

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION AND RESULTS

In 2003, the Group's turnover was US\$28,114,000, net loss dropped to US\$4,653,000 and basic loss per share were US0.05 cents, compared to last year's loss per share of US0.16 cents. The net asset value per share was US0.26 cents. Net loss was narrowed down because of the decrease in impairment loss recognized in respect of property, plant and equipment and exclusion of deemed loss on partial disposal of subsidiaries.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Group's total shareholder equity was approximately US\$23,017,000.

Total bank and other borrowings as at 31 December 2003 were approximately US\$11,051,000. This consisted of outstanding secured and unsecured bank loans and unsecured loan notes which are mainly denominated in Remninbi and US dollars. The sales and purchases of the Group are also mainly denominated in Remninbi and US dollars. As the exchange rates of Remninbi and US dollars against Hong Kong dollars were relatively stable during the year, the Group's exposure to fluctuations in exchange rates is minimal.

As at 31 December 2003, the net cash and bank balances of the Group stood at approximately US\$2,493,000.

The gearing ratio (total borrowings as a percentage of non-current assets) of the Group has dropped from 45.0% recorded in 2002 to 34.7% this year.

CHANGE IN SHAREHOLDING STRUCTURES OF FAMEG

In July 2003, FameG allotted 2,812,500 and 312,500 series A preferred shares to Mitsubishi and Mitsubishi Taiwan at consideration of US\$2,250,000 and US\$250,000 respectively. After the allotment, the shareholding of the Group in FameG was diluted from 57.46% to 51.46%.

On 26 November 2003, the Company subscribed for a total of 6,400,000 series A preferred shares of FameG at a price of US\$0.5 per share. Immediately after the subscription, FameG became a 60.01% owned subsidiary. On the same date, Fulbond entered into two purchase agreements with two independent third parties, Ms. Tsung and Mr. Hung, for the disposal of 1,846,154 series A preferred shares and 5,428,571 series A preferred shares of FameG at consideration of US\$1,200,000 and US\$3,800,000 respectively. After such transactions, FameG becomes a 39.99% associate of the Group.

PLEDGE OF ASSETS

At 31 December 2003, the Group had pledged certain properties with a carrying value of US\$295,000 (2002: US\$322,000) and plant and equipment of US\$11,135,000 (2002: US\$18,004,000) to various banks for securing bank loans and general banking facilities granted to the Group.

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CONTINGENT LIABILITIES

One of the Group's associates, 天津福津木業有限公司 Tianjin Fortune Timber Co., Ltd. ("TFT") is currently being sued by its bankers to repay bank loans of approximately RMB73.6 million. This amount has not been equity accounted for by the Group as TFT has net deficit at 31 December 2003. This amount has been guaranteed by another associate, 天津福家家具有限公司 Tianjin Fortune Furniture Co. Ltd. ("TFFCL"). Both TFT and TFFCL are currently in negotiations with the bankers of TFT for the restructuring of the borrowings of TFT and for rearranging the guarantees granted by TFFCL. As the negotiations have not been completed as of the date of these financial statements, the ultimate outcome cannot be determined by the directors. However, at 31 December 2003, there is no impact on the Group's share of interest in TFFCL as the Group does not share any net assets of TFFCL as at that date. The effect of this litigation on the Group's share of TFFCL's net assets of approximately US\$2,566,000 at 31 December 2002 was not adjusted in prior year.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2003, the Group employed approximately 1,100 full time management, administrative and production staff in the PRC and Hong Kong. Total staff costs including directors' emoluments incurred during the year, amounted to US\$3,245,000 (2002: US\$2,952,000).

For details, please refer to note 6 of the financial statements.

By order of the Board

Yang Ding-Yuan

Chairman

Hong Kong, 23 April 2004
