

# Management Discussion and Analysis . . . . .

## **Change of Company Name; Business**

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 high-growth consumer finance and other highly-regulated consumption businesses in the PRC.

After the change in control of the Company, the Company made its first move into the consumer finance sector by entering the consumer finance business, a circular containing the details of which was dispatched to shareholders on 29 December 2005.

The Group expects to pursue further business and investment opportunities in high-growth consumer finance and other highly-regulated consumption businesses in the PRC.

The Company has made two placings of shares, one in December 2005 and one in March 2006, which have broadened the shareholder base and strengthened the capital base and financial position of the Company, which would facilitate the Company's ongoing business development as well as the Company's financial position for possible future investments and acquisitions.

## **OVERALL PERFORMANCE**

For the year ended 30 April 2006, the Group recorded a net loss attributable to shareholders of HK\$57.9 million (2005: HK\$24.9 million). As at 30 April 2006, the Group had consolidated net current assets of HK\$123.0 million (2005: restated HK\$6.9 million net current liabilities) and consolidated net assets of HK\$153.4 million (2005: HK\$49.6 million) respectively.

Net loss for the year was largely due to provision of impairment in relation to the legacy restaurant, bakery, food and beverage businesses, of over HK\$30 million for the following: impairment of fixed assets and goodwill of the Group and write-off of rental deposits, out of which, HK\$17.6 million was due to the discontinued operation of the bakery, and other food and beverage operations (2005: Nil).

## **Consumer Finance Business Review**

The Group has expanded into the consumer finance business in the PRC during the year. The consumer finance business provides secured loans, mainly to individuals and SME business owners. The transaction was completed on 14 April 2006. As such, only the turnover and operating profit of Beijing Shuntong for the short 2-week period from 14 April 2006 to 30 April 2006 were consolidated into the Group's accounts, with respective amounts of approximately HK\$146,000 (2005: N/A) in turnover and HK\$38,000 (2005: N/A) in operating profit. The revenue of Beijing Shuntong comprises of finance charges at a monthly effective rate of 0.5% based on the 6-month bank lending rate that is announced by the People's Bank of China, with a mark up, plus service charges of up to 4.2% per



## FINANCIAL REVIEW

### Liquidity and financial resources

The Group had shareholders' funds of approximately HK\$153.4 million (2005: HK\$49.6 million) as at 30 April 2006.

The Group's current ratio increased from 0.83 as at 30 April 2005 to 2.95 as at 30 April 2006.

### Gearing

The gearing ratio, as a ratio of short term bank loan to equity shareholders' funds, was 0.13 as at 30 April 2006 (2005: N/A).

### Exchange Rate Exposure

As at 30 April 2006, the Group's cash and cash equivalents increased from HK\$2.99 million as at 30 April 2005 to approximately HK\$139.5 million. This was mainly attributable to the capital reorganization and subscription of new shares completed in August 2005 and the placing of shares, one completed in December 2005 and one completed in March 2006. 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

Details of the Group's contingent liabilities are set out in note 42 to the financial statements.

## EMPLOYMENT AND REMUNERATION POLICY

As at 30 April 2006, the Group had 640 (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.