Management Discussion and Analysis

Business review

Driven by the strong mainland tourist and consumer spending and the strength of US economic recovery, the local economy for the year ended 31 March 2005 (the "Year") has made a satisfactory growth with the rising property and stock prices. With the strong recovery in the local economy and the rebound in equity market, the Group has recorded appreciable profit growth for the Year. The net profit from ordinary activities attributable to shareholders for the Year was HK$25.1 million, comparing to a net profit of HK$1.2 million last year.

The Group's turnover was HK$39.9 million for the Year after taking into account of the segment of treasury investment of HK$32.1 million. The Group's turnover for the last corresponding year was restated as HK$15.8 million accordingly. The increase in the Group's net profit for the Year was primarily attributable to the contribution from treasury investment segment comprising of realised gain on other securities of HK$28.0 million and unrealised gain of other securities of HK$23.0 million.

During the Year, the turnover of car audio products decreased by HK$7.6 million, or 49% to HK$7.8 million. The decrease in the turnover of car audio business was mainly due to the continued decline in sales of the car audio products resulting from the squeezing profit margins and the increasing demand for new generation products in the existing highly competitive market. Stripping of the impairment charges of fixed assets of HK$3.8 million and write-offs of slow moving inventory of HK$2.7 million, the operational loss for this segment reduced by HK$1.2 million or 11% to HK$9.2 million.

During the Year, the Group continued to face challenging and difficult operating environment of the car audio market. The Group's car audio market became hostile and was characterized by overcapacity, low profit margins and intense competition. With the fast development of MP3 and digital transmission technology, customers tended to change their needs and tastes more frequently and have strong desires for new car audio products with latest technological functions and features. The new generation products trend has made the existing product models obsolete very fast and substantially shortened the average product life cycle. As a result, the Group has suffered a significant decrease in the sales volume of its mainstream products including car cassette & CD. In addition, the rising raw material costs resulting from high oil price has also further eroded the profit margins of the manufacturing and outsourcing products.

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In order to contain the operating loss, the Group has completed cost reduction program and substantially reduced the direct labor workforce. During the Year, the Group has subcontracted an assembly works of its products to the business partners. Such corrective action has mitigated partly the adverse effects of falling profit margin and the decreasing sales volume. The positive resulting effect of this cost reduction initiative will be fully reflected in the coming financial year.

Apart from relieving the burden of fixed manufacturing costs, the Group for the Year focused its efforts on strengthening the trading business by sourcing a wide range of products and expanding the existing sales network. Through the cooperation with the business partners, active participation in trade fair, and advertising & promotion, the Group has started to trade in several brought-in car audio products and recorded sales of certain trading orders.

As part of the Group's treasury investment management, the Group has been utilizing its available fund in securities investment and trading for generating and diversifying revenue streams for the past few years. Previously, these activities were not separately identified and were classified as unallocated item in the segmental information. In order to enable investors to better understanding the performance business of the Group, the Board believes that it is more appropriate and necessary to separately identify and report the treasury investment as one of the Group's major and ordinary courses of business. During the Year, the treasury investment business segment has brought positive contributions to the Group on the back of the strong rebound of local equity market and low interest rates. The turnover and the segment results of treasury investment for the Year was HK$32.1 million and HK$50.6 million respectively.

On 2 February 2005, the Group entered into an agreement to acquire the entire equity interest in Sociedade De Fomento Predial Fu Wa (Macau) Limitada, which is the owner and operator of Hotel Grandeur Macau, for HK$500.0 million. Details of such transaction were disclosed in the Company's announcements dated 27 January 2005 and 4 February 2005 and the circular dated 10 June 2005.

However, the current overheating gaming business in Macau has adversely affected the overall market sentiments and weakened the business confidence of investors. The above proposed acquisition was not approved by the shareholders in the Special General Meeting of the Company held on 27 June 2005. Details of the result of the said shareholders' meeting were disclosed in the Company's announcement dated 27 June 2005. Despite of this, the financial position of the Group remains sound and the Group is well positioned to explore investment opportunities for the growth of new business.

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Prospects

The squeezing profit margins and the increasing demand for the new generation products will be a continuing trend in the car audio market. This highly competitive market will continue to be dominated by several large manufacturers who offer the comparable products at very low costs. In order to avoid the direct cost competition and find a new niche in the market, the Group will continue to put the cost control measures in place and trade in a wider range of new generation car audio and other high-end audio-video products for the year to come. In anticipation of the improving sentiments in capital and equity market, the Group will also strengthen its treasury investment segment to increase shareholders' value.

Looking ahead, the Group will continue to pursue its strategy to diversify its existing business and revenue streams. The continued global and local economic growth will create an abundance of investment opportunities across various industries. The Group will be alive to the suitable investment opportunities and poised to seize them for its growth of new businesses.

Financial review

The Group's financial position for the Year remained strong, with the net asset value as at 31 March 2005 increased by 38.3% to HK$315.9 million. (31 March 2004: HK$228.4 million). The increase was mainly attributable to the net profit of HK$25.1 million and new share placing of HK$62.4 million (net of expenses). During the Year, the Group has further strengthened its financial position to support its operation and make new investments through the placement of new shares.

Liquidity and financial resources

During the Year, the Group generally financed its operation with internally generated cash flow, banking facilities and the placement of new shares. In March 2005, the Group raised approximately HK$62.4 million (net of expenses) for working capital purpose by placing a total of 2,000,000,000 new shares at HK$0.032 per placing share through the placing agent. As a result, the Group's bank and short-term deposits as at 31 March 2005 was increased to HK$90.0 million.

