

# Management Discussion & Analysis

## REVIEW OF OPERATION AND RESULTS

In 2005, the Group's turnover and net loss were US\$22,485,000 and US\$5,068,000 respectively. Basic loss per share was US0.06 cent, compared to last year's loss per share of US0.03 cent. The net asset value per share was US0.16 cent. Net loss was increased as the written back of deferred tax and exclusion of gain on deemed disposal of associates.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group's total shareholder equity was approximately US\$15,159,000.

Total bank and other borrowings as at 31 December 2005 were approximately US\$11,614,000. 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 is minimal.

As at 31 December 2005, the net cash and bank balances of the Group stood at approximately US\$2,635,000.

The gearing ratio (total borrowings as a percentage of non-current assets) of the Group has raised from 41.0% recorded in 2004 to 54.2% this year.

## PLEDGE OF ASSETS

At 31 December 2005, the Group had pledged certain properties and plant and equipment with carrying amounts of US\$428,000 (2004: US\$271,000) and US\$8,947,000 (2004: US\$9,380,000) respectively to various banks for securing bank loans and general banking facilities granted to the Group.

## CONTINGENT LIABILITIES

As disclosed in last year's financial statements, one of the Group's associates, 天津福津木業有限公司 Tianjin Fortune Timber Co., Ltd. ("TFT") was 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 was guaranteed by another associate, 天津福家家具有限公司 Tianjin Fortune Furniture Co. Ltd. ("TFFCL"). Both TFT and TFFCL was 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 had not been completed at 31 December 2004, the ultimate outcome cannot be determined by the directors. However, at 31 December 2004, there was no impact on the Group's share of interest in TFFCL as TFFCL had nil net assets balance as at that date. The interest in the TFFCL was disposed of during the year and the contingent liabilities was released upon the disposal.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group employed approximately 810 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\$1,741,000 (2004: US\$1,419,000).

For details, please refer to note 11 of the financial statements.