MANAGEMENT DISCUSSION AND ANALYSIS

Interim results

Although the unaudited turnover in the Period had been significantly increased as compared to that in the Last Period, the gross profit margin slipped almost 45 per cent as a result of the adverse price war in the automotive industry since early this year. The unaudited net loss attributable to shareholders for the Period amounting to HK$1,519,000 was therefore worsen by 13 per cent as compared with that of Last Period. Other revenue for the Period also experienced a slight decrease of 9 per cent in the Period. The continuous rise in interest rates during the Period resulted in heavy burden in the Group's financial costs, an increase of almost three-folded of those incurred in the Last Period.

Business Review

The Group principally engaged in the marketing and wholesale distribution of automotive products. Suffering the similar reasons as pervious years, the turnover in the Period failed to achieve a breakthrough under the shortage of banking facilities.

The price wars between automakers and the rising raw material costs in the mainland, the Group's principal trading field and the world's third-largest auto market, had shrank the industry's profit margin to 6.6 per cent in the first half of this year. In lack of funding with profits falling following rounds of price wars, the Group's distributorship business in China had been seriously tampered to a further bad operational environment in the Period.

Future Outlook

The Company still carries an optimistic view on Hong Kong's economic prospect, which will enable the Group's bankers to restore confidence on the Company's future. Although automotive sales on the mainland is expected to grow 10 to 15 per cent this year, the price wars between automakers had cut the overall profit margin of the industry. The price wars will continue until those brands that are less competitive are being driven out. Profit margins are likely to shrink further because of the surge in the price of steel, the main raw material for car assemblers and parts makers.

The Company will continue to reinforce its commitment in improving its performance in years ahead. The management of the Company will also keep on exercising 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 2005 stayed at HK$760,000 which were less than 3-month old; therefore, the directors of the Company (the "Directors") considered unnecessary to provide provision for doubtful debts for the Period.

Within the Period, the Group continuously carried no inventories of any kind whatsoever (31 December 2004: nil). The Group has undertaken a highly efficient inventory system by maximising our funding availability in production of revenue. Based on the back-to-back ordering system, the Directors believed that the Company carried the least possible inventory risk and therefore it was unnecessary to make any provision for the Period.

At 30 June 2005, the Group's net current liabilities and net liabilities were HK$18,994,000 and HK$6,294,000 respectively (31 December 2004: HK$17,435,000 and HK$4,775,000 respectively). At the same day, the Group's cash and bank balances amounted to HK$1,134,000 (31 December 2004: HK$2,777,000). The total bank loans and overdrafts at 30 June 2005 were increased to HK$15,018,000 from such balances of HK$14,559,000 at 31 December 2004. Same as the last year-end date, time deposits were no longer pledged to back the banking facilities granted to the Group at 30 June 2005.

In terms of liquidity, the current ratio at the end of the Period was 0.09 (31 December 2004: 0.14). The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital was 1.95 at 30 June 2005 (31 December 2004: 1.89).

For the Period, the Directors are not aware of any significant change from the position as at 31 December 2004 and the information published in the report and accounts for the year ended 31 December 2004. Throughout the Period, the capital structure of the Company only consists of share capital, no other capital instrument was issued by the Company.