

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Continuing its recovery, the Group achieved another profitable year. Net profit attributable to shareholders at HK\$7.2 million for the year was approximately 34% lower than the HK\$10.9 million net profit for 2003, mainly due to substantially lower net profit contributed from our 51.6% Australia listed subsidiary, Omnitech Holdings Limited (“OHL”).

As part of our plan to invest in and build up businesses which will provide high growth potentials and profitable returns, the Group successfully acquired 51.5% interests in Windsor Treasure Group Holdings Limited (“Windsor Treasure”) which designs, markets and distributes medium to high end home furniture in the China market under its own brands. Windsor Treasure’s contribution to the Group’s results is not significant this year as the acquisition was only completed towards the end of the year. However, Windsor Treasure is expected to provide the Group with good growth prospects in the fast expanding furniture market in China.

Turnover for the Group for the year amounted to HK\$176.8 million (2003: HK\$248.4 million), representing a decrease of 28.8%. This was mainly due to a significant drop in the trading of electronics product, as a result of severe competition and stringent credit control adopted by the Group. Windsor Treasure, the furniture division, contributed sales of approximately HK\$34 million mainly for the last month of the year.

Gross margin improved from 11.5% in 2003 to 16.8% for the current year, as the Group scaled down the sales of low margin electronics trading business.

The Group’s electronics division including its key operating unit, Lik Hang Holdings Limited (“Lik Hang”), had a reasonable year contributing profit of HK\$6 million (2003: HK\$9.9 million) from sales of HK\$132 million (2003: HK\$237.7 million). The core business of Lik Hang continued to be the manufacturing of intermediate-frequency transformers, coils and antenna bars for cordless phones and audio equipment. During the year, Lik Hang successfully commenced the product expansion plan in relation to the supply of composite components with trial orders being received from customers having passed the critical testing stage. Lik Hang is committed to a programme of upgrading its products to maintain its competitive edge in the industry.

The Group’s technology division comprising its main operating unit, VFJ Technology Holdings Limited (“VFJ”), suffered a loss of HK\$2.4 million versus a small profit in 2003. The result was mainly due to provision for certain overdue trade receivables arising from projects in overseas markets which VFJ has already decided to exit. The Beijing Metro Line 13 Project completed in late 2003 has been a success, and VFJ is bidding for further projects in Beijing, VFJ is planning also to expand its marketing team to capture various business opportunities in the China market where application of contactless smart card is increasingly being accepted.

The newly acquired furniture division, Windsor Treasure, contributed a profit of HK\$2 million from sales of HK\$34 million, representing effectively one month's operating results after the completion of the acquisition. Windsor Treasure will be able to make a full year contribution in 2005 in the high growth and exciting furniture market in China.

The Group's other investment activities also made an overall profitable contribution.

Administrative expenses increased by approximately 9.4% to HK\$33.3 million reflecting a reasonable level of cost controls as the Group has started to expand its business activities.

Shareholders' funds as at 31 December 2004 amounted to HK\$193.4 million or HK\$2.1 per share.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's current assets and current liabilities as at 31 December 2004 were HK\$262.6 million and HK\$156.4 million, respectively (2003: HK\$127.4 million and HK\$63.4 million, respectively). The increase in both current assets and current liabilities was mainly due to the inclusion of the newly acquired furniture division.

As at 31 December 2004, the Group had cash and bank deposits of approximately HK\$55.4 million (2003: HK\$31.2 million). The Group's bank borrowings and other loans were approximately HK\$68.9 million (2003: HK\$39.4 million). Such banking facilities were secured by charges over fixed deposits, guarantee funds and land and buildings situated overseas of certain subsidiaries, and against guarantees issued by certain subsidiaries and a director of these subsidiaries. The Group was not exposed to any substantial risk in foreign exchange fluctuations.

The Group is in good financial health, and has a gearing ratio, calculated on the basis of bank borrowings and other loan to shareholders' funds, of 35.6% as at 31 December 2004 (2003: 23.3%). Financial prudence will remain a key feature of the Group's policies.

On 24th November 2004, the Company issued 17,003,000 new shares at HK\$1.00 per share as part of the considerations for the acquisition of 51.5% interests in Windsor Treasure.

CHARGES ON ASSETS

As at 31 December 2004, the Group has pledged time deposits and guarantee funds in the amount of HK\$16.3 million (2003: HK\$16.3 million) and land and buildings situated overseas with a net book value as at 31 December 2004 of HK\$4.2 million to banks as security for banking facilities provided to certain subsidiaries.

PROSPECTS

After two years of consolidation and repositioning, the Group is planning to expand all its business activities. The Group is already actively integrating its newly acquired furniture business and is committed to a corporate objective of building Windsor Treasure into a leadership position in the China furniture market.

While the Group will continue to adopt strict financial discipline and cost control, it will actively pursue a personnel policy which will provide performance based rewards and incentives in order to retain and attract high caliber executives and employees.

EMPLOYEES

As at 31 December 2004, the Group employed approximately 2,000 employees, out of which approximately 1,900 were production workers. In addition to the provision of annual bonuses, medical insurance and in-house and external training programs, discretionary bonuses and share options are also available to employees based on their performance. The remuneration policy and packages of the Group are reviewed from time to time.