

# Management Discussion and Analysis

## BUSINESS REVIEW AND PROSPECTS

The Group reports a loss of HK\$138,911,000 for the year ended 31 December 2006. The operations of the subsidiary, Zhangjiakou, continued to be slow and only achieved a turnover of about HK\$1,705,000. As set out in more detail in the paragraph below, the Group has made a provision for loss on guarantee of RMB100,536,000 (HK\$98,314,000) for this subsidiary. Overall, the result for this subsidiary is not encouraging.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group financed the operations primarily from advances from shareholders. As at 31 December 2006, the Group had cash and bank balances of HK\$1,772,000 (31 December 2005: HK\$248,000) and unsecured bank loan of HK\$747,000 (31 December 2005: HK\$976,000), repayable within one year.

## PROVISION FOR LOSS ON BANK GUARANTEE

"Zhangjiakou Xing Fa" the 70% owned subsidiary of the Company has received an notice of arbitration on 15 August 2006 in respect of a guarantee provided to the China Agricultural Bank on 4 July 2005 in respect of bank loan granted to 河南省龍浩實業有限公司. The China Agricultural Bank is now demanding for repayment amounting to RMB73,005,000 (including principal of RMB63,100,000 and accrued interest of RMB9,905,000). In addition, the Company received another litigation claim amounting to RMB27,531,000 (including principal of RMB27,500,000 and execution fees of RMB31,000). The total amount for the two litigation and claim is amounted to RMB100,536,000 (HK\$98,314,000 equivalent). The Directors are now looking into the matter and in particular, the circumstances under which the guarantee was being granted and seeking legal advice as to the appropriate course of action to be taken. The Company has provided for the amount of guarantees in full in the accounts.

## CHARGES ON ASSETS

Save as disclosed, the Group had not pledged any other asset to its bankers as at 31 December 2006.

## EXPOSURE TO FOREIGN EXCHANGE RISK

During the year, the Group conducted its business transactions principally in Hong Kong dollars and Renminbi. The Group had not experienced any material difficulties or negative effects on its operations as a result of fluctuations in currency exchange rates. The Board believes it was not necessary to hedge the exchange risk. Nevertheless, management will continue to monitor the foreign exchange exposure and will take prudent measure as deemed appropriate.

## CAPITAL EXPENDITURE

During the year, the Group acquired a motor vehicle through the acquisition of a subsidiary "Kwok Hong Company Limited", at a consideration of HK\$900,000 including a sale loan from Concord Group (BVI) Limited, a substantial shareholder of the Company.

## MATERIAL ACQUISITIONS AND DISPOSAL

Save as disclosed, there has not been any material acquisitions or disposals of assets of the Group.

# Management Discussion and Analysis

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group has a total of 40 (2005: 42) employees. It is the corporate policy of the Group to set the remuneration of its employees at a level commensurate with their responsibilities, experience and qualification and in line with market conditions.

The Company has adopted a share option scheme in June 2002. Eligible participants under the share option scheme include, among others, the Company's directors, independent non-executive directors, other directors/employees of the Group. Such Options have either lapsed or cancelled by the directors on 1 August, 2006.

## PROSPECT

For the year 2007, the directors will focus on identifying a suitable purchaser(s) to acquire from the Group non-performing assets and further inject profitable business into the Group. The directors will continue to work on devising a viable resumption proposal and to implement the same within the year, with a view to resume trading of the shares of the Company as soon as possible.

