

Review of Operation and Results

In 2004, the Group's turnover was US\$24,532,000, net loss dropped to US\$2,995,000 and basic loss per share were US0.03 cent, compared to last year's loss per share of US0.05 cent. The net asset value per share was US0.22 cent. Net loss was narrowed down mainly because of the decrease in loss on disposal of property, plant and equipment.

Liquidity and Financial Resources

As at 31 December 2004, the Group's total shareholder equity was approximately US\$20,091,000.

Total bank and other borrowings as at 31 December 2004 were approximately US\$10,902,000. This consisted of outstanding secured and unsecured bank loans, unsecured loan notes and other loans which are mainly denominated in Reminbi and US dollars. The sales and purchases of the Group are also mainly denominated in Reminbi and US dollars. As the exchange rates of Reminbi and US dollars against Hong Kong dollars were relatively stable during the year, the Group's exposure to fluctuations in exchange rates in minimal.

As at 31 December 2004, the net cash and bank balances of the Group stood at approximately US\$2,173,000.

The gearing ratio (total borrowings as a percentage of non-current assets) of the Group has increased from 34.7% recorded in 2003 to 40.8% this year.

Pledge of Assets

At 31 December 2004, the Group had pledged certain properties with a carrying value of US\$271,000 (2003: US\$295,000) and plant and equipment of US\$9,380,000 (2003: US\$11,135,000) to various banks for securing bank loans and general banking facilities granted to the Group.

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 2004. 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 2004, there is no impact on the Group's share of interest in TFFCL as TFFCL has nil net assets balance as at that date.

Employees and Remuneration Policies

As at 31 December 2004, the Group employed approximately 850 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\$1,419,000 (2003: US\$3,245,000).

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

By order of the Board

Yang Ding-Yuan

Chairman

Hong Kong, 22 April 2005