

13. Cash and cash equivalents

	Six months ended 30 June 2004 HK\$'000	For the year ended 31 December 2003 HK\$'000
Cash and bank balances	3,232	1,357
Bank overdrafts, secured (<i>Note 10</i>)	(4,943)	(4,943)
Cash and cash equivalents at end of the Period/year	(1,711)	(3,586)

MANAGEMENT DISCUSSION AND ANALYSIS**Interim results**

Although the unaudited turnover slipped 82.7 per cent as compared to that in Last Period, the unaudited net loss attributable to shareholders for the Period amounting to HK\$1.34 million was improved by 37.7 per cent as compared with that of Last Period. Other revenue for the Period also experienced a slight increase of 7.9 per cent from that of Last Period. The financial costs had largely decreased by 83 per cent to reflect the reduction of indebtedness in last year.

Business Review

The Group principally engaged in the marketing and wholesale distribution of automotive products. The reason for the decrease of turnover in the Period was the shortage of banking facilities granted to the Group as a result of our business performance over the past four years.

From 4 February 2004 to 20 April 2004, the Company undertook a scheme of fund raising and debt restructuring (the "Capitalization Scheme") in which:

- (1) the Company entered into a conditional placing agreement with Forex Investment Development Limited ("Forex") for the subscription of 265,100,000 new shares of the Company at HK\$0.018 each. The consideration of HK\$4,771,800 was satisfied by cash. The said placing was conditional on, among other things, the completion of (2) and (3) below;

- (2) the Company entered into a conditional loan capitalization agreement with Winsley for the subscription of 430,000,000 new shares of the Company at HK\$0.018 each (all together, the "Loan Capitalization"). The consideration of HK\$7,740,000 was satisfied as to HK\$7,647,163 by setting off against amount owed by the Company to Winsley and the remaining HK\$92,837 by cash. The Loan Capitalization was conditional on, among other things, the completion of (1) above and (3) below; and
- (3) Winsley must apply to the Securities and Futures Commission ("SFC") for the grant of a waiver from the obligation of Winsley and parties acting in concert with it, if any, to make a general offer for all the shares of the Company not already owned or agreed to be acquired by them upon completion of the Loan Capitalization.

In the opinion of the directors of the Company (the "Directors"), the Capitalization Scheme helped the Group: (i) reduce its level of indebtedness by HK\$10.75 million; (ii) reduce the Adjusted Net Deficit of the Group from approximately HK\$13.68 million to approximately HK\$2.93 million and the Adjusted Net Current Liabilities from approximately HK\$30.48 million to approximately HK\$19.73 million; and (iii) broaden the Company's shareholder and capital base.

The Loan Capitalization constituted a connected transaction for the Company under Rule 14.26 of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and required the approval by the independent shareholders of the Company. A special general meeting was held on 1 April 2004 and all resolutions in relation to the Capitalization Scheme were duly passed. The Capitalization Scheme was completed on 20 April 2004.

A net proceed of HK\$4.22 million was raised from the Capitalization Scheme, applying approximately HK\$3 million for partial repayment of debts and the remaining HK\$1.22 million for other general working capital purposes. The Company made all necessary announcements in respect of the progress of the Capitalization Scheme on 17 February 2004, 9 March 2004, 1 April 2004, and 20 April 2004.

Future Outlook

The Company has an optimistic view on Hong Kong's economic prospect, which will enable the Group's bankers to restore confidence on the Company's future. The sale in the second half of 2004 should be improved although the funding problems might still exist throughout the entire year. The Company will continue to reinforce its commitment in improving its performance in years ahead. The management of the Company will also continue to exercise stringent cost control, quality assurance, and expense control to minimize operating costs through enhanced flexibility and efficiency.

Risk Management

During the Period, the Group had no exposure to credit risk, inventory risk, fluctuation in exchange rates and any related hedges because our tight control of working capital management on the credit policies, inventory, funding and treasury planning was proven effective. Since all the purchases of our merchandise had been fixed at an agreed exchange rate prior to the confirmation of purchase orders by the Group to its vendors, the Group had no exposure to fluctuation in exchange rates and any related hedges.

Financial Summary

The Group's trade receivables at 30 June 2004 stayed at HK\$826,000 which were less than 2-month old; therefore, the Directors considered unnecessary to provide provision for doubtful debts for the Period.

Within the Period, the Group successfully disposed of all slow-moving inventories. Up to 30 June 2004, the Group reduced holding of inventories by 100 per cent to nil (31 December 2003: HK\$369,000). The Group has undertaken a highly efficient inventory system by maximising our funding availability in production of revenue. The Directors believed that the Company carried the least inventory risk by holding updated inventories at 30 June 2004 and therefore it was unnecessary to make any provision for the Period.

At 30 June 2004, the Group's net current liabilities and net liabilities were HK\$14,046,000 and HK\$6,124,000 respectively (31 December 2003: HK\$24,515,000 and HK\$16,650,000 respectively). At the same day, the Group's cash and bank balances amounted to HK\$3,232,000 (31 December 2003: HK\$1,357,000). The total bank loans and overdrafts at 30 June 2004 were HK\$13,260,000, no significant change from such balances at 31 December 2003. Time deposits were no longer pledged to back the banking facilities granted to the Group at 30 June 2004 (31 December 2003: HK\$ nil).