



Huabao International Holdings Limited

*Interim
Report*

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The board of directors of Huabao International Holdings Limited (the “Company”) is pleased to announce the unaudited condensed financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30th September, 2004 together with the comparative figures for the corresponding period in 2003.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the period ended 30th September, 2004

	Notes	Six months ended	
		30th September, 2004	2003
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	3	10,644	10,942
Changes in inventories of finished goods		–	112
Purchase of finished goods		(10,356)	(10,710)
Staff costs		(370)	(759)
Depreciation		(2)	–
Impairment loss on other investment		–	(1,400)
Other operating expenses		(697)	(1,631)
Loss from operations		(781)	(3,446)
Finance costs	4	–	(103)
Loss before taxation		(781)	(3,549)
Taxation	5	–	–
Loss for the period		(781)	(3,549)
		HK cents	HK cents
Loss per share	6		
Basic		(0.32)	(4.78)

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2004

		30th September, 2004 HK\$'000 (Unaudited)	31st March, 2004 HK\$'000 (Audited)
	Notes		
Non-current asset			
Equipment		28	–
Current assets			
Inventories		1,216	2,673
Trade receivables	7	301	3,450
Bank balances and cash		5,604	10,408
		7,121	16,531
Current liabilities			
Trade and other payables	8	3,866	9,750
Amount due to a former shareholder	9	–	2,875
Amount due to a related company		158	–
		4,024	12,625
Net current assets			
		3,097	3,906
		3,125	3,906
Capital and reserves			
Share capital	10	77,421	77,421
Reserves		(74,296)	(73,515)
		3,125	3,906

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30th September, 2004

	Ordinary share capital HK\$'000	Preference share capital HK\$'000	Contributed surplus HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st April, 2003	7,421	36,012	51,111	266,076	-	(363,389)	(2,769)
Loss for the period	-	-	-	-	-	(3,549)	(3,549)
At 30th September, 2003	7,421	36,012	51,111	266,076	-	(366,938)	(6,318)
Shares issued	17,310	52,690	-	-	-	-	70,000
Preference shares redeemed	-	(36,012)	-	(21,488)	-	-	(57,500)
Loss for the period	-	-	-	-	-	(3,953)	(3,953)
Waiver of an amount due to a shareholder	-	-	-	-	1,677	-	1,677
At 31st March, 2004	24,731	52,690	51,111	244,588	1,677	(370,891)	3,906
Loss for the period	-	-	-	-	-	(781)	(781)
At 30th September, 2004	24,731	52,690	51,111	244,588	1,677	(371,672)	3,125

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30th September, 2004

	Six months ended	
	30th September,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	(1,899)	57
Net cash used in investing activities	(30)	–
Net cash used in financing activities	(2,875)	–
Net (decrease) increase in cash and cash equivalents	(4,804)	57
Cash and cash equivalents at beginning of the period	10,408	1
Cash and cash equivalents at end of the period – represented by bank balances and cash	5,604	58

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the period ended 30th September, 2004

1. BASIS OF PREPARATION

- (a) The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.
- (b) The comparative condensed consolidated income statement was prepared based on the limited financial information left by the former management, and other information and records available to the new board of directors, which were appointed on 29th March, 2004 (the "Current Directors"). The Current Directors were unable to ensure the completeness of the books and records of certain subsidiaries of the Company provided by the former management. Accordingly, the Current Directors were unable to obtain sufficient information to satisfy themselves regarding the matters described below.

During the six months ended 30th September, 2003, an impairment loss of HK\$1,400,000 was recognised in the condensed consolidated income statement in respect of other investment held by a subsidiary which was disposed of in February 2004. However, as the Current Directors do not have any financial information concerning this subsidiary, the Current Directors were unable to satisfy themselves as to whether this impairment loss is free from material misstatement. Details of the disposal of these subsidiaries in February 2004 and the impact on the gain on disposal and the impairment loss of HK\$1,400,000 had been mentioned in the Company's annual report dated 5th July, 2004.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's audited financial statements for the year ended 31st March, 2004.

In addition, the Group adopted the following accounting policy during the period.

Equipment

Equipment is stated at cost less depreciation and any identified impairment loss.

