

Chairman's Statement

Business Review

2004 has been a challenging year of the Group.

For the year ended 31 December 2004, the total turnover of the Group amounted to HK\$870,936,000, which represented an increase of 18.1% or HK\$133,395,000 as compared with that of HK\$737,541,000 for the same period last year. The turnover of household products was HK\$493,011,000 representing an increase of 16.2% or HK\$68,605,000 as compared with HK\$424,406,000 for the same period last year. The turnover of PVC pipes and fittings amounted to HK\$377,034,000, representing an increase of 20.8% or HK\$64,825,000 as compared with HK\$312,209,000 for the same period last year. During the year under review, the Group's gross profit amounted to HK\$111,073,000, representing a decrease of 4% or HK\$4,655,000 as compared with HK\$115,728,000 for the same period last year; and the gross profit margin was 12.8%, representing a decrease of 2.9%, as compared with 15.7% for the same period last year.

The increase in the Group's turnover was mainly attributable to the flexible business strategies adopted by the Board and management, focusing on market-led condition, formulating appropriate marketing strategies, and achieving the expected result. The reduction of gross profit margin and operating results of the Group was mainly attributable to the followings reason:-

- During the year under review, the continuous rise in oil price has led to a substantial increase in the prices of the major raw materials employed by the Group, resulting in a decrease in the gross profit margin.
- Starting from the year 2004, the PRC government has reduced certain export tax refund rate by two percent to 13% and has led to a decrease in the Group's tax refund in year 2004.
- During the year under review, the Group has made an allowance for bad and doubtful debts of approximately HK\$9,427,000 in respect of a Canadian customer which is in the process of bankruptcy proceedings.

Prospects

In 2005, the global economy will face challenges but there will not be lack of business opportunities. The high oil price, the continuous upward trend in the prices of down-stream plastic raw materials, and the uncertainty due to the increase in the interest rates in the United States and in Hong Kong continue to exist. These uncertainties lead to a rise in the cost of the Group's products, thus lowering their competitiveness. After experiencing a global price rise for plastic raw materials for more than a year, the prices of all household plastic products have attained an all-round increase. The global buyers, importers, large-scale chain stores and department stores, which had strongly resisted the price increase of the Group's products in the past, have begun to change their attitude and show their recognition and acceptance of price change. This market operating environment change will improve the gross profit margin of the Group's household products segment gradually.

The economic development in the PRC has been making steady progress and the living standard has been improving gradually. As a result, the demand for real estates and various affiliated facilities such as water, electricity and gas had been rapidly increased. In order to meet this demand, during the year under review, the Group has invested an additional amount of approximately HK\$23,000,000 for the construction of factories, installation of machineries and the production of PE plastic pipes products for gas, air conditioners and hot water supply. The trial production of this project has already been completed, and is now in its preliminary stage of production.

The Board and the management are fully aware of the challenges currently faced by the Group and have been actively pursuing to research and develop innovative products relating to the Group's core businesses, to expand its business scope, to achieve business diversification and to enhance operating efficiency. In 2004, after thorough investigation and detailed discussions relating to the global trend of environmental protection and with the support and assistance of Sha Xi Town, Zhongshan City Municipal People's Government, the Board had applied for the environmental, recycling and reborn resources license (環保再生資源特許經營牌照), and had acquired two adjacent plots of industrial land in Chong Bian Village, Sha Xi Town, Zhongshan City, Guangdong Province, the PRC, with total areas of approximately 66,667 square meters and approximately 81,334 square meters respectively. Also, the Group's two newly formed wholly-owned subsidiaries, namely South China Reborn Resources (Zhongshan) Company Limited and Fundbor Textiles (Zhongshan) Company Limited, have commenced the construction of factories work, acquisition of machineries, plan to collection of PVC, PP, PE and other recycling and reborn resources business-related raw materials. These related raw materials would then be processed by advanced and sophisticated machineries and state-of-the-art technologies in order to produce the international standards recycled raw materials. The total investment of the project is approximately of HK\$150,000,000, which is to be injected over three years subject to the development progress. The phase I of the project, in relation to the factories construction and machineries installation, is expected to be completed in the fourth quarter of 2005, whereas the trial production and production is expected to commence in the first quarter of 2006.

The Board anticipates that the completion of the newly launched project will facilitate the expansion of its business scope, reduce the production cost of our core businesses, provide better business elements and privileged conditions for the Group's continuing development and create a higher investment value for our shareholders.