

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the "Board") of Fujian Holdings Limited (the "Company") is pleased to present the unaudited Interim Report and condensed financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2005 (the "Period"), together with the comparative figures for unaudited of the six months ended 30 September 2004 (the "previous corresponding period") or the audited financial statements for the year ended 31 March 2005. The statements are all presented on a condensed basis.

Financial Review

The Group recorded a net profit attributable to the shareholders of HK\$13,217,959 and basic earnings per share of HK2.54 cents during the Period (a net loss of HK\$5,611,696 and a basic loss per share of HK1.08 cents was recorded for the previous corresponding period respectively).

Liquidity and Financial Resources

Net cash outflow from operating activities was HK\$2,657,737 for the Period, compared with a net cash inflow of HK\$1,729,617 for the previous corresponding period. Cash and bank balances for the Period amounted to HK\$7,972,000, compared with HK\$38,757,134 as at 30 September 2004.

The Group's debt ratio (measured by the total liabilities over the total assets) and the gearing ratio (interest bearing borrowings over shareholders' funds) was 40% and 44% as at 30 September 2005, compared to 43% and 51% as at 31 March 2005 respectively.

Capital Structure of the Group

The Group's monetary assets, loan and transactions are principally denominated in Hong Kong dollars and Renminbi. Since there has been no major fluctuation in the exchange rate between Hong Kong dollars and Renminbi, the directors of the Company are of the opinion that the Group's exposure to exchange risk is insignificant.

During the Period, the Group was neither engaged in any derivative activities nor committed to any financial instruments for hedging.

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

Review and Prospect

Committed to adding value to the operational rights of its hotel business, the Company entered into an agreement with Xiamen Railway Department Company ("Railway Department"), the joint venture partner of Xiamen South East Asia Hotel, on 9 May 2005 to extend the operation period of the Hotel for 10 years to 31 December 2025. The extension has reduced significantly the costs of the hotel operation, thus improved the profitability of the hotel operation and this previous break-even operation has now achieved stable growth. Meanwhile, the Company has made strenuous efforts to slash the indebtedness, improve the financial position and enhance the asset quality of the hotel operation.

The Company completed the acquisition of a 25% equity interest in Fuzhou Harmony Piano Company Limited ("Harmony Piano") in June 2005. The acquisition offers a new source of revenue to the Company and realised the Group's business diversification into manufacturing industry in Mainland China. The management of the Company believes that this investment will bring about reasonable investment return and stable cash flow.

The Company is identifying new development opportunities, striving for better asset quality, business scope and cash flow. Taking advantage of the resources from the PRC and coupled with the Group's healthy financial position. The Company will capture all the upcoming business opportunities arising from Hong Kong and the PRC, expand its businesses and enhance its asset quality to improve the operational efficiency. The Directors are confident and optimistic about the prospects of the Group's business.

MAJOR ACQUISITION OR DISPOSAL OF SUBSIDIARIES OR ASSOCIATES

As at 30 September 2005, the acquisition of a 25% equity interest in Harmony Piano (the "Acquisition") agreed between Ming Chuen Construction Company Limited ("Ming Chuen"), a wholly-owned subsidiary of the Company, and Fairweal Industrial Company Limited ("Fairweal"), a wholly-owned subsidiary of Fujian Investment and Development Company Limited ("FIDC"), the ultimate controlling shareholder of the Group was completed on 30 June 2005. The consideration of HK\$4,848,500 for the Acquisition was fully paid by the Group on 8 July 2005.

CONTINGENT LIABILITY

During the Period, the Group did not have any significant contingent liability.

EMPLOYEE

During the Period, the Group had approximately 180 employees in total, with most of them working in the PRC. The remuneration package was determined with reference to the prevailing market conditions and individual performance of the employees. Apart from contractual remunerations, the Group also provides the employees with mandatory provident fund schemes and medical insurance cover.

CHANGE OF FINANCIAL YEAR ENDED DATE

At the Annual General Meeting held on 25 August 2005, shareholders of the Company had approved the change of the Group's financial year ended date from 31 March to 31 December.

