

BUSINESS REVIEW

Fine Chemicals

For the year ended 31 March 2006, the fine chemicals businesses recorded a turnover of HK\$14,846,000, representing an increase of 28% as compared with HK\$11,634,000 of the previous year. Of the total, sales in the Mainland market amounted to HK\$3,294,000 (2005: HK\$1,776,000). The segment results of fine chemicals business recorded a profit of HK\$665,000 (2005: HK\$385,000), representing an increase of 73% over the previous year.

The Group's trading business in Hong Kong has been yielding steady income. Our customers have a stable demand for the flavours and fragrances sourced from Europe and Southeast Asia, and the average gross profit margin for the year improved as compared with the previous year. On the other hand, the Group's trading business in the Mainland is still at the start-up stage, so we are carrying out a tough task of cultivating a new market and building a new sales network, and the management will continuously review and improve every aspect of its development.

In addition, the Group's plant in Jiading District, Shanghai, already completed the fundamental fit-out in the year and commenced production and sales after successfully obtaining the Shanghai Hygiene Permit for Specialized Food in December 2005. Its current products consist mainly of colorants and food seasonings. As it is a newly developed business operation, it will take some time to establish a market network and repeated reassessment is needed before a solid foundation can be built.

Trading of Consumer Electronic Products

A turnover of HK\$3,717,000 was recorded for the Group's trading of consumer electronic products, representing a decrease of 72% as compared with HK\$13,069,000 of the previous year. Due to intense competition, the Group was unable to make a breakthrough in its consumer electronic products trading operation, and hence, the management decided that the Group should gradually scale down from this market.

Prospects

The economy in the Mainland has been experiencing stunning growth, with the people's average income increasing. According to the National Bureau of Statistics of China, the GDP of the nation in 2005 amounted to RMB18,232 billion, representing an increase of 9.9% over 2004, while the per capita annual net income in the rural areas and the per capita annual disposable income in urban areas grew by 6.2% and 9.6% (after deducting inflation factors) respectively as compared with those of 2004. As the economy grows, people's living standards lift up and their demands and requirements on all sorts of consumer products will increase accordingly. The fine chemicals such as flavours and fragrances, colorants and seasonings, which we are now offering, can be used in food and tobacco products to improve the quality and appeal of those products. In view of the huge consumer products production market in the Mainland, we believe there will be huge chance and space for development of the Group's fine chemicals businesses. The Group will look earnestly for investment opportunities in this industry. We are optimistic that, with the valuable experience of the management, the expertise of our staff as well as the reliable relationship with our customers and suppliers, we will be able to secure reasonable returns for our shareholders in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2006, the Group had bank balances and cash of HK\$3,972,000, of which 15%, 54% and 31% were denominated in Hong Kong dollars, U.S. dollars and Renminbi respectively. Current ratio was 1.5 times (2005: 1.5 times).

Due to the application of HKFRS, the liability and equity components of the preference shares of the Company are separated on its initial recognition and be accounted for separately, resulting in negative shareholders' equity. The Board considers that it is not meaningful to publish a gearing ratio for the Group until the Group is in a positive shareholders' equity position.

As at 31 March 2006, the Group had an undrawn revolving loan facility from the Group's ultimate holding company of up to HK\$15,000,000 ("Loan Facility"). 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 22 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 29 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 did 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 31 March 2006.

MANAGEMENT AND EMPLOYEES

As at 31 March 2006, the Group had a total of 14 employees and 6 directors. 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.