

MANAGEMENT DISCUSSION AND ANALYSIS

1. The Group's liquidity and financial resources

During the year, the Group's total bank borrowings decreased by HK\$202.4 million to HK\$259.6 million. The total equity increased by HK\$302.4 million to HK\$2,257.0 million (2005: \$1,954.6 million) and long term bank loans outstanding as at 31st December 2006 amounted HK\$229.2 million (2005: HK\$426.6 million). The debt to equity ratio was 11.5% (2005: 23.6%). The banking facilities available are sufficient for the Group's working capital. The Group's financial flexibility remains healthy.

2. Capital structure of the Group

The capital structure of the Group had not changed materially from the last annual report. The Group borrowings are primarily denominated in Hong Kong and United States dollars. The Group therefore has no significant exposure to foreign exchange fluctuation.

The maturity of the Group's long term bank loans is as follows:

	2006	2005
	HK\$'000	HK\$'000
- within one year	94,563	98,017
- in the second year	2,623	34,975
- in the third to fifth years inclusive	131,974	293,619
	<u>229,160</u>	<u>426,611</u>

The Group's bank borrowings of HK\$246.8 million (2005: HK\$462.0 million) are secured by certain properties with an aggregate carrying amount of HK\$1,555.5 million (2005: HK\$1,596.5 million).

3. Significant investment held and their performance and future prospects

The Group holds 12% equity interest in The Yangtze Ventures Limited and The Yangtze Ventures II Limited (collectively "Yangtze"). The fair value of the Group's equity interest in Yangtze as at 31st December 2006 amounted to HK\$50 million whereas the cost of investment was HK\$24 million. The increase in value was attributable to the revaluation surplus of certain listed and unlisted investments of Yangtze.

During the year, Yangtze disposed of its investment in Beijing Hi Sunray Information Technology Limited and realised a substantial gain of approximately 3.7 times over the cost of investment and also reduced 22% of its interest in Carling Technology (Gushan) Limited ("Carling"), which manufactures and sells biodiesel and other by-products, at a premium to its entry cost.

Two of the investee companies in the investment portfolio of Yangtze, being Walcom International Limited, a producer of animal feedstuff, and Cosmedia Group Holdings Limited, a provider of entertainment programs in the PRC, listed on the London's Alternative Investment Market during the year. Two other investee companies, Carling and Rongxing Industrial Development Limited which engages in radio monitoring and measuring in the PRC, are aiming for listing in Hong Kong and Singapore respectively in the second half of 2007.

4. Details of number and remuneration of employees

Including the directors of the Group as at 31st December 2006, the Group employed a total of 168 full-time employees. In addition to salary payment, other benefits include discretionary bonus, insurance, medical schemes and mandatory provident fund schemes.