Property Investment

During the period under review, the Group's rental income remained steady as compared to the corresponding period of last year. Both the property and rental market in Hong Kong continued to improve in 2005. The Group's major rental property, the Kader Building, managed to maintain an occupancy rate at 85% as of 30th June 2005. Since then the Group has further improved the occupancy rate at better rental rate. The Group has presently achieved an occupancy rate at over 90% for Kader Building.

During the period under review, the Group took advantage of the active property market in Canada, and has disposed a portion of its rental properties in Vancouver. It is expected by the end of this year, the Group will dispose all of its rental properties in Canada.

Investment Holding

During Spring 2005, the Group's major investment holding in the United States, the Resort at Squaw Creek ("the Resort"), has successfully launched a condominium sale of existing hotel guest rooms. As of 30th June 2005, approximately 70% of the units were sold, thus providing significant liquidity to the ownership and reducing operating risk upon final sales completion.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June 2005, the Group's current ratio was 0.96 (at 31st December 2004: 1.00). The Group's total bank borrowings have decreased from approximately HK$214 million as reported last year-end to approximately HK$209 million as at period-end. The financial gearing of the Group, based on the total bank borrowings to the shareholder's equity was 38% (at 31st December 2004: 42%). There is no significant seasonality of borrowing requirements except that during peak sales period, the Group's trade loans will be higher.

Capital Structure

During the period under review, there were no movements in the Company's share capital. The Group's capital instruments are mainly composed of bank loans and director's support, which are in HK dollars, sterling pound, US dollars and Canadian dollars at prevailing market rates.

Charges on Group Assets

As at 30th June 2005, certain investment properties, leasehold land and buildings and other assets of the Group with a total net book value of approximately HK$674 million (at 31st December 2004: HK$659 million) were pledged to banks to secure banking facilities granted to the Group.

Material Acquisitions and Disposals

There are no material acquisitions and disposals during the period ended 30th June 2005. At the moment, there are no major plans for material investments or capital assets.

Exchange Rate Exposure

Major assets, liabilities and transactions of the Group are denominated either in sterling pound, US dollars, Canadian dollars, Renminbi or Hong Kong dollars. During the period under review, the majority of the Group's sales proceeds were in Hong Kong dollars, US dollars and sterling pound while the majority of its raw materials and equipment purchases were required to be settled in HK dollars. As at 30th June 2005, the Group was not exposed to material exchange risk.

Contingent Liabilities

As at 30th June 2005, the Group did not have significant contingent liabilities except:

(a) As reported in the Group's 2003 and 2004 Annual Reports, in May 2003 an action was commenced by a supplier of resin materials against a Group company in the Hong Kong High Court for payment of a trading debt amounting to HK$643,980. HK$20,852.50 of this debt has already been paid by the Group company pursuant to an order of the court dated 23rd February 2004. About 75% of the remaining debt is not disputed by the Group company. This has not been paid because the court has ordered that this action should be tried together with a separate action commenced by the Group company against the same supplier in April 2003 for damages amounting to US$590,000 on the basis, inter alia, that bulk resin supplied by the supplier did not reasonably correspond with the sample first provided and tested by the Group company. The effect of both actions being tried together is that the court will take into account, and set-off, any damages awarded in either action to produce a net result. No trial date has been fixed, but it is expected that leave will be given to set both matters down for trial at the next Checklist hearing in November 2005. The directors believe the Group will not suffer any material loss as a result of these actions.

(b) As reported in the Group's 2004 Annual Report, during the last quarter of 2003, a Mexican company commenced a law suit in the State of Arizona against the Company on the ground that the Company is a guarantor for a Lease Agreement of factory premises occupied by Siempre Novedoso De Mexico (Sinomex) S.A. de C.V. ("Sinomex") as tenant (the "Litigation"). Sinomex was a member company of the Group. It was disposed of in mid 1996. The plaintiffs allege claims against Sinomex and the Company of approximately US$5,000,000 for unpaid obligations of Sinomex under the Lease Agreement plus interest (in the amount of 2% per month, or 24% annually), court costs and attorney fees.

In early January of 2004, the Company's legal counsel filed a Motion to Dismiss the complaint in the Litigation based upon the applicable laws of Arizona and those of the location of the property, Hermosillo, Mexico. In the Motion, the Company primarily argued that the Arizona court does not have sufficient subject matter and personal jurisdiction over the Company under the guarantee for the case to continue in that court, and as such, the case should be dismissed in favour of the Company.

On 24th January, 2005, the Arizona court denied the initial motion submitted by the Company. The Company plans to continue to vigorously defend the Litigation, and to assert the defences available to it. This would eliminate or at least significantly reduce the exposure of the Company if those defences prove to be successful.

Having considered the Litigation with legal counsel to the Company, the management and the Board believe that the Company's opposition to the plaintiffs' complaint, and its defenses, including defenses to the amount of damages awardable, are meritorious. As such, the Company intends to continue to vigorously defend the Litigation. In addition, the Company has filed counterclaims against the plaintiff and a cross-claim against Sinomex in the Litigation. The Company is continuing to pursue its defenses, as well as its counterclaim and cross claim. On that basis, the Company has not made provision in relation to the Litigation.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June 2005, the Group employed approximately 8,400 (at 31st December 2004: 5,150) full time management, administrative and production staff in the United States, Europe, the PRC and Hong Kong. The number of production staff in the PRC will decrease after the peak season in the second half of the year. The Group remunerates its employees based on their performance, experience and prevailing industry practice. In the area of staff training, the Group encourages and supports staff to engage and participate in continuing studies or self-enhancement courses.

PROSPECTS

During the period under review, the Hong Kong economy continued to recover, thus boosting the investor and consumer confidence which was further strengthened by the improving economies of the PRC and the United States. The optimistic outlook for Hong Kong is anticipated to be fuelled with the opening of the Disney Land. Nevertheless, keen competitions and challenges still exist and high operating costs continue to adversely affect profit margin. The recent appreciation of the Renminbi has added another element of uncertainty. Moreover, the recent interest rate hikes and the persistently high oil price have yet to show its impact on the global economies.