
32	Cross-Harbour (Holdings) Limited	1,037,000	5,962,750	6,906,420	943,670	290,360

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Qualipak International Holdings Limited (“Qualipak”), with effective from 10 January 2007, Qualipak was renamed to C C Land Holdings Limited, incorporated in the Bermuda, is an industrial group principally engaging in sales of packaging products and travel bags, property development, property investment and securities trading and investment.

For the financial year ended 31 December 2006, the audited consolidated profit from ordinary activities attributable to equity holders of Qualipak was HK\$627,871,000 with the basic earnings per share and diluted earnings per share being HK\$112.40 cents and HK\$105.80 cents respectively. As at 31 December 2006, its audited consolidated net assets was HK\$5,433,435,000. During the Year, the Group has received aggregate dividend of HK\$822,480 from Qualipak. As at 31 December 2006, market value of this investment represented 17.85% of the Group’s consolidated net asset value.

Y.T. Realty Group Limited (“Y.T. Realty”), incorporated in the Bermuda, is a properties group principally engaging in property investment, property trading and providing property management services.

For the financial year ended 31 December 2006, the audited consolidated profit attributable to equity holders of Y.T. Realty was HK\$288,088,000 with basic earnings per share being HK\$36.00 cents. As at 31 December 2006, its audited consolidated net assets was HK\$2,634,151,000. During the Year, the Group has received of aggregate dividend of HK\$522,500 from Y.T. Realty. As at 31 December 2006, market value of this investment represented 13.26% of the Group’s consolidated net asset value.

Universal Technology Systems Inc. (“Universal Technology”), incorporated in Taiwan and listed in Taiwan Stock Market, is an information technology company principally engaging in systems solutions and integrations, and in the sourcing of computer softwares and hardwares.

For the financial year ended 30 June 2006, the audited consolidated profit attributable to equity holders of Universal Technology was NT\$1,420,000 with basic earnings per share being NT\$0.08. As at 30 June 2006, its audited consolidated net assets was NT\$453,394,000. During the Year, the Group has not received any dividend from this investment. As at 31 December 2006, market value of this investment represented 10.73% of the Group’s consolidated net asset value.

Heritage International Holdings Limited (“Heritage”), incorporated in the Bermuda, is an investment holding company principally engaging in property investment, investment in securities and money lending.

For the financial year ended 31 March 2006, the audited consolidated loss from ordinary activities attributable to equity holders of Heritage was HK\$24,176,000. As at 31 March 2006, its audited consolidated net assets was HK\$821,035,000. During the Year, the Group has not received any dividend from this investments. As at 31 December 2006, market value of this investment represented 9.17% of the Group’s consolidated net asset value.

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Pacific Century Regional Developments Limited (“Pacific Century”), incorporated in Singapore and listed on the Singapore Exchange Securities Trading Limited, is engaged in a range of businesses including the provision of a range of whole life, endowment, term life insurance and other related products in Hong Kong and investment in and development of infrastructure and properties.

For the financial year ended 31 December 2005, the audited consolidated profit from ordinary activities attributable to equity holders of Pacific Century was S\$15,458,000 with basic earnings per share being S\$0.50 cents. As at 31 December 2005, its audited consolidated net liabilities was S\$178,084,000. During the Year, the Group has not received any dividend from this investment. As at 31 December 2006, market value of this investments represented 8.94% of the Group’s consolidated net asset value.

Willie International Holdings Limited (“Willie”), incorporated in Hong Kong, is an investment holding company principally engaging in trading securities, brokerage and financial services and property investment.

For the financial year ended 31 December 2006, the audited consolidated loss from ordinary activities attributable to equity holders of Willie was HK\$114,761,000. As at 31 December 2006, its audited consolidated net assets was HK\$329,614,000. During the Year, the Group has not received any dividend from this investment. As at 31 December 2006, market value of this investment represented 8.23% of the Group’s consolidated net asset value.

Panva Gas Holdings Limited (“Panva Gas”), incorporated in the Cayman Islands, is an investment holding company. Its subsidiaries are principally engaging in sales and distribution of liquefied petroleum gas (“LPG”) and natural gas (together “Gas Fuel”) in the People’s Republic of China (the “PRC”) including sale of LPG in bulk and in cylinders, the provision of piped LPG and natural gas, construction of gas pipelines, the operation of city gas pipeline network, the operation of Gas Fuel automobile refilling stations, and the sale of LPG and natural gas household appliances.

For the financial year ended 31 December 2006, the audited consolidated loss from ordinary activities attributable to equity holders of Panva Gas was HK\$256,334,000. As at 31 December 2006, its audited consolidated net assets was HK\$2,039,005,000. During the Year, the Group has not received any dividend from this investment. As at 31 December 2006, market value of this investment represented 6.72% of the Group’s consolidated net asset value.

