

# MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS

The financial year ended 31 March 2004 was still a difficult year to the Group. Although the Group recorded net profit attributable to shareholders of HK\$33 million which represents an earnings of HK9.04 cents per share, the profit was mainly attributable from the reversal of net liabilities of a discontinued operation previously consolidated.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

The Group generally finances its short-term funding requirements with cash generated from operation and loan financed by a shareholder. As at 31 March 2004, the Group had a long-term borrowing of approximately HK\$2.4 million and deficiency in assets of approximately HK\$4.6 million.

Total current assets of the Group amounted to approximately HK\$782,000 with cash and bank balance of approximately HK\$1,000 and other receivables, prepayments and deposits of approximately HK\$781,000 while net current liabilities was approximately HK\$2.2 million. The current ratio was 0.27 (2003: 0.56) and quick ratio was 0.27 (2003: 0.55).

The Group faced a cash flow problem and its future operation depends on its ability to raise or obtain financing from placement of shares, bankers and its existing shareholders.

The business operations of the Group are mainly transacted in Hong Kong dollars and Renminbi. Most of the Group's sales are conducted in the same currency as the corresponding purchase transaction. The Directors do not consider that the Group has significant exposure to foreign exchange fluctuations in view of the stability between Hong Kong dollars and Renminbi. The Group did not engage any financial instrument for hedging purposes during the year and there was no hedging instrument outstanding as at 31 March 2004.

### Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 March 2004.

## EMPLOYEE AND REMUNERATION POLICIES

As at 31 March 2004, the Group has a total of 39 employees of whom 12 were based in Hong Kong whereas 27 were local staff employed in the PRC. The Group regularly reviews remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits such as share option scheme, of which the Directors may, at their discretion, grant options to employees of the Group. The remuneration policies of the Group's employee are subject to review regularly. Total staff costs for the year amounted to HK\$2,525,000 (2003: HK\$2,340,000).

The Group did not operate any pension or retirement schemes for its Directors or employees until implementation of MPF in December 2000. The Group has a share option scheme, which was duly approved by the shareholders on 5 September 2001, available for any full-time employees of the Company or any of its subsidiaries, including any executive directors of the Company or any of its subsidiaries. No options have been granted since the approval of the scheme.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

## **AUDIT COMMITTEE**

The Company set up an audit committee (the "Committee") on 5 June 2003 which was established in accordance with the requirements of the Code of Best Practice (the "Code"), as set out in The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with written terms of reference, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

The Committee comprises three independent non-executive directors. The Group's audited financial statements for the year ended 31 March 2004 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and the Stock Exchange's and legal requirements, and that adequate disclosures have been made.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the Directors, the Company has complied with the Code as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Company's Bye-laws.