

MANAGEMENT DISCUSSION AND ANALYSIS

Geographical market

The Group's turnover in the year ended 31st December, 2004 decreased by 10.40% to approximately HK\$887,025,000 compared to the corresponding period in 2003 of HK\$989,942,000. The dominant markets in Europe constituted 61.98% of the turnover, amounting to approximately HK\$549,802,000 (2003: 51.22% amounting to HK\$507,055,000). North American sales, as a percentage of turnover decreased by 11.76% to 28.03% amounting to approximately HK\$248,592,000 (2003: 39.79% amounting to HK\$393,903,000). South American sales slightly decreased to 0.30% amounting to approximately HK\$2,690,000 (2003: 0.34% amounting to HK\$3,372,000). Sales in other markets slightly decreased to the amount of approximately HK\$38,802,000 (2003: HK\$40,306,000). Product sales in the Hong Kong market increased to 5.31% amounting to approximately HK\$47,139,000 (2003: 4.58% amounting to HK\$45,304,000).

Gross profit

The Group's gross profit margin was 13.10% (2003: 13.59%), a decrease of 49 basis points from 2003. Management will continue to work on margin improvement, mainly by offering meaningfully differentiated and high value-added products and reducing cost of goods through better sources and cost controlling.

Product categories

Sales of the major products out of the Group's turnover in 2004 were 35.26% for paper products (2003: 38.44%), 26.63% for wooden products (2003: 31.96%) and 38.11% for household items, home textiles products and tablemats (2003: 29.60%).

Interest expenses

Interest expenses decreased by 12.72% to approximately HK\$4,487,000 in 2004 (2003: HK\$5,140,000) as a result of a decrease in bank borrowings during the year.

Charges over assets

Save for a bank deposit of approximately HK\$2.7 million (2003: HK\$2.7 million), no other property, plant and equipment with any carrying value (2003: HK\$24 million) is pledged to bank to secure banking facilities granted to subsidiaries.

Exposure to fluctuations in exchange rates and related hedges

All transactions of the Group are denominated in Hong Kong dollars, United States dollars and Renminbi. Transactions in foreign currency are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. As the exchange rates of these currencies were stable during the year under review, no hedging or other alternatives had been implemented. The Group does not engage in foreign currency speculation.

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Liquidity and financial resources

Net current assets and current ratio were approximately HK\$121,074,000 and 1.75: 1 as at 31st December, 2003 and approximately HK\$91,734,000 and 1.57:1 as at 31st December, 2004. The decrease in net current assets is largely due to a decline in debtors and stock. Raw material, work-in-progress and finished goods decreased by 10.53% to approximately HK\$76,867,000 (2003: approximately HK\$85,911,000).

As at 31st December, 2004, the Group's bank balance and cash amounted to approximately HK\$101,256,000 (2003: HK\$90,044,000) and bank borrowings and obligation under finance leases amounted to approximately HK\$80,867,000 (2003: HK\$63,625,000). Therefore, the calculation of net debt to equity ratio was not applicable because the Group had surplus cash of approximately HK\$20,389,000 over bank borrowings and obligation under finance leases (2003: HK\$26,419,000).

The Group generally finances its business with internally generated cash flows and revolving credit facilities provided by the Group's principal bankers. With net current assets of approximately HK\$91,734,000, the management believes that the Group has sufficient financial resources to discharge its debts and to finance its daily operations and capital expenditure.

Employees and remuneration

The approximate number of employees of the Group as at 31st December, 2004 and 31st December, 2003 were 5,000 and 6,500 respectively with a seasonal high figure of more than 6,500 during the third quarter of 2004. Less than 100 staff are stationed in Hong Kong and the rest are PRC workers.

Employees are remunerated according to the nature of the job and market trends, with a built-in merit component incorporated in the annual increment and a year-end performance bonus to reward and motivate individual performance. There was no share option granted to any employee during the year.