

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, cash and bank balances (including time deposits) maintained by the Group were HK\$619.7 million (2005: HK\$396.8 million), representing an increase of HK\$222.9 million compared with the position as at 31 December 2005. It is believed that the Group has adequate cash resources to meet the normal working capital requirements and all commitments for future development. The gearing of the Group, measured as total debts to total assets, was 12.6% as at 31 December 2006, comparing with 14.5% as at 31 December 2005.

Most of the business transactions conducted by the Group were nominated in Hong Kong Dollars, United States Dollars and Renminbi. As at 31 December 2006, there were no outstanding forward contracts in foreign currency committed by the Group that might involve it in significant foreign exchange risks and exposures.

## CORPORATE TRANSACTIONS

On 8 March 2006, the Company announced, amongst others, an open offer, a bonus issue and a share consolidation. The Company intended to raise approximately HK\$173.4 million, before expenses, to facilitate the continual development and daily operation of the Group whilst allowing the Group to invest in any potential investment projects when such opportunities arise, by issuing 357,585,805 offer shares at a price of HK\$0.485 per offer share by way of an open offer on the basis of 5 offer shares for every 4 existing share held on the record date (the "Open Offer"). The registered holders of fully paid offer shares would be issued 5 bonus shares for every 7 fully paid offer shares (the "Bonus Issue"). Upon completion of the Open Offer and the Bonus Issue, every 4 shares would be consolidated into 1 consolidated shares (the "Share Consolidation").

The Company received 30 valid applications for 334,859,365 offer shares, representing approximately 93.64% of the total number of 357,585,805 offer shares available for subscription under the Open Offer. As the Open Offer was under-subscribed, being the underwriter of the Open Offer, Winspark Venture Limited ("Winspark"), the major shareholder of the Company, subscribed for the remaining balance of 22,726,440 offer shares. The aggregate shareholding of Winspark in the Company therefore increased from approximately 61.45% to 65.79% immediately following completion of the Open Offer and the Bonus Issue. The Open Offer became unconditional and the Share Consolidation was effective on 20 June 2006 and 21 June 2006 respectively.

The Company is now exploring but has not yet earmarked any suitable investment opportunities. The net proceeds from the Open Offer was deposited in bank as time deposit.

To facilitate the introduction of Pan-China International Holdings Limited ("Pan-China") as the strategic investor of the Company, Winspark entered into a sale and purchase agreement with Pan-China on 22 September 2006 (the "Sale and Purchase Agreement") pursuant to which Winspark has agreed to sell 33,700,000 shares of the Company to Pan-China at a total consideration of HK\$151,650,000 with a deferred payment date on the 300th day from the date of the Sale and Purchase Agreement. On the other hand, the Company entered into a conditional option agreement with Winspark (the "Option Agreement") pursuant to which (1) the Company has agreed to grant to Winspark the first call option under which Winspark has the right but not the obligation to require the Company to issue 33,700,000 shares to Winspark or as it may direct at the subscription price of HK\$4.5 (the "First Call Option"); and (2) Winspark has agreed to grant to the Company the second call option under which the Company has the right but not the obligation



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to require Winspark to subscribe 33,700,000 shares at the subscription price of HK\$4.5 (the "Second Call Option"). Upon exercise of either the First Call Option or the Second Call Option, the other call option shall automatically lapse and cease to be of any further effect.

However, on 26 February 2007, the Company announced that due to the lapse of the long stop date of the Sale and Purchase Agreement, the Sale and Purchase Agreement has ceased to be of any effect. Accordingly, the Option Agreement was also terminated in accordance with its terms. The Company and Winspark were released from their respective obligations under the Option Agreement.

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group employed approximately 2,584 employees, with about 2,502 in the Mainland China and about 82 in Hong Kong. All employees are remunerated based on industry practice and in accordance with the prevailing labour law. In Hong Kong, apart from basic salary, staff benefits include medical insurance, performance related bonuses and mandatory provident fund would be provided by the Group.