

MANAGEMENT DISCUSSION AND ANALYSIS

Geographical Market

The Group's turnover in the year ended 31st December, 2005 decreased by 15.73% to approximately HK\$747,483,000 compared to the corresponding period in 2004 of approximately HK\$887,025,000. The dominant markets in Europe constituted 64.05% of the turnover amounting to approximately HK\$478,751,000 (2004: 61.98% amounting to HK\$549,802,000). North American sales, as a percentage of turnover decreased by 2.84% to 25.19% amounting to approximately HK\$188,270,000 (2004: 28.03% amounting to HK\$248,592,000). South American sales slightly increased to 0.47% amounting to approximately HK\$3,492,000 (2004: 0.30% amounting to HK\$2,690,000). Sales in other markets decreased to the amount of approximately HK\$33,814,000 (2004: HK\$38,801,000). Product sales in the Hong Kong market constituted 5.77% of the turnover amounting to approximately HK\$43,153,000 (2004: 5.31% amounting to HK\$47,139,000).

Gross Profit

The Group's gross profit margin was 9.68% (2004: 13.10%), a decrease of 342 basis points from 2004. 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 2005 were 33.92% for paper products (2004: 35.26%), 26.74% for wooden products (2004: 26.63%) and 39.34% for household items, home textiles products and tablemats (2004: 38.11%).

Finance Costs

Interest expenses increased by 17.61% to approximately HK\$5,276,000 in 2005 (2004: HK\$4,486,000) as a result of an increase in bank borrowings during the year.

Charges over assets

Save for a bank deposit of approximately HK\$2.7 million (2004: HK\$2.7 million), no other property, plant and equipment with any carrying value 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\$92,133,000 and 1.57: 1 as at 31st December, 2004 and approximately HK\$80,311,000 and 1.46:1 as at 31st December, 2005. The decrease in net current assets is largely due to an increase of bank borrowings, creditors, bills payable and accrued charges. Raw material, work-in-progress and finished goods decreased by 12.87% to approximately HK\$66,976,000 (2004: HK\$76,867,000).

As at 31st December, 2005, the Group's bank balance and cash amounted to approximately HK\$105,061,000 (2004: HK\$114,158,000) and bank borrowings amounted to approximately HK\$82,316,000 (2004: HK\$80,867,000). Therefore, the calculation of net debt to equity ratio was not applicable because the Group had surplus cash of approximately HK\$22,745,000 over bank borrowings (2004: HK\$33,291,000).

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\$80,311,000, 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, 2005 and 31st December, 2004 were 4,800 and 5,000 respectively with a seasonal high figure of more than 5,200 during the third quarter of 2005. 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.