

REVIEW OF OPERATIONS

For the year ended 31 December 2005 (“the Year”), the Group made a loss before tax and minority interests of HK\$6,408,000 compared with a profit of HK\$8,643,000 for 2004. Net loss attributable to shareholders for the Year amounted to HK\$19,791,000 compared with a net profit of HK\$7,175,000 for last year.

Total turnover of the Group amounted to HK\$393,273,000, an increase of 122% compared with the turnover of HK\$176,760,000 for 2004. The substantial increase in turnover was mainly attributable to the contribution from the home furniture business for the full year. The home furniture division was acquired in November 2004, and contributed only one month’s turnover to the Group for the year 2004. Our electronic components division has also recorded a 23% growth in turnover.

Gross margin improved from 16.8% to 19.6%. The increase was mainly due to a higher margin from the home furniture division. Our gross margin for the electronic component division has actually decreased because of higher labour and raw material costs.

The Group’s share of the profit of associates in 2004 of HK\$1,862,000 has turned into a loss of HK\$391,000 in 2005. The loss in 2005 was mainly due to reduced contribution from Bizipoint Group Limited (“Bizipoint”), an associate in the e-commerce business, which decided to wind down its business due to continual negative operating cashflow and the difficult business environment. As a result, the Group’s interest in Bizipoint including unamortised goodwill amounting to approximately HK\$10 million were fully provided for in the Year.

The Group’s electronics components division operating under Lik Hang Holdings Limited (“Lik Hang”) recorded a 23% increase in revenue from HK\$132,020,000 (2004) to HK\$162,077,000 for the Year. Besides organic growth, the increase in revenue was mainly attributable to the successful launch of composite components, in particular power supply related products. Gross profit margin in this division has decreased because of keen competition and rising material and labour costs. Despite that, operating profit from this division has increased by 36.6% from HK\$5,957,000 for 2004 to HK\$8,137,000 for the Year due to stringent cost control. Management will need to continue its effort on tight cost policies and new product development in order to meet the challenges of increasing costs of raw materials and labour.

The Group’s smart card technology division mainly operating under VFJ Technology Holdings Limited (“VFJ”) has been facing intensive competition in China from local suppliers. While the technology of our products remains competitive, our revenue has decreased by 57.6%, from HK\$6,761,000 in 2004 to HK\$2,865,000 for the Year. Notwithstanding all efforts to reduce cost, the operating loss has increased by 150.6% from HK\$2,416,000 for 2004 to HK\$6,055,000 for 2005. The direction and strategy of this division are being reviewed in order to remedy the situation as soon as possible.

Management Discussion and Analysis (Continued)

The Group's home furniture division, Windsor Treasure Group Holdings Limited ("WTG") had a good year, contributing turnover of HK\$223,658,000 and operating profit of HK\$33,428,000. The previous year's turnover and operating profit for the division was for the month of December, 2004 only. During the Year, WTG increased its sales outlets in China to over 600, an increase of over 50% on prior year. This growth has been driven by the further development of its franchising system which has proved to be successful in winning new customers and expanding the network coverage rapidly. Due to the huge size of the China market, the Group is actively reviewing the expansion plan of WTG, funding and other resources needed.

The operating results of the Group have been further affected by our investment activities, namely, the impairment loss on interest of an associate, Bizipoint as mentioned earlier, and a write-down of the listed investment of HK\$8,206,000.

Equity attributable to the Company's shareholders as at 31 December 2005 amounted to HK\$201,384,000 or HK\$1.3 per share (31 December 2004: HK\$2.1 per share).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has continued to adopt prudent financial policies.

The Group's current assets and current liabilities as at 31 December 2005 were HK\$328,519,000 and HK\$187,491,000, respectively (31 December 2004: HK\$262,590,000 and HK\$156,409,000 respectively). As at 31 December 2005, the Group had cash and bank deposits of approximately HK\$67,990,000 (31 December 2004: HK\$55,446,000), and short-term bank borrowings of HK\$67,152,000 (31 December 2004: HK\$50,032,000).

As at 31 December 2005, the Group's gearing ratio, which was calculated on the basis of bank borrowings and other loan to shareholders' funds, was 49.8% (31 December 2004: 35.6%).

The Group has limited exposure to the foreign exchange fluctuations risks as most of its sales are denominated in Hong Kong dollars, United States dollars and Renminbi, being the same currencies in which the Group's related costs and expenses are denominated. The Directors considered that the recent appreciation of Renminbi may have a positive but immaterial impact to the Group. During the Year, the Group did not use any financial instruments for hedging purposes and the Group did not have any hedging instruments outstanding as at 31 December 2005.

Management Discussion and Analysis (Continued)

During the Year, the Company successfully raised additional working capital through the following fund raising activities:–

- 1) In February 2005, the Company entered into a placing agreement with a placing agent for placing an aggregate of 9,000,000 new shares at HK\$0.96 per share (the “Placing”) to independent investors. The net proceeds raised by the Placing amounted to approximately HK\$8,300,000, which are, as planned, being used as general working capital and also for expansion of operation of the Group. Details of the Placing are contained in the Company’s announcement dated 4 February 2005.
- 2) In May 2005, the Company completed the open offer of 50,146,384 new shares (the “Open Offer”) on the basis of one offer share for every two shares held by the then shareholders on the specified record date at the subscription price of HK\$0.38 per offer share. The net proceeds raised by the Open Offer amounted to approximately HK\$18,000,000, which are, as planned, being used as general working capital and also for financing ongoing business development of the Group. Details of the Open Offer are contained in the Company’s circular dated 3 May 2005.

During the Year, the Company issued and allotted an aggregate of 59,146,384 new shares as a result of the Placing and the Open Offer. As at 31 December 2005, the Company had 150,439,152 shares in issue.

PLEDGE ON ASSETS

As at 31 December 2005, the Group pledged bank balances in the amount of HK\$22,285,000 (31 December 2004: HK\$16,288,000) and charged by way of both a fixed charge against the Group’s equity holding in a subsidiary and a floating charge against the Group’s entire assets to banks and a third party as securities for banking facilities and other loan provided to certain subsidiaries.

PROSPECTS

The management is disappointed with the overall loss of the Group for the Year, notwithstanding the good performance of the electronic components and home furniture divisions. Given the size of the Group and the diversified nature of its business activities, the Directors are actively reviewing all the Group’s business and investment activities, long term strategies, and the implications of funding, management and other resources required to achieve better returns and value for our shareholders.

Management Discussion and Analysis (Continued)

The electronic components division will continue its effort to expand sales in the direction of composite component/power supply. The situation of the smart card technology division will be reviewed.

After the full provision of the e-commerce related investment, Bizipoint, our remaining investment activities are progressing satisfactorily.

EMPLOYEES AND REMUNERATION POLICIES

While the Group will continue to adopt strict financial discipline and cost control, it will actively pursue a personnel policy which will provide performance based rewards and incentives in order to retain and attract high caliber executives and employees.

As at 31 December 2005, the Group had approximately 2,300 employees, out of which approximately 2,200 were production workers in China. In addition to the provision of annual bonuses, medical insurance and in-house and external training programs, discretionary bonuses and share options are also available to employees based on their individual performance. The remuneration policy and packages of the Group are reviewed from time to time.