

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the "Directors") of Fujian Holdings Limited (the "Company") and its subsidiaries (the "Group") are pleased to present the Group's Interim Report and condensed financial statements for the six months ended 30 September 2004. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 September 2004 and the consolidated balance sheet of the Group as at 30 September 2004, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 07 to 16 of this report.

Financial Review

The Group recorded a net loss of HK\$3,273,296 and loss per share of HK\$0.0063 during the period. Bank and cash balances of the Group as at 30 September 2004 was HK\$38,757,134. The Group has been maintaining a good financial position during the period.

Liquidity and Financial Resources

Net cash inflow from operating activities was HK\$1,729,617 for the reported period, compared with a net cash outflow of HK\$11,170,408 for the period ended 30 September 2003. Cash and bank balances as at 30 September 2004 amounted to HK\$38,757,134 (2003: HK\$1,319,663).

The Group's debt ratio measured by the total liabilities over the total assets was 49% as at 30 September 2004 compared to 47% as at 31 March 2004.

The gearing ratio (interest bearing borrowings/shareholders' funds) of the Group as at 30 September 2004 was 46% compared to 43% as at 31 March 2004.

Capital Structure of the Group

The Group's monetary assets, loan and transactions are principally denominated in Hong Kong dollars and Renminbi. Since there is minor fluctuation in the exchange rates for Hong Kong dollars and Renminbi, the directors are of the opinion that the Group's exposure on exchange risk is insignificant.

During the period, the Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its balance sheet exposures.

Funding and treasury policies of existing subsidiaries in the Group are centrally managed and controlled by the top management in Hong Kong.

Prospect

As stated in the latest annual report of the Company for the year ended 31 March 2004, the Company is seeking new business areas that could enhance the operations and profitability of the Group in order to broaden the Group's earning base. The Company is considering taking the advantage of the strong business resources of the controlling shareholder of the Group, FIDC, to search for new expansion opportunities to enhance the quality of funds, business scope and the cashflow of the Company. With the support of the CEPA agreement, the board of Directors believes that, taking the advantage of the resources from the PRC and coupled with the Group's healthy financial position, it will diligently, well positioned to capture all the upcoming business opportunities arising from Hong Kong and PRC, develop existing business and enhance asset quality to improve operating results.

On 11 November 2004, the Group has entered into an acquisition agreement to acquire 25% equity interest of Fuzhou Harmony Piano Company Limited ("Harmony Acquisition Agreement"). The entering into the Harmony Acquisition Agreement leads the Company into new business opportunities, which diversifies the business scope of the Group in the PRC. The Group is now engaged in investment holding, property investment in Hong Kong and hotel operation in the PRC. After the completion of the Harmony Acquisition Agreement, the Group would further broaden its business to industrial and manufacturing industry. Looking forward, the Directors will continue to pursue a diversification strategy and explore other business opportunities in the PRC. The Directors are confident and optimistic about the prospects of the Group's business.

SIGNIFICANT INVESTMENTS HELD

There is no material change in significant investments held by the Group during the six months ended 30 September 2004.