Depreciation is provided to write off the cost of equipment over their estimated useful lives, using the straight-line method, at the rates of 25% to 33¹/₃% per annum.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3. SEGMENT INFORMATION

The turnover and segment results for the six months ended 30th September, 2004, analysed by business segments which are the primary segments as follows:

	Unaudited		
	Six months ended 30th September, 2004		
	Consumer electronic products HK\$'000	Fine chemicals HK\$'000	Total HK\$'000
Turnover	<u>8,777</u>	<u>1,867</u>	<u>10,644</u>
Segment results	<u>28</u>	<u>(259)</u>	<u>(231)</u>
Unallocated corporate expenses			<u>(550)</u>
Loss from operations			<u>(781)</u>

	Unaudited		
	Six months ended 30th September, 2003		
	Consumer electronic products HK\$'000	Fine chemicals HK\$'000	Total HK\$'000
Turnover	<u>10,942</u>	<u>–</u>	<u>10,942</u>
Segment results	<u>(575)</u>	<u>–</u>	<u>(575)</u>
Unallocated corporate expenses			<u>(2,871)</u>
Loss from operations			<u>(3,446)</u>

4. FINANCE COSTS

	Six months ended	
	30th September,	
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on amount due to a former shareholder wholly repayable within five years	—	103

5. TAXATION

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group had no assessable profit for both periods.

At the balance sheet date, the Group had unused tax losses of approximately HK\$6,200,000 (31st March, 2004: HK\$5,377,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of tax losses due to the unpredictability of future profit streams.

6. LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss for the period of HK\$781,000 (2003: loss of HK\$3,549,000) and the number of ordinary shares of 247,309,435 (2003: 74,209,436) in issue during the period.

The number of shares for the six months ended 30th September, 2003 has been adjusted for the consolidation of shares of the Company in 2004.

No diluted loss per share is presented since the exercise of the outstanding convertible cumulative non-voting preference shares and warrants would decrease the loss per share.

7. TRADE RECEIVABLES

The Group allows a credit period ranging from cash on delivery to 30 days to its trade debtors. The aged analysis of trade debtors is as follows:

	30th September,	31st March,
	2004	2004
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
0 – 30 days	240	3,440
31 – 60 days	—	10
Over 90 days	61	—
	301	3,450

8. TRADE AND OTHER PAYABLES

The aged analysis of trade creditors is as follows:

	30th September, 2004 HK\$'000 (Unaudited)	31st March, 2004 HK\$'000 (Audited)
Trade creditors:		
0 – 30 days	2,018	8,580
31 – 60 days	878	35
	<u>2,896</u>	<u>8,615</u>
Other payables	970	1,135
	<u>3,866</u>	<u>9,750</u>

9. AMOUNT DUE TO A FORMER SHAREHOLDER

The amount due to a former shareholder was unsecured, interest-free and repaid during the period.

10. SHARE CAPITAL

Ordinary shares of HK\$0.10 each No. of shares	Convertible cumulative non-voting preference shares of HK\$1.00 each No. of shares		Convertible cumulative non-voting preference shares of HK\$0.10 each No. of shares		Convertible cumulative non-voting preference shares of HK\$0.10 each No. of shares		Total HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	

Authorised:

At 1st April, 2004 and 30th September, 2004	2,000,000,000	200,000	50,000,000	50,000	350,000,000	35,000	526,900,000	52,690
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Issued and fully paid:

At 1st April, 2004 and 30th September, 2004	247,309,435	24,731	–	–	–	–	526,900,000	52,690	77,421
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11. CONTINGENT LIABILITIES

The Current Directors noted from an announcement dated 29th April, 2002 made by certain former directors that a verbal demand notice was received from one of the creditors demanding immediate settlement of approximately RMB9,600,000 alleged outstanding debts. However, the Current Directors have reviewed the records of the Company and conducted an internal investigation after appointment. There were no other information available to support the existence or the validity of this claim. The management will continue to monitor and review the situation from time to time.

Save as disclosed above and based on the information available to the Current Directors, the Group had no contingent liabilities as at 30th September, 2004.

12. RELATED PARTY TRANSACTIONS

During the period, the Group has entered into the following transactions with related parties:

	Six months ended	
	30th September,	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Management fee paid to a former shareholder (<i>note a</i>)	–	120
Interest paid to a former shareholder (<i>note b</i>)	–	103
Amount charged by a related company for sharing of administrative expenses (<i>note c</i>)	158	–
(Repayment to) advances from a former shareholder	(2,875)	1,565

Notes:

- (a) Management fee represented the allocation of expenses which was based on estimated administrative costs including sharing of office premises and corporate management services, and the basis of which was considered appropriate.
- (b) Interest was calculated at Hong Kong prime rate plus 2% per annum.
- (c) The related company is a company in which a director of the Company, Ms. Chu Lam Yiu, has a beneficial interest. The sharing of administrative expenses was charged based on the actual administrative costs incurred, including share of office premises and corporate expenses, and the basis of which was considered appropriate by the management.

The amount due to the related company is unsecured, interest-free and repayable on demand.

