

# Management Discussion and Analysis

Turnover of the Group for the year ended 31st December, 2004 was HK\$5,166,500 (2003: HK\$9,921,500) and the profit attributable to shareholders was HK\$8,119,191 (2003: loss HK\$2,086,653).

## FINANCIAL REVIEW

### Liquidity and Financial Resources

During the year of 2004, the Group has redeemed an aggregate amount of HK\$17,000,000 convertible bonds and repaid instalment loan of HK\$8,000,000. As at 31st December, 2004, the Group had an instalment loan of HK\$10,000,000 and convertible bond of HK\$9,900,000. The Group intends to repay all before the end of December 2005. The Group had available funds of HK\$15,923,448 which were mainly placed with banks as time deposits. Cash and bank balances held by the Group are mainly denominated in Hong Kong dollars.

The Group had shareholders' fund of HK\$148,812,454 at 31st December, 2004 compared to HK\$140,689,417 at 31st December, 2003.

The Group has unutilised banking facilities of HK\$6,000,000 and has no significant funding requirements for investment and capital expenditure commitments at present. The interest rate charged on the banking facilities is 2% per annum over the Prime Lending Rate or 2% per annum over the prevailing overnight Hong Kong Interbank Offered Rate, whichever is higher.

The Group did not have any capital expenditure commitment as at 31st December, 2004.

### Capital Structure

There was no significant change in the Group's capital structure for the year ended 31st December, 2004. Prior to the expiration of the 2004 warrants on 30th June, 2004, 3,846 of these warrants were exercised and 3,846 ordinary shares were issued at a subscription price of HK\$1 per share resulting in HK\$3,077 being credited to the share premium account.

The Group's borrowings are at fixed interest rates and denominated in Hong Kong dollars. The Group did not employ any financial instruments to hedge interest rate risks.

## CHARGE ON GROUP ASSETS

As at 31st December, 2004, the Group's other investments with an aggregate market value of HK\$7,211,600 (2003: HK\$11,305,000) could be pledged to a bank to secure a bank line.

## GEARING RATIO

The gearing ratio for the Group is 13% (2003: 32%) and represents the ratio of the Group's borrowings to the net asset value of the Group.

# Management Discussion and Analysis

## SIGNIFICANT INVESTMENTS HELD AND THEIR PERFORMANCE

As at 31st December, 2004, the Group recorded a gain of HK\$17,447,117 on disposal of listed shares amidst rising market. However, the Group suffered a loss of HK\$1,193,400 on disposal of unlisted investments in its subsidiaries. In addition, the Group had made a provision of HK\$3,948,211 in Teddy Bear Kingdom due to the continuous unfavourable operating result in the year of 2004. On 4th June, 2004, all shareholders of Teddy Bear Kingdom agreed in a restructuring exercise, whereby individual shareholding were increased by capitalising part of its liabilities. Thus the equity held by the Group in Teddy Bear Kingdom was diluted from an associate status to an investment security and a loss of HK\$1,972,213 raised from the effect of disposal.

During the year of 2004, the Group received a total cash dividend of HK\$1,754,738 from listed and unlisted investments. Interest income of HK\$298,572 was received from the convertible bonds held and HK\$3,098,384, which included HK\$187,500 arrangement fee income, was received from a short term loan. In addition, the Group received a cash of HK\$10 million due to the redemption of a convertible bond of HK\$10 million which was issued by a furniture trading company in Hong Kong.

The deflation cycle in Hong Kong came to end in 2004. The Group started to diversify its investment portfolio by investing about HK\$5.5 million in food and beverage business in order to benefit from the increasing needs of consuming market.

## SEGMENT INFORMATION

No analysis of the Group's turnover and contribution to the operating profit for the year set out by principal activities and geographical markets is provided as the Group has only one single business segment, investment holding, and less than 10% of the consolidated turnover, results and assets of the Group are attributable to markets outside Hong Kong.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2004, the Group employed a total of 8 full-time employees, including the executive directors of the Company. Employees' remuneration are fixed and determined with reference to the market remuneration. The Group does not have any share option scheme nor provide any training schemes to the employees.

## EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group has no significant exposures to fluctuations in foreign exchange rates and, therefore, did not employ any financial instruments to hedge such exposures.

## CONTINGENT LIABILITIES

As at 31st December, 2004, the Group has no significant contingent liabilities.