

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Trading of Consumer Electronic Products

During the year under review, the Group's consumer electronic products trading business recorded a turnover of HK\$13,069,000, which accounted for 53% of the total turnover, representing a decrease of 51% compared with HK\$26,723,000 of last year. The business recorded a profit of HK\$87,000 (2004: loss of HK\$589,000) and average profit margin of 1.4% (2004: 1.3%). The major trading products of this business segment are DVD players, DVD ICs and spare parts. Due to overproduction and the overheated market of relevant products in previous years, competition is very keen in the industry and profit margin remains low. In order to reduce trade credit risk, the Group took a prudent approach in operating the business during the year, as a result, the turnover was also adversely affected. On the other hand, with the strict cost control measures of the management implemented to cut down operating expenditure last year, the results of this segment improved from a loss recorded last year to a profit. The Group will continue to monitor and review the market situation and respond accordingly.

Trading of Fine Chemicals

The Group commenced its fine chemicals trading business in August 2004. Currently, sales of fine chemicals mainly involve flavours and fragrances sourced from Europe and Southeast Asia, all of which are imported through suppliers. So far, all the sales in Hong Kong are targeted at local customers, who will then distribute the flavours and fragrances to the Mainland manufacturers as raw materials for production. During the year under review, the Group also set up a sales base in Shenzhen, and commenced fine chemicals trading business prior to the year end.

The Group's fine chemicals trading business operated for eight months recorded a turnover of HK\$11,634,000 for the year ended 31st March, 2005, representing 47% of the total turnover, of which, sales to the Mainland market amounted to HK\$1,776,000. The segment results recorded a profit of HK\$385,000, of which the profit from the Mainland market amounted to HK\$125,000. Mainland, as one of the production base for global products, has a superb market for products like food, tobacco and daily-used chemical products, which also brings about a huge demand for fine chemicals. In addition, the profit margin of fine chemicals trading business is more attractive. Accordingly, the Group was able to achieve remarkable results in the first year of fine chemicals trading.

Looking forward, leveraging on the Group's established sales bases as a starting point, the Group will endeavour to strengthen its customer base and expand sales channels, and make full effort in developing the trading business in the Mainland market. Based on years of profound experience and expertise in the fine chemicals industry, the management believes that continuous development in this direction will certainly generate a fruitful return.

From a macro view of the fine chemicals market in the Mainland, despite the significant market share currently occupied by foreign suppliers in the Mainland, their higher production cost, few varieties and insufficient localization leave enough room and opportunities for the development of local enterprises. On the other hand, the R&D capability and technical foundation of local enterprises in the Mainland are still weak with limited brand recognition. As such, the Group decided to establish a base in Shanghai to engage in the R&D and production of fine chemicals. Apart from strengthening its trading business, the Group will continue to explore any related business opportunities for the long term benefit and development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group is principally financed with internal generated cash flow. Net cash generated from operating activities for the year amounted to HK\$1,731,000.

As at 31st March, 2005, the Group had bank balances and cash of HK\$9,234,000, of which 68%, 26% and 6% were denominated in Hong Kong dollars, U.S. dollars and Renminbi respectively. The Group continues in maintaining a healthy financial position. As at 31st March, 2005, the current ratio of the Group was 1.5 (2004: 1.3). No gearing ratio was presented as there was no long term liability due from the Group.

As at 31st March, 2005, 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"), 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 year, the Group did not make any drawdown under the Loan Facility.

FOREIGN CURRENCY EXPOSURE

Except for the operations in the Mainland where the transactions are denominated in Renminbi, the sales and purchases of the Group are denominated in U.S. dollars and Hong Kong dollars. In view of the relative stability of the exchange rates between Hong Kong dollars, U.S. dollars and Renminbi, the Board considers that the Group is not exposed to any significant exchange risk.

CONTINGENT LIABILITIES

The Board 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, while the Board has reviewed the records of the Company and conducted internal investigations after their appointment, the Board do not have any other information available to verify the existence of or the validity of this claim but will continue to monitor and review the situation from time to time.

Save as disclosed above and based on the information available to the Board, the Group and the Company had no contingent liabilities as at 31st March, 2005.

MANAGEMENT AND EMPLOYEES

As at 31st March, 2005, the Group had a total of 8 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 at the end of each calendar year. Other employees' benefits include provident fund, medical cover and other insurance.