- (d) On 22nd March, 2004, the Company, Huabao Investment Company Limited (formerly known as Excel Advance Limited) (“Huabao Investment”), a wholly-owned subsidiary of the Company, and the ultimate holding company, Mogul Enterprises Limited, had entered into a loan agreement (the “Loan Agreement”) which was approved by the shareholders at a special general meeting held on 19th March, 2004. Pursuant to the Loan Agreement, the ultimate holding company agreed to grant a revolving loan facility up to HK\$15 million (the “Loan Facility”) to the Company and Huabao Investment at an interest rate of 2% over the six-month Hong Kong Inter Bank Offered Rate. Repayment of the loan and the relevant interests are guaranteed by the Company (limited to HK\$15 million) and secured by a first legal fixed charge on the Company’s entire shareholding interests in Huabao Investment and a floating charge on all the assets of Huabao Investment. During the six months ended 30th September, 2004, the Group did not make any drawdown under the Loan Facility.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30th September, 2004, the Group recorded a turnover of HK\$10,644,000, a decrease by 3% from HK\$10,942,000 of the corresponding period last year. Loss recorded in the period under review reduced from HK\$3,549,000 of the previous year same period to HK\$781,000. Given the slim profits and downward trend of prices in the consumer electronic products market arising from the fierce competition, and taking into account the low credit exposures policy adopted by the Group, the turnover in the relevant business decreased accordingly. While dedicating to strengthen the existing consumer electronic products trading business, the Group also proactively explored other more profitable income streams and expanded the scope of the existing trading business. A trading of fine chemicals business was introduced during the period, striving for bringing in the Group a new impetus. Furthermore, with the implementation of cost control policy, the Group successfully further reduced the loss for the period.

BUSINESS REVIEW

Trading of Consumer Electronic Products

During the period, the Group's consumer electronic products trading business recorded turnover of HK\$8,777,000, which accounts for 82% of the total turnover, representing a decrease of 20% compared with HK\$10,942,000 of the corresponding period last year. During the period, the business has contributed a profit of HK\$28,000. At present the major trading products of the business are DVD players and DVD ICs. With the consumers' pursuit on the quality of audio-visual products, DVD products play a significant role in the audio-visual products market. However, the over-production in the relevant market and intense competition in the industry resulted in continuous general price decline in the market. Accordingly, the relevant trading business could barely survive on very thin profit margin environments. During the review period, while efforts were made to strive for sustaining a stable income in this vast market, the Group took a strictly prudent attitude towards the trade credit risk management. As a result, business performance was adversely affected. Looking ahead, the Group will keep on closely monitor the market development. Leveraging on our well-established distribution channels, the management hopes this trading business will continue to be a stable income stream to the Group.

Trading of Fine Chemicals

Under the strategies deployed by the management, the fine chemicals trading business formally established in August, 2004. Currently, the sales represented flavours and fragrances sold to local customers who resold or transited the commodities to the factories in the PRC as production raw materials. Those flavours and fragrances originated from places including Europe and Southeast Asia region, all of which were imported through suppliers. With abundance experience and professional knowledge in the fine chemicals sector, and by making use of the current resources of the Group, the management believes that new business will create a new prosperous vision for the Group.

The Group's fine chemicals trading business recorded turnover of HK\$1,867,000 for the period ended 30th September, 2004, representing 18% of the total turnover while loss of related business amounted to HK\$259,000. Since such business remained in the preparation stage at the beginning of the current period, results for the period were unable to completely reflect the potential of such business's sales and profitability. Given the huge demand for fine chemicals as a result of the large production market in the PRC for products like food, tobacco and daily chemical products, plus generally attractive profit margin in the trading of fine chemicals sector, the management believes that this new trading business will bring satisfactory returns to the Group.

PROSPECTS

Looking forward, on the one hand, the Group will actively consolidate and strengthen the trading business of consumer electronic products. DVD products will maintain its indispensable position in consumer audio-visual products market. Despite the rapid development of consumer electronic products and the keen market competition, the management believes that the trading business of consumer electronic products will continue to bring along steady income for the Group with the sales channels established by the Group. Furthermore, the Group is seeking for other business opportunities to reinforce its trading business of consumer electronic products.

On the other hand, the Group will keep on using its best endeavors to develop the fine chemicals trading business, maintain its good relationship with customers, consolidate and expand existing sales channels, hoping that it will create stable revenues and satisfactory returns for the Group.

