MANAGEMENT DISCUSSION AND ANALYSIS

Interim results

The Group had just gone through its toughest interim period. The unaudited turnover in the Period had been significantly decreased as compared to that in the Last Period. The unaudited net loss attributable to shareholders for the Period was further worsen to HK$2,868,000, a serious drop of almost 86 per cent as compared with that reported in the Last Period. Other revenue for the Period, however, had achieved an increase of 20 per cent in the Period. In the absence of the reduction of the bank loan and because of the continuous rise in interest rates during the Period, the Group has carried a heavy burden of financial costs, resulting in a substantial increase of two and a half times 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 trading environment of the Group's core business had not been improved and the Group failed to achieve a breakthrough in the Period. Coupled with other harsh market conditions, the main cause of the bad performance had been the shortage of working capital.

The mainland automotive market, the Group's principal trading field, had shrank in the first half of this year due to a number of adverse market phenomena, including the price wars between automakers and the continuing rise in raw material costs and car fuel. Lack of trading funds in conjunction with the price pressure and slowdown in China's market, the Group's distributorship business had been seriously tampered to a much worse level over the entire Period.

Once the investing market permitted, the Company entered into a placing agreement on 21 June 2006 with an placing agent to procure subscribers, on a fully underwritten basis, to subscribe for 25,800,000 new shares of the Company at a price of HK$0.14, hoping to raise additional working fund of approximately HK$3.61 million. The sole purpose of the placing was to reduce the Group's overdue indebtedness owed to Bank of China (Hong Kong) Limited ("BOCHK"). The Company made announcement in relation to the loan due to BOCHK on 18 May 2006. The placing had been completed in July 2006 and the net proceeds of HK$3.16 million had been primarily distributed to BOCHK, exactly HK$3 million were repaid to the banker.

Future Outlook

Apart from restoring confidence on the Company's future, the management of the Company confronts the immediate urgency of settling the remaining bank loan. After receiving partial repayment out of the proceeds of the placing in July 2006, the bank has given the Company more time for the next repayment schedule. New rounds of negotiation the Company and the banker shall be expected by the end of September 2006.

For surviving in the distributorship business, the Company and its Board shall continue to make efforts in improving business performance with all possible opportunities ahead. Under the limited funding situation, 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. Effective from a couple of years ago, the Company has enforced a tighter credit policy which forbids any sort of credit sale to customers, the Group had therefore no exposure to credit risk in doing business with local or overseas customers Since all the purchases of imported 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

As a result of the risk-oriented sale policy, the Group had no trade receivables at 30 June 2006 which were overdue; 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 2005: nil). The Group has exercised 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 2006, the Group's net current liabilities amounted to HK$18,214,000 (31 December 2005: HK$15,347,000) and net liabilities amounted to HK$2,154,000 (31 December 2005: net assets of HK$737,000). At the same day, the Group's cash and bank balances amounted to HK$225,000 (31 December 2005: HK$598,000). The total bank loans and overdrafts at 30 June 2006 were increased to HK$10,643,000 from such balances of HK$10,518,000 at 31 December 2005. 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 2006.

In terms of liquidity, the current ratio at the end of the Period was 0.04 (31 December 2005: 0.07). The Group's gearing ratio, resulting from a comparison of the total borrowings with issued capital was 1.46 at 30 June 2006 (31 December 2005: 1.28).

For the Period, the Directors are not aware of any significant change from the position as at 31 December 2005 and the information published in the report and accounts for the year ended 31 December 2005. Throughout the Period, the capital structure of the Company only consists of share capital, no other capital instrument had been issued by the Company.