

# Management Statement

The Board of Directors (the “Board”) of Incutech Investments Limited (the “Company”) is pleased to present the audited consolidated result of the Company and its subsidiaries (the “Group”) for the financial year ended 31 December 2006.

## REVIEW OF RESULTS

For the year ended 31 December 2006, the Group recorded a net profit of HK\$7,474,866 and earnings per share of HK10.38 cents. The Board has resolved not to pay a final dividend and proposed that earnings be retained for future investment opportunities.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

Hong Kong has experienced three years of strong and broad-based economic growth as evidenced by real GDP growth of 8.6% in 2004, 7.5% in 2005 and 6.8% in 2006. Fixed investment grew robustly at 7.9% in 2006, after 4.6% in 2005, with corporate spending on machinery and equipment being the main driver. After more than five years of deflation, consumer prices have been gradually edging up along with the solid economic recovery, rising by 2% in 2006 as a whole.

The Hang Seng Index blasted through the 20,000 points barrier, hitting a six-year high. The China factor has become a red-hot concept among global investors. Hong Kong is the largest source of overseas direct investment in the Chinese mainland. Interest rate movements will however have a critical impact on the economy. Apart from the direction of US interest rates, the liquidity situation of the Hong Kong economy plays a more important role in shaping the local interest rates with strong interbank liquidity, assets markets are likely to benefit from the benign interest rate environment. The government forecast in February 2007 that a GDP growth at 4.5-5.5% in real terms for 2007.

During the year under review, the Group reported a net profit from operation of HK\$11,698,880 on turnover of HK\$4,983,964 in 2006 as compared with a loss from operation of HK\$16,725,717 on turnover of HK\$975,761 in 2005. The results achieved were attributable mainly to the improved market conditions, particularly in the local stock market.

In 2007, whilst global economic growth is expected to be moderate, the outlook for Asia market has remained positive. On top of the provisions granted in earlier phases of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA), further liberalisation measures were announced on 29 June 2006, covering ten additional services sectors. These measures, effective from 2007, are expected to help expand the business scope allowable in China for Hong Kong companies.

The Group's investment portfolio comprised of unlisted investment and listed securities investment. The Group held minority stakes of unlisted companies which are to have sound business

# Management Statement

fundamentals, growth potential and strong management for long-term strategic investment purpose to maintain good relationship with business counterparts and achieve recurring dividend income in future years. As at 31 December 2006, the Group's unlisted investments, valued at cost less impairment, totaling HK\$27,252,305 (2005: HK\$70,422,002).

As at 31 December 2006, the Group held listed securities investments at market value of approximately HK\$28.1 million (2005: approximately HK\$31.8 million).

Whilst the outlook for 2007 remains satisfactory, the Group will closely monitor its investment portfolio so as to enhance the shareholder's value.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

As at 31 December 2006, the Group had no bank overdraft (2005: HK\$Nil).

As at 31 December 2006, part of listed equity securities of the Group had been pledged to secure margin facilities.

### Gearing Ratio

As at 31 December 2006, the amount of borrowings was approximately HK\$25 million (2005: HK\$35 million), being equal to approximately 34% (2005: 53%) of the net asset of approximately HK\$74 million (2005: HK\$66 million).

### Capital Structure

There has been no change to the capital structure of the Company since 1 January 2006.

### Capital commitment and contingent liabilities

As at 31 December 2006, the Group had no material capital commitment and contingent liabilities.

### Share options

The Company does not have a share option scheme.

## EMPLOYMENT AND REMUNERATION POLICIES

As at 31 December 2006, the Group employed a total of 3 employees including the executive directors of the Company.

## STAFF COST

The Group's total staff costs for the year under review amounted to HK\$300,000 (2005: HK\$300,000).

# Management Statement

## **DETAILS OF CHARGES ON GROUP ASSETS**

The Group's other investments in listed securities are pledged against credit facilities provided by brokerage companies.

## **PLEDGE OF ASSETS**

The margin accounts payable as at 31 December 2006 were secured by the Group's investments held for trading of HK\$28,052,013 (2005: HK\$31,836,942).

## **EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES**

The Group's assets and liabilities are denominated in Hong Kong Dollars and, therefore, the Group has no significant exposure to foreign exchange fluctuation.

## **APPRECIATION**

The Directors would like to take this opportunity to extend our sincere thanks and express appreciation to those who have supported us during the year.

**Choi Wai Yin**

*Executive Director*

Hong Kong, 18 April 2007