MANAGEMENT SERVICE CONTRACTS

The management service contracts of the Company or any of its subsidiaries are as follows:

1. According to the entrusted management service agreement entered into by the Company and FIDC in relation to FIDC's appointment of the Company as an agent to participate in the management of Harmony Piano and Huamin Tourism Co. Ltd ("Huamin Tourism"), the Company will provide management services to FIDC for a term of 18 months commencing on the effective date of the agreement (i.e. 11 November 2004) at a fixed management fee of HK\$2,000,000 per annum, and a floating management fee on the basis of 10% of the balance after deducting the fixed management fee from the net profits after tax of Huamin Tourism and Harmony Piano respectively.
2. According to the management contract entered into between Yan Hei Limited ("Yan Hei"), a wholly-owned subsidiary of the Company, and Fujian Sunshine Group Limited (陽光集團, the "Sunshine Group") in relation to the appointment of the Sunshine Group as the operator to manage the daily operation of Xiamen South East Asia Hotel ("the Hotel", a wholly-owned subsidiary of Yan Hei) on 30 June 2004 for a period of 10 years commencing 1 July 2004, Sunshine Group is required to pay Yan Hei a fixed annual cash payment of RMB6,660,000 (payable monthly) and a variable management fee calculated at 1% of the annual turnover of the Hotel.

EXTENSION OF OPERATION PERIOD OF THE HOTEL JOINT VENTURE

On 9 May 2005, Yan Hei, the Railway Department, and Fujian Enterprises (Holdings) Company Limited (as guarantor) entered into the an extension agreement to extend the operation period of the Hotel Joint Venture.

Pursuant to the original Cooperation Agreement, the operation period for the Hotel Joint Venture will end on 11 December 2015. The Extension Agreement provides for an extension of the operation period of the Hotel Joint Venture for 10 years ending on 31 December 2025 and a change in the fixed amount of profits to be distributed by the Hotel Joint Venture to the Railway Department annually.

SHARE OPTIONS

The details of options share outstanding as at 30 September 2005 as granted under the New Share Option Scheme (the “New Scheme”) adopted by the Company’s shareholders on 10 May 2004 are as follows:

		Options held as at 1 April 2005	Options exercised during the Period	Options lapsed during the Period	Options held as at 30 September 2005	Nature of interests	Exercise price HK\$	Exercise period	% of existing Shares
Wang Xiaowu	3 June 2004	5,200,000	-	-	5,200,000	Personal	0.184	3 June 2004- 2 June 2014	1.00
Mei Qinping	3 June 2004	3,120,000	-	-	3,120,000	Personal	0.184	3 June 2004- 2 June 2014	0.60
Chen Danyun	3 June 2004	2,080,000	-	-	2,080,000	Personal	0.184	3 June 2004- 2 June 2014	0.40
Cheung Wah Fung, Christopher	3 June 2004	5,200,000	-	-	5,200,000	Personal	0.184	3 June 2004- 2 June 2014	1.00
Employees	3 June 2004	200,000	-	-	200,000	Personal	0.184	3 June 2004- 2 June 2014	0.04

The consideration to be paid upon acceptance of the options by each of the grantees is HKD 1.

DISCLOSURE OF INTERESTS BY DIRECTORS

Save as disclosed above, during the Period, none of the Directors had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (as defined in Part XV of the SFO)(i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies contained in the Listing Rules (the "Listing Rules").

At no time during the Period was the Company or its subsidiaries to any arrangements to enable the Directors of the Company or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Interests in competing businesses

During the Period, none of the Directors nor their respective associates had any business which competes or is likely to compete, either directly or indirectly, with any business of the Group.

Interests in assets of the Group

During the Period, none of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of, or leased to, or which are proposed to be acquired or disposed of or leased to, the Company or any of its subsidiaries.