China Sci-Tech Holdings Limited (“China Sci-Tech”), incorporated in the Cayman Islands, is an investment holding company and principally engaging in investment in financial instruments and property investments.

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For the financial year ended 31 March 2006, the audited consolidated profit from ordinary activities attributable to equity holders of China Sci-Tech was HK\$25,499,000 with the basic earnings per share being HK\$1.48 cents. As at 31 March 2006, its audited consolidated net assets was HK\$362,173,000. During the Year, the Group has received interest of HK\$281,534 from this investment. As at 31 December 2006, market value of this investment represented 6.36% of the Group's consolidated net asset value.

Lai Sun Development Company Limited ("Lai Sun"), incorporated in Hong Kong, is well diversified and principally engaging in property development for sale, property investment, investment in and operation of hotels and restaurants and investment holding.

For the financial year ended 31 July 2006, the audited consolidated profit from ordinary activities attributable to equity holders of Lai Sun was HK\$512,922,000 with both the basic earnings per share and diluted earnings per share being HK\$0.04. As at 31 July 2006, its audited consolidated net assets was HK\$4,322,005,000. During the Year, the Group has not received any dividend from this investment. As at 31 December 2006, market value of this investment represented 4.30% of the Group's consolidated net asset value.

The Cross-Harbour (Holdings) Limited ("Cross-Harbour"), incorporated in Hong Kong, is a consolidated enterprise principally engaging in motoring school operations, tunnel operations, electronic toll operation, and treasury.

For the financial year ended 31 December 2006, the audited consolidated profit from ordinary activities attributable to equity holders of Cross-Harbour was HK\$172,796,000 with the basic earnings per share and diluted earnings per share being HK\$0.52 and HK\$0.49 respectively. As at 31 December 2006, its audited consolidated net assets was HK\$2,543,809,000. During the Year, the Group has received aggregate dividend of HK\$290,360 from this investment. As at 31 December 2006, market value of this investment represented 3.25% of the Group's consolidated net asset value.

## PROSPECTS

The principal activities of the Company are to invest in both listed and unlisted companies, the Group's current core portfolio comprises of mainly small to medium sized listed companies with good asset backing and/or growth potential. The Board considers that the near market conditions are difficult to predict now due to the underlying uncertain worldwide economic environment, especially in the United States of America ("U.S.A."). The interest rate in U.S.A. may peak out at the current level, which would be good for the investment market, however, the market is still uncertain on the pace of interest rate reductions, if any, in the near future. Apart from this, the correction and the consolidation in the overheated property market in U.S.A. have induced the bad debt problem to crystallise in the secondary mortgage market. This problem is likely to seriously affect the financial health of financial institutions which have engaged in the secondary mortgage market. If the correction and the consolidation in the U.S.A. property market continue, it may dampen the overall consumers' demand and the underlying economic growth whereby the global economy may also, in turn, be seriously affected. The Hong Kong stock market, being closely linked to the international economy, will inevitably be affected by such

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global uncertainties. Besides, the stock market in Hong Kong has already accumulated a significant increase in the year of 2006 and there may have accumulated significant pressure for short term correction. The stock market in the year of 2007 is vulnerable to the aforementioned consolidation and correction. Hence, the market will become increasingly uncertain and volatile. However, Hong Kong can still take advantage of a continuous and steady economic growth in PRC that will fundamentally benefit the stock market in Hong Kong and provide attractive and rewarding investment opportunities. The Board believes that the stock market will continue to provide opportunities but will also be volatile and unpredictable. The Board will adjust its investment portfolio continuously and raise fund as and when the opportunity arises. Since the market is uncertain and risky, the Board expects the investment prospects for the year of 2007 may not be as favourable as the year of 2006.

## PLEDGE OF ASSETS

As at 31 December 2006, margin facilities from several securities brokers were granted to the Company which were secured by the Company's available-for-sale investments and investments held for trading. As at 31 December 2006, a total amount of HK\$12,202,326 (2005: HK\$17,167,218) has been utilised against these facilities and the total carrying amount of the available-for-sale investments and investments held for trading pledged to the securities brokers is HK\$163,844,749 (2005: HK\$148,208,064).

## EMPLOYEES

As at 31 December 2006, the Group had nine employees, including three executive directors, one non-executive director, three independent non-executive directors and two staff. They are remunerated based on their performance, working experience and prevailing market standards. For the Year, the total staff costs paid/payable amounted to HK\$1,733,973 (2005: HK\$601,816) and there has been no significant change in the Group's remuneration policy. A comprehensive disclosure of directors' emoluments was made pursuant to section 161 of the Hong Kong Companies Ordinance is made in notes 10 to the financial statements.

## APPRECIATION

The Board would like to take this opportunity to express our appreciation to the staff and management team of the Group for their contribution during the Year and also to give our sincere gratitude to all our shareholders for their continuous support.

By order of the Board

**CHUNG Wilson**

*Chairman*

Hong Kong, 25 April 2007