

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the financial year ended 31 March 2004, the Group recorded a turnover of approximately HK\$453,344,000 (2003: HK\$520,857,000) down 13% compared to the previous year. However, when compared to the previous year, the turnover for trading of PU materials increased by 8%. Profits attributable to shareholders were HK\$12,862,000 (2003: HK\$8,549,000), a 50% increase when compared to the previous year. This was a result of the significant increase in demand of PU materials during the second half of the financial year when the market sentiment recovered from the impact of Severe Acute Respiratory Syndrome ("SARS"). Given the uncertainty faced by the Group during the year, we strived to sustain our results by implementation of stringent cost control and adoption of discriminative pricing approach in accepting sales order of the PU materials. Earning per share increased to HK1.2 cent per share (2003: HK0.9 cent).

OPERATIONAL REVIEW

During the year under review, all (2003: 80.4%) of the Group's revenue derived from distribution of PU materials. The principal market of the Group was PRC, accounted for approximately 78.8% (2003: 77.4%) of the Group's turnover. Revenue derived from Hong Kong was approximately 21.2% (2003: 19.5%). There was no revenue (2003: 3.2% of the Group's turnover) derived from overseas markets during the year.

Distribution of PU materials

During the year under review, revenue from the distribution of PU materials was approximately HK\$453 million, representing an increase of approximately 8% compared to previous year. The distribution of PU materials contributed approximately HK\$18 million to the Group's net profit from operating activities for the year, representing an increase of 101% compared to previous year. The global market of the PU materials continued to be very competitive although the overall market sentiment during the second half of the financial year improved and there has been a tremendous increase in the demand of PU materials. The Group has consistently adopted a selective approach in accepting PU trading orders by ensuring that these transactions will meet the minimum profit criteria in order to reduce the risk exposure in the competitive environment.

Manufacturing business

During the year ended 31 March 2003, the Group had undergone restructuring in which the Group disposed its manufacturing operation of PU foam and related products. No manufacturing business was engaged by the Company for the year.

DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 March 2004 (2003: Nil).

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LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group financed its operations with internally generated cash flows. The Group adopted a prudent financial policy such that it could meet the financial obligations when they fall due and maintain a sufficient operating fund for the development of the Group's business. As at 31 March 2004, the Group's pledged bank deposits and cash and bank balances amounted to approximately HK\$8,207,000 (2003: HK\$23,892,000) and HK\$40,087,000 (2003: HK\$29,676,000) respectively.

As at 31 March 2004, trade finance facilities for the Group amounted to approximately HK\$42 million. With the available resources and the proceeds from the new issue and placing of shares of the Company, the Directors believe the Group has adequate working capital for its present requirements and developments.

As at 31 March 2004, the current ratio (current assets divided by current liabilities) was 2.66 times (2003: 1.82 times) and the gearing ratio (finance lease payables divided by shareholders' equity) was 0.21% (2003: 0.53%).

CHARGE ON ASSETS

As at 31 March 2004, pledged bank deposits of approximately HK\$8,207,000 (2003: HK\$23,892,000) were pledged to secure banking facilities granted to the Group.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

As at 31 March 2004, substantially all of the monetary assets of the Group was comprised of cash and bank balances and pledged time deposits, which denominated in Hong Kong dollars. In addition, the Group's finance lease payable was in fixed interest rates, hence exchange risk of the Group is minimal.

As at 31 March 2004, the Group did not have any foreign currency investments which has been hedged by currency borrowings and other hedging instruments.

CONTINGENT LIABILITIES

As at 31 March 2004, the Company continued to provide corporate guarantees, with unlimited amount, in favour of banks in respect of general banking facilities granted to certain subsidiaries. As at 31 March 2004, the subsidiaries had utilised approximately HK\$27 million (2003: HK\$42 million) of the facilities.

CAPITAL COMMITMENT

The Group did not have any capital commitment as at 31 March 2004.

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MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 March 2004, the Group through a wholly owned subsidiary entered into an investment agreement with the intention to invest in Beijing Chang Dong Shun Gas Co. Ltd., a company incorporated in the PRC, to diversify its business in the field of natural gas business in the PRC. For the reason as stipulated in the Company's announcement, the investment agreement had lapsed and this project was ceased.

The Group intends to diversify its business in the manufacture and sale of petrochemical fuel products in the PRC by acquiring the entire equity interest in Shenyang Xinmin Chemical Factory, a share co-operation corporation established in the PRC. The acquisition is expected to be completed upon the approval from the Foreign Trading and Economic Department, the PRC.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2004, the Group's total number of staff was 25 (2003: 51). Salaries of employees are maintained at a competitive level. The Group has not encountered any problem with the recruitment of its employees. None of the companies in the Group has experienced any labour disputes during the year and the Directors of the Company consider that the Group has maintained an excellent employment relationship.

The Group remunerates its employees largely based on industry practice. Remuneration packages comprised salary, commissions and bonuses based on individual performance.