

Business Review

Hotel and entertainment businesses

The Group has a 40% interest in Hotel Golden Dragon (Macao) Company Limited (“Hotel Golden Dragon”) which owns a hotel of the same name and Hotel Golden Dragon has a 60% interest in Sunny Tourist & Entertainment Company Limited (“Sunny Tourist”). Sunny Tourist provides tourist and related services to casinos operating in Hotel Golden Dragon. Hotel Golden Dragon was one of the hotels benefited from the encouraging performance of the gambling business of Macau, which recorded an income of US\$7 billion for 2006, exceeded that of the Las Vegas. The share of results from associates during the year amounted to HK\$95 million. Income from hotel operations and gambling related operations increased by 11% and 23% respectively as compared with last year. As the Group’s property development projects are still under development, Hotel Golden Dragon continued to be the Key contributor and provide a stable income stream to the Group. With the construction of the Cotai Strip in progress and the inaugurations of world class international brand hotels in the region, we believe more tourists from the PRC and Asian countries would be attracted to visit this international city and hence greater revenue will be captured by Hotel Golden Dragon.

Property investment

Edificio Chu Kuan Mansion, Macau (珠江大廈)

Edificio Chu Kuan Mansion, Macau (珠江大廈) comprises three blocks of buildings, with a total of 267 office units, 156 residential units, 31 shops and 441 car parking spaces. It is situated at the conjunction of Avenida Xian Xing Hai (冼星海大馬路), Rua de Madrid (馬德里街) and Rua de Londres (倫敦街).

In May 2006, the Group acquired 66 residential units and 60 car parking spaces at a total consideration of HK\$139.8 million from an independent third party. In March 2007, 24 residential units of which were sold to another independent third party at a total consideration of HK\$53.6 million, a gain of approximately HK\$4.3 million (subject to the final audit for the year ending 31 December 2007). The Directors continue to be optimistic on the prospects of the residential property market in view of the strong demand for high quality apartments to cater for the need of middle class residents in Macau. Currently, the Group intends to withhold the remaining residential units and car parking spaces for investment purpose.

Tap Siac, Macau (澳門塔石街)

The Group, through a subsidiary (in which the Group owns 51% while the remaining 49% is owned by an independent third party), owns a single seven storey block building located at nos. 1-13 da Rua do Tap Siac, Macau (澳門塔石街), with a site area of 1,085 sq. m., for investment purpose. It is located within the town centre of Macau and is adjacent to Horta E Costa (高士德區) and Conselheiro Ferreira de Almeida (荷蘭園區). It is also easily assessable by transports and is encircled by famous shopping arcades. The property prices in the region increased by 16% as compared with the last year’s. Renovation work of the property will commence upon the completion of Tap Siac Concourse, a shopping arcade with an area of 8,000 sq. m. scheduled to finish around mid 2007.

Management Discussion and Analysis

Cheok Ka Chun, Taipa, Macau (澳門氹仔卓家村)

The Group has a 55% interest of a Macau company which holds a construction site at Lote TN6, Cheok Ka Chun, Taipa, Macau (澳門氹仔卓家村). The site is a private land which covers about 4,661 sq. m.. The Group intends to develop the site into a high-storey and luxurious residential apartment with a shopping arcade. The site is located in the northern part of Taipa and is surrounded by the University of Macau and the Crown Hotel. Comparing with the Macau peninsula, Taipa is used to be of a low density populated area where in most of the middle class residential properties stand up there. The imminent light rail system is going to connect Macau peninsula with Taipa. With the improvement of the transportation infrastructure in Taipa, the proposed development will bring a substantial income to the Group. The increment in property prices in Taipa is promising since the Group acquired the Cheok Ka Chun site in February 2006.

With the continuing growth of Macau's economy as well as the property market, the Group will keep on identifying potential quality development projects which will increase the investment return for the Group.

Leather trading business

During the year 2006, the Group's turnover in leather trading business was HK\$72 million, a drop of 15% from the annualized business of last year due to the competition of the market. Gross profit has however increased by 10% due to certain very old stocks with provision made were successfully sold in 2006. Despite of it, this business segment incurred losses from operations during the year under review and the management is closely monitoring the performance of the leather trading business and appropriate restructuring strategies will be taken.

Business restructuring

In June 2006, the Group disposed of the shoes and handbags Hong Kong retail business operated under the brand "MOCCA" at a consideration of HK\$950,000 to a company controlled by Mr. Law Kar Po and Ms Law Wing Yee, Wendy, who are executive Directors of the Group. The Group's retail business in Macau was also closed in 2006. This business segment incurred net losses of HK\$5.3 million for the nine months ended 31 December 2005. The situation did not improve in the first half of 2006 and hence resulted in the Directors' decision to sell the business. The disposal has improved the net operating results of the Group.