During the Year, the bank overdrafts of the Group was repaid in full (at 31 March 2004: overdrafts of HK$4.4 million). As at 31 March 2005, there were no bank overdrafts, short and long term interest bearing borrowings or material contingent liabilities to the Group. As at 31 March 2005, the Group's gearing ratio, being the total interest bearing bank borrowing to net worth was nil (31 March 2004: 2%).

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As at 31 March 2005, the Group's current ratio was 34.2 times (at 31 March 2004: 16.6 times) based on current assets of HK$311.3 million (at 31 March 2004: HK$234.3 million) and current liabilities of HK$9.1 million (at 31 March 2004: HK$14.1 million).

Subsequent to the Year, the Group has obtained short-term unsecured loans of HK$90.0 million in aggregate to finance the proposed acquisition of the entire equity interest in Sociedade De Fomento Predial Fu Wa (Macau) Limitada. At the date hereof, the above loans have been fully repaid by the Group.

Capital structure

The Group's bank deposits and borrowings are mainly denominated in Hong Kong dollars. Most of the Group's sales and purchases are made in United States dollars and Hong Kong dollars. Therefore, the exchange risks exposed to the Group is minimal.

On 27 January 2005, the Company entered into an agreement with a placing agent for placement of 4,000,000,000 new shares at HK$0.032 per placing shares, 2,000,000,000 shares were placed in March 2005 (the "First Placing") whilst the remaining 2,000,000,000 shares will be placed on a best effort basis (the "Second Placing"). The 4,000,000,000 placing shares represented approximately 42.86% of the issued share capital of the Company as at 27 January 2005. As at the date hereof, the Second Placing has not yet completed. Details of the First Placing and the Second Placing have been disclosed in the Company's announcements dated 27 January 2005 and 30 May 2005 and the circular dated 16 February 2005.

On 21 June 2005, the Group proposed a capital reorganisation including the consolidation of every ten existing shares of HK$0.01 each in the issued share capital of the Company into one consolidated share of HK$0.10 and the cancellation of HK$0.09 paid-up capital for each consolidated share. In addition, the existing board lot of 2,000 shares will be changed to board lot of 10,000 reorganised shares. Details of the capital reorganisation were disclosed in the Company's announcement dated 21 June 2005 and circular dated 4 July 2005.

Significant investments

As at 31 March 2005, the Group had convertible notes issued by a company listed on The Stock Exchange of Hong Kong Limited with carrying amount of HK$13.5 million.

As at 31 March 2005, the Group maintained a portfolio of other securities with fair value of HK$ 194.7 million.

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Details of Charges on Assets

At 31 March 2005, a fixed deposit of HK$6.6 million (2004: HK$6.5 million) and an unlisted investment fund of HK$4.1 million (2004: HK$4.0 million) were pledged to secure banking facilities granted to the Group.

Material acquisitions and disposals

During the Year, the Company has no material acquisition and disposal of subsidiaries and associate.

Employment, Training and Development

At 31 March 2005, the Group had a total of 49 employees of which 23 were based in Hong Kong and 26 were based in the Mainland China. The Group has committed itself to its staff training and development and structured training programs for all employees.

Remuneration packages are maintained at a competitive level and reviewed on a periodic basis. Bonus and share options are awarded to certain employees according to the assessment of individual performance and industry practice.

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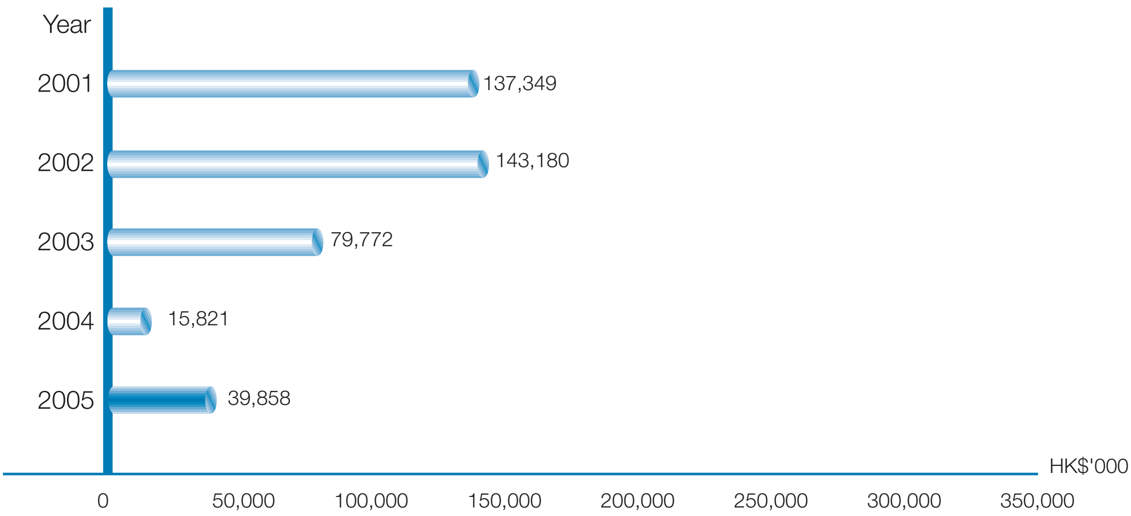
Financial Highlights

	2004/2005	2003/2004
Turnover	**HK$39,858,000**	HK$15,821,000
Net profit from ordinary activities attributable to shareholders	**HK$25,125,000**	HK$1,204,000
Basic earnings per share	**HK0.27 cents**	HK0.01 cents

Turnover

(For the year ended 31 March)



Net Profit/(Loss) From Ordinary Activities Attributable to Shareholders

(For the year ended 31 March)