

## MANAGEMENT DISCUSSION AND ANALYSIS

### Performance review

#### *Expansion into Consumer Finance and Other High-growth Consumer-related Businesses in the PRC*

On 28 February 2005, Vongroup Holdings Limited and Capital Beijing Holdings Limited entered into an agreement (the "Subscription Agreement") to subscribe for 5,400,000,000 new shares (the "Subscription Shares") of the Company. The transaction was approved by the independent shareholders of the Company at its EGM held on 26 May 2005 and was subsequently completed on 29 August 2005. The shareholders of the Company passed a special resolution on 26 May 2005 to change the Company's name to Vongroup Limited to reflect the change in control of the Company and its anticipated future development in relation to broadening and expanding the businesses and operations of the Group, especially in consumer finance and other high growth consumer-related businesses in the PRC. The Company made its first move into the consumer finance sector by entering into an exclusive right to purchase agreement with respect to a high-yield consumer finance business, Beijing Shuntong Consumer Finance Limited, and a circular containing the details of the transaction was dispatched to shareholders on 29 December 2005.

The Group's overall turnover for the six months ended 31 October 2005 had eased to approximately HK\$104 million, representing a decrease of 14.6% as compared to that of HK\$122 million for the six months ended 31 October 2004. The decrease is mainly due to reduced turnover in the restaurant operation and the bakery business. Total operating expenses of the Group were reduced from HK\$125 million for the six months ended 31 October 2004 to HK\$115.9 million for the six months ended 31 October 2005. In particular, the Group's staff costs decreased by 18.2% from HK\$31.3 million for the six months ended 31 October 2004 to HK\$25.6 million for the six months ended 31 October 2005. The decrease in total operating expenses resulted from implementation of various costs saving measures and, in particular, staff costs in relation to the turnover of the restaurant operation. The Group recorded a net loss attributable to shareholders of HK\$13.8 million for the six months ended 31 October 2005, as compared to that of HK\$3 million for the six months ended 31 October 2004. The net loss is mainly due to reduced turnover in the restaurant operation and the recognition of an impairment loss of goodwill into the consolidated profit and loss account after adopting the new HKFRS.

**Operation Review***Expansion into Consumer Finance and Other High-Growth Consumer-Related Businesses in the PRC; Strategies and Vision*

In view of the vast consumer market in the PRC, the Group is expanding into consumer finance and other high-growth consumer related businesses that benefit from increased GDP and consumer spending power in the PRC. In respect of this, the Group has entered into an agreement with respect to Beijing Shuntong Consumer Finance Limited in the high-yield consumer finance sector in the PRC. The Group expects to pursue further business and investment opportunities in consumer finance and other high-growth consumer-related business in the PRC.

*Restaurant Business*

The Group's turnover in respect of the restaurant business decreased by approximately HK\$16.1 million from HK\$117.1 million in the six months ended 31 October 2004 to HK\$101 million in the six months ended 31 October 2005. The operating loss of the Group's restaurant business was approximately HK\$3.4 million for the six months ended 31 October 2005, compared to a profit of approximately HK\$7.9 million for the six months ended 31 October 2004, reflecting the turnover decrease was more than the cost savings in variable operating expenses in relation to it.

*Bakery and Other Food Products Businesses*

The Group's bakery and other food products business recorded a turnover and loss of HK\$3.3 million and HK\$4.5 million for the six months ended 31 October 2005 from approximately of HK\$5 million and HK\$1.8 million for the six months ended 31 October 2004. The decrease in turnover and widened loss for the six months ended 31 October 2005 was mainly because of decreased demand for moon cakes and other bakery products.

**SEASONAL/CYCLICAL FACTORS**

The sales volume during festive periods is normally higher than the sales volume in the slack periods of the year.

## **LIQUIDITY AND FINANCIAL RESOURCES**

### **Liquidity, financial resources and exchange rate fluctuation exposure**

The Group had unaudited consolidated shareholders' funds of approximately HK\$88.3 million (30 April 2005: HK\$49.6 million) as at 31 October 2005. The Group's current ratio increase from 0.81 as at 30 April 2004 to 2 as at 31 October 2005 and no meaningful gearing ratio, for the Group had no bank borrowing during the period from 30 April 2005 to 31 October 2005. As at 31 October 2005, the Group's cash and cash equivalents increased from HK\$2.99 million as at 30 April 2005 to approximately HK\$46.9 million as at 31 October 2005. This was mainly attributable to the capital reorganization and subscription of new shares completed on 29 August 2005. Since the majority of the Group's sources of income and bank balances are denominated in Hong Kong dollars, the Group has minimal exposure to exchange rate fluctuations.

### **Treasury policies**

The group generally finances its ordinary operations with internally generated resources. The interest rates of most of the borrowings, if applicable, are charged by reference to the prevailing market rates.

### **Contingent liabilities**

The Group has contingent liabilities in respect of possible future payments to employees under the Employment Ordinance with a maximum possible amount of approximately HK\$1.8 million (30 April 2005: HK\$1.8 million) as at 31 October 2005. As at 31 October 2005, corporate guarantees were provided by the Company (i) to landlords in respect of the operating lease payments of its subsidiaries; and (ii) in respect of banking facilities granted to a subsidiary.

### **Capital Commitments**

As at 31 October 2005, there were no capital commitments in respect of investments in subsidiaries and leasehold improvements (30 April 2005: investments in subsidiaries – nil; leasehold improvements – nil).

## **EMPLOYMENT AND REMUNERATION POLICY**

As at 31 October 2005, the Group had 792 (30 April 2005: 890) employees in Hong Kong and the PRC. The Group has not experienced any significant problems with its employees or disruptions due to labour disputes nor has it experienced difficulties in the recruitment and retention of experienced staff. The Group remunerates its employees based on industry practices. Its staff benefits, welfare, share options and statutory contributions, if any, are made in accordance with individual performance and prevailing labour laws of its operating entities.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

During the six months ended 31 October 2005, the Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

## **AUDIT COMMITTEE**

The audit committee has reviewed with the management the accounting principle and practice adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the Directors, the Company has complied with the Code of Best Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 31 October 2005.

By order of the Board  
**Vong Tat leong David**  
*Executive Director*

Hong Kong, 18 January 2006

*As at the date of this report, the board of the Company comprises four executive Directors, namely: Vong Tat leong David, Wong Chi Man, Wong See Sum J.P., and Xu Siping; and three independent non-executive Directors, namely: Fung Ka Keung David, Lee G. Lam and Wong Man Ngar Edna.*