The performance of the Group's health care business was not satisfactory during the year under review and the Group did not have the necessary expertise to manage the business. Accordingly, the health care business was disposed of to an independent third party at a consideration of HK\$2 million in October 2006.

Apart from the above disposals, the Group did not have any material acquisition or disposal of subsidiaries or associated companies during the year under review.

Management Discussion and Analysis

Future plans

The Group has been streamlining its business and focusing most of the resources in the property development business in Macau. International investors are looking for investment opportunities in the city, and both of the public and private sectors are not persuaded to confine Macau to be a mere gambling related city. They intend to develop Macau into a multi-entertainment city whereby different people's needs will be met with, from businessmen to their family members. The Group's existing investment portfolio includes hotel, entertainment, residential and shopping arcade projects. The Group will continue to seek for investment opportunities in this fast developing city.

Human Resources

As at 31 December 2006, the Group employed about 29 full-time staff in Hong Kong and 1 in Macau. The Group remunerates employees based on their performance, experience and prevailing industry practices. It also offers benefits such as training programme to staff to enhance their sense of loyalty.

Financial Review

Results

For the year ended 31 December 2006, the Group reported a turnover of HK\$ 73 million, compared with HK\$ 64 million for the 9-month period ended 31 December 2005, a drop of 15% from the annualised operations of the corresponding period. Net profit reached HK\$57.3 million (9-month period ended 31 December 2005: HK\$36.1 million). Basic earnings per share: HK 2.09 cents (9-month period ended 31 December 2005: HK cents 1.78).

The financial year end date of the Group was changed from 31 March to 31 December during the last financial period in order to align with the statutory year end date of Hotel Golden Dragon. Accordingly, the final results for the year ended 31 December 2006 are not directly comparable with those for the last financial period.

Fund-raising activities

During the year under review, the Group successfully placed 400,000,000 new shares at HK\$0.148 per placing share and raised approximately HK\$58 million. Out of the proceeds from this fund-raising activity, HK\$48 million was used to acquire certain properties in Macau and HK\$10 million was used as general working capital of the Group.

Management Discussion and Analysis

Liquidity and financial resources

Equity attributable to equity holders of the Group as at 31 December 2006 was HK\$740 million. The Group's gearing ratio defined as the total liabilities over total equity (including minority interest) as at 31 December 2006 was 70%.

The net current liabilities as at 31 December 2006 was HK\$296 million while the cash and bank balances as at 31 December 2006 was HK\$35 million. The Directors believe that a substantial part of the short term liabilities, mainly composed of bank loans obtained for the acquisition of property for development, are renewable annually upon their respective due dates. The Group intends to finance the construction costs of the properties under development from bank loans.

Change of use of proceeds

Pursuant to the Company's announcement of 5 July 2005, where it was stated that the net proceeds (arising from a placing of 60,000,000 new shares of HK\$0.35 each and 225,000,000 warrants (unlisted) of HK\$0.022 per warrant) of approximately HK\$25 million, which would be applied as to approximately HK\$20 million to expand the retail business of the Group under the brand name MOCCA and as to approximately HK\$5 million as additional general working capital. Up to the date of the disposal of the MOCCA business in June 2006 as referred to above, approximately HK\$10 million was applied in the said business. Given that the retail business had been disposed of, the Directors considered that it would be appropriate to apply the unutilized net proceeds of approximately HK\$15 million as general working capital.

Final dividend

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

Contingent liabilities

As at 31 December 2006, the Group did not have any significant contingent liabilities (2005: nil).

Charge on assets

As at the balance sheet date, investment property, properties under development and property held for sale of the Group amounting to HK\$536 million (2005: HK\$73 million) were pledged to secure general banking facilities.

Management Discussion and Analysis

Foreign currencies

During the year under review, most of the business transactions, assets and liabilities of the Group were denominated in Hong Kong Dollars, Renminbi, Macao Pataca (MOP) and United States Dollars. The Group had no material foreign exchange exposure risks during the year under review.

Prospect of the Group

Although buyers were cautious of entering into the Macau property market in the first half of 2006, sentiment in the Macau property market remains strong that property prices are expected to rise further in the medium to long term. The trend of more Hong Kong property developers entering into the Macau market is expected to continue as long as development costs in Macau are lower than that of Hong Kong. Land is in scarcity in Macau which will inevitably lead to appreciation of property values in the long run.

The Group is planning to further intensify its investment in the Macau property market and is looking for additional property development projects to enhance the portfolio of the property development projects held by the Group. In order to generate additional income to the Group, the Directors are also looking for short term investment opportunities that could efficiently utilize the financial resources of the Group.