

Management Discussion and Analysis

Turnover of the Group for the year ended December 31, 2004 was HK\$2,828,800,000 and profit before tax was HK\$44,274,000.

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2004, the Group had total assets of HK\$1,026,424,000 which were financed by shareholders' funds of HK\$481,624,000, total liabilities of HK\$544,018,000 and minority interests of HK\$782,000. The Group had a current ratio of approximately 1.62 as compared to that of approximately 1.77 at December 2003.

As at December 31, 2004, the Group had HK\$181,864,000 bank balances and cash of which HK\$16,515,000 was pledged to banks for securing general banking facilities. The Group's working capital requirements were mainly financed by internal resources and short-term borrowings. As at December 31, 2004, the Group had HK\$50,027,000 short term bank borrowings and HK\$1,418,000 bank overdrafts. The Group's borrowings were mainly denominated in Malaysia Ringgit and Singapore dollars and were charged by banks at floating interest rates.

The Group continued to sustain a good liquidity position. At balance sheet date, the Group had a net cash surplus (bank balances and cash, including pledged bank deposits less both long term and short term bank borrowings) of HK\$109,169,000 compared to HK\$114,081,000 in 2003.

Gearing ratio, as defined by total bank loans and bank overdrafts to shareholders' funds, as at December 31, 2004 was 15.09% (2003: 11.47%). The increase in gearing ratio is due to a new long term bank loan for the acquisition of an investment property during the year 2004.

CHARGES ON GROUP ASSETS

At the balance sheet date, the Group had pledged bank deposits of HK\$16,515,000 (2003: HK\$20,381,000) and an investment property of net book value of HK\$45,800,000 (2003: Nil) to banks to secure general banking facilities granted to subsidiaries. Certain pledged bank deposits were uplifted during the year for repayment of trade credit.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES

As at December 31, 2004, the Group reduced its staff number from 294 to 232. Salary, bonus, commission and other benefits paid to employees, excluding Directors' emoluments, during the financial year reduced to HK\$52,236,000 (2003: HK\$60,848,000). In addition to the contributory provident fund and medical insurance, the Company adopts share option schemes and may grant shares to eligible employees of the Group. The Directors believed that the Company's share option schemes could create more incentives and benefits for the employees and therefore increase employees' productivity and contribution to the Group. The Group's remuneration policy is to relate performance with compensation. The Group's salary and discretionary bonus system is reviewed annually.

CURRENCY RISK MANAGEMENT

Due to the Company has overseas operations and subsidiaries, earnings may experience some volatility related to movements in exchange rates. In order to reduce exposure to fluctuations in exchange rates, subsidiaries of the Company will make forward purchases from time to time. Besides, the Group has adopted a policy of attempting to match levels of local denominated account receivables with accounts payable and to limit holdings of local currencies.

CONTINGENT LIABILITIES

The Company's corporate guarantees extended to certain banks and suppliers as security for banking facilities and goods supplied to the Group amounted to HK\$226,127,000 (2003: HK\$193,440,000). The increase was mainly due to guarantees given to bank for banking facilities granted to a subsidiary for acquisition of investment property during 2004.