

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity and financial resources and capital structure

The Group showed a very good liquidity position. The current ratio of the Group was 1.52 in the year; compared with 1.20 in Year 2002. The cash and cash equivalents on hand at the end of year was HK\$48,987,000, compared with HK\$10,629,000 in Year 2002.

As at 31st December 2003, the Group had net tangible assets of approximately HK\$142,103,000, comprising fixed assets of approximately HK\$75,178,000, net current assets of approximately HK\$86,356,000, minority interests of approximately HK\$5,670,000 and non-current liabilities of approximately HK\$13,761,000. On the same date, the total liabilities of the Group including minority interests amounted to approximately HK\$186,460,000. Of these liabilities, the total repayable after one year amounted to approximately HK\$13,761,000. On the other hand, the total assets of the Group were HK\$328,563,000. The gearing ratio, defined as the ratio of total liabilities to total assets of the Group was approximately 0.57 (2002: 0.65).

The Group generally finances its operations with internally generated resources and banking facilities provided by banks. As at 31st December 2003, the Group has aggregate banking facilities of approximately HK\$418,000,000, of which approximately HK\$175,435,000 has been utilized and bear interest at prevailing market rates. The directors are confident that the Group is able to meet its operational and capital expenditure requirements.

Use of proceeds

The proceeds from the Company's public offer of new shares in July 2003 after deducting the actual related issuance expenses, amounted to approximately HK\$27.1 million. The proceeds were partly applied during the period from 10th July 2003 to 31st December 2003 in accordance with the proposed applications set out in the Prospectus, as follows:-

- approximately HK\$3.7 million was used to finance the expansion of Group's operations in the PRC, Taiwan and other parts of South East Asia;
- approximately HK\$3.0 million was used to finance the diversification of its product range;
- approximately HK\$0.7 million was used to finance the forming of strategic alliances;
- approximately HK\$2.6 million was used to finance the promotion of the Group's corporate image through advertisements, exhibitions as well as organizing technical seminars;
- approximately HK\$3.0 million was used to finance the enhancement of the Group's information management system by implementation of the Enterprise Resources Planning System and Customer Relation Management System; and

Use of proceeds (Continued)

- approximately HK\$4.1 million was used as additional working capital of the Group;

The remaining net proceeds as at 31st December 2003 of approximately HK\$10.0 million were placed on short term deposits with licensed banks in Hong Kong. They will be applied in the coming years for their intended uses as set out in the Prospectus.

Disposals of a subsidiary

The Group disposed of its entire interest in a subsidiary, GFTZ Leeport Trading Co., Ltd. to a third party company during the year ended 31st December 2003.

Contingent liabilities

At 31st December 2003, the Group had contingent liabilities in respect of letters of guarantees given to customers and bills of exchange discounted with recourse of approximately HK\$13,270,000 and HK\$10,257,000 respectively.

Exposure to fluctuations in exchange rates and related hedges

A substantial portion of the Group's revenue and purchases were denominated in foreign currencies, which are subject to exchange rate risks. The Group will use the foreign exchange received from its customers to settle payment to overseas suppliers. In the event that any material payment cannot be fully matched, the Group will enter into foreign currency forward contracts with its bankers to minimize the Group's exposure to foreign exchange rate risks.

As at 31st December 2003, the Group has commitments for forward currency forward contracts amounting to approximately HK\$45,037,000 (2002: HK\$50,042,000).

Pledge of assets

As at 31st December 2003, certain properties in Hong Kong and in Singapore with an aggregate carrying value of approximately HK\$55,170,000 (2002: HK\$56,574,000) and pledged bank deposits of approximately HK\$1,000,000 (2002: HK\$3,201,000) have been pledged to secure the banking facilities of the Group by way of a fixed charge.

Employees

As at 31st December 2003, the Group had 286 employees (2002: 207), of whom 161 were based in Hong Kong, 103 were based in the PRC, and the remaining 22 were based in other offices around Asia. Competitive remuneration packages were structured to commensurate with our employees' individual job duties, qualifications, performance and years of experience. In addition to basic salaries, MPF contributions and ORSO contributions, the Group offered staff benefits including medical schemes, educational subsidies, discretionary performance bonuses and share options.

A share option scheme was adopted by the Company on 17th June 2003 for a period of 10 years for employees and other eligible participants so as to provide incentive and reward for their continued contribution to the Group. During the year, options in respect of a total of 4,412,000 shares were granted to employees under the share option scheme.