Interests in contracts of the Company

None of the Directors was materially interested in any contract or arrangement subsisting during the Period which is significant in relation to the business of the Group.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, as far as is known to the Directors and the Company, and as confirmed upon reasonable enquiry, the register maintained by the Company under section 336 of the SFO shows that the following persons (not being Directors and employees of the Company) had, or were deemed to have, interests or short positions in the Shares and underlying shares of the Company which are required to be disclosed to the Company or the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company or had an option in respect of such capital were as follows:

Long Positions

Name of Shareholders	Number of Shares held	% of total issued Shares
HC Technology Capital Company Limited ("HC Technology")	279,241,379 (a)	53.7
FIDC	279,241,379 (a)	53.7
Sino Earn Holdings Limited ("Sino Earn")	72,553,382 (b)	14.0
Fujian Huaxing Trust & Investment Company ("FHTI")	72,553,382 (b)	14.0
Fujian Huaxing Industrial Company ("FHIC")	72,553,382 (b)	14.0

Notes:

- (a) HC Technology beneficially holds 279,241,379 Shares. Pursuant to the SFO, FIDC is deemed to be interested in the 279,241,379 Shares by virtue of its being beneficially interested in 100% of the issued share capital of HC Technology. HC Technology is a state-owned enterprise in the PRC.
- (b) Sino Earn beneficially holds 72,553,382 Shares. Pursuant to the SFO, each of FHTI and FHIC is deemed to be interested in the 72,553,382 Shares by virtue of their being beneficially interested in 30% and 70% of the issued share capital of Sino Earn respectively. Both FHTI and FHIC are state-owned enterprises in the PRC.

Long Positions *(Continued)*

Save as disclosed herein, as at 30 September 2005, the Directors and the Company, as confirmed upon reasonable enquiry made by them and as indicated in the register maintained by the Company under section 336 of the SFO, were not aware of any other persons (other than Directors and employees of the Company) had, or were deemed to have, interests or short positions in the Shares and underlying shares (including any interests in options in respect of such capital), which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who owned any interests or short positions to be recorded in the register under Section 336 of the SFO; or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company or had any option in respect of such capital.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with management the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters including a review of the unaudited interim report for the Period. The existing Audit Committee comprises three Independent Non-executive Directors, Mr. Leung Hok Lim, Mr. Lam Kwong Siu and Mr. Cheung Wah Fung, Christopher.

CORPORATE GOVERNANCE

The Directors consider that throughout the Period the Company has complied throughout the Period with the Code on CG Practices as set out in Appendix 14 of the Listing Rules. The Company had received from each of the Independent Non-executive Directors a verbal confirmation of his/her independence. In the opinion of the Company, all of the Independent Non-executive Directors are independent in respect of the preparation of the 2005 interim financial statements.

The Company has adopted the Model Code. The Company had made specific enquiries to all Directors regarding any non-compliance with the Model Code during the Period, and had received confirmations from all Directors that they had fully complied with the required standard set out in the Model Code during the Period.

CORPORATE GOVERNANCE *(Continued)*

With the consent of the Audit Committee, the Board hereby confirms that, in the preparation of the 2005 unaudited interim financial statements of the Company, the Directors, both collectively and individually, applied such degree of skill, care and diligence as they may reasonably be expected of under the Listing Rules throughout the Period.

NOMINATION COMMITTEE

The Nomination Committee was established in March 2005 to ensure fair and transparent procedures for the appointment of directors to the Board. The Committee's authority and duties are set out in written terms of reference, which specify that it must comprise at least three members. The existing Nomination Committee comprises three Independent Non-executive Directors, Mr. Cheung Wah Fung, Christopher, Mr. Leung Hok Lim and Mr. Lam Kwong Siu.

REMUNERATION COMMITTEE

According to the Code on CG Practices, the Group shall set up a Remuneration Committee with a majority of the members being Independent Non-executive Directors. The Group established its Remuneration Committee (the "Remuneration Committee") in March 2005 comprising three Independent Non-executive Directors, namely Mr. Lam Kwong Siu, Mr. Leung Hok Lim and Mr. Cheung Wah Fung, Christopher.

The Remuneration Committee shall consult the Chairman and/or the General Manager of the Group about their proposals relating to remuneration package and other human resources issues of the Directors and senior management of the Group. The emoluments of Directors are based on each Director's skill, knowledge and involvement in the Group's affairs, with reference to the Group's performance and profitability, remuneration benchmark in the industry and the prevailing market conditions.

On behalf of the Board
Fujian Holdings Limited
Wang Xiaowu
Chairman

Hong Kong, 15 December 2005