The economic growth in the PRC maintains its strong momentum, which offers more business opportunities. By means of the establishment of fine chemicals trading business as a springboard, the Group has an intention to go about further research and develop in the fine chemicals industry. In macro view of fine chemicals market in the PRC, despite the significant market share currently occupied by foreign suppliers in the PRC, their high production costs, few varieties and insufficient localisation still leave great rooms and opportunities for the development of local enterprises. Notwithstanding, the research and development ability and technical foundation of the local enterprises in the PRC still remain very weak and with limited brand recognition. As such, the Group plans to seize this opportunity and to duly make use of its internal resources and part of its undrawn revolving loan facility and attempts the research and development and production of fine chemicals under favorable circumstances. The management hopes that, leveraging on their extensive experiences and professional knowledge in fine chemicals industry, they can gradually bring the Group with long term and effective revenue sources and gain a stable development.

FINANCIAL REVIEW

As at 30th September, 2004, the Group had bank balances and cash of HK\$5,604,000, mainly denominated in Hong Kong and United States dollar and deposited in savings accounts at major banks for interest returns. As at 30th September, 2004, the current ratio of the Group was 1.77 (31st March, 2004: 1.31). No gearing ratio was presented as there was no long term liability or loan due from the Group.

As at 30th September, 2004, the Group had an undrawn revolving loan facility from Mogul Enterprises Limited, the Group's ultimate holding company, of up to HK\$15,000,000. The facility bears interest at 2% over the six-month Hong Kong Interbank Offered Rate on the outstanding amount calculated on a daily basis, and will be secured by a first legal fixed charge made over the equity interest of the Company in Huabao Investment Company Limited ("Huabao Investment") (formerly known as Excel Advance Limited), a wholly-owned subsidiary of the Company, and by a first floating charge made over all of Huabao Investment's assets. Any outstanding loans together with the accrued interest will be due on 22nd March, 2009.

During the period ended 30th September, 2004, the Group did not make any drawdown under the Loan Facility.

MANAGEMENT AND EMPLOYEES

As at 30th September, 2004, the Group had a total of 5 employees and 6 directors. In addition, the supporting services to the Group's business of trading electrical consumer products were provided by an agent. Salaries of employees are primarily based on prevailing market salary levels and year end bonuses are granted in the first quarter of each calendar year. Other employees' benefits include provident fund, medical cover and other insurance.

DIRECTORS' INTERESTS IN SHARES

At 30th September, 2004, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

(a) Ordinary shares of HK\$0.10 each in the Company

Name of director	Capacity	Number of ordinary shares held	Percentage of issued ordinary share capital of the Company
Chu Lam Yiu	Held through a controlled corporation (<i>note</i>)	173,219,445	70.04%

(b) *Convertible cumulative non-voting preference shares of HK\$0.10 each in the Company*

Name of director	Capacity	Number of preference shares held	Number of underlying ordinary shares held under equity derivatives	Percentage of issued preference share capital of the Company
Chu Lam Yiu	Held through a controlled corporation (note)	526,900,000	526,900,000	100%

(c) *Warrants*

Name of director	Capacity	Number of warrants held	Number of underlying ordinary shares held under equity derivatives
Chu Lam Yiu	Held through a controlled corporation (note)	49,000,000	49,000,000

Note: 173,219,445 ordinary shares, 526,900,000 convertible cumulative non-voting preference shares and 49,000,000 warrants in the Company are held by Mogul Enterprises Limited. Ms. Chu Lam Yiu is the sole beneficial owner of Mogul Enterprises Limited.

Save as disclosed above, at 30th September, 2004, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO.

SHARE OPTIONS

On 19th March, 2004, the Company has adopted a share option scheme. No options under the share option scheme had been granted to any persons during the period and up to the date of this report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the interests disclosed in the section "Directors' interests in shares", at no time during the six months ended 30th September, 2004 was the Company, its ultimate holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2004, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that other than the interests disclosed in the section "Directors' interests in shares", the Company had not been notified of any substantial shareholders' interests and short positions in the issued share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th September, 2004.

CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th September, 2004, in compliance with Appendix 14 of the Listing Rules except that the independent non-executive directors of the Company were not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The board of directors of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the Code for Securities Transactions by Directors of the Company (the "Securities Dealing Code"). Following specific enquiry by the Company, all the directors have complied with the required standard set out in the Securities Dealing Code throughout the period ended 30th September, 2004.

AUDIT COMMITTEE

On 30th September, 2004, the board of directors of the Company has adopted a written terms of reference for audit committee based on the guidelines set out in "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants and the requirements as set out in rules 3.21 to 3.23 of the Listing Rules. The audit committee comprised three independent non-executive directors, namely Messrs. Mak Kin Kwong, Poon Chiu Kwok and Ms. Ma Yun Yan. The audit committee has reviewed the condensed financial statements for the six months ended 30th September, 2004 with the board of directors and the auditors.

By Order of the Board

Chu Lam Yiu

Chairman

Hong Kong, 30th November, 2004