

## Management Discussion and Analysis

### FINANCIAL REVIEW

The Group achieved a turnover of US\$143,704,000 for the year ended 31st December, 2004. Compared with 2003, the turnover increased by US\$14,152,000 or 11%.

The Group's net profit attributable to shareholders of US\$4,217,000 in 2003 turned to a net loss attributable to shareholders of US\$1,082,000 in 2004. Due to rising costs, the manufacturing sector faced a challenging operating environment in the year. The surge of raw material and labour costs caused a decline of the Group's gross profit from 21.1% in 2003 to 17.4% in 2004. In addition, the Group's remaining investment in the Japan-based Secaicho was fully written off. As a result, the Group recorded a loss in 2004. Amid the intense competition, all the staff of the Group continued to perform their duties diligently and exercise tight control on their costs so as to actively enhance overall productivity.

The basic earnings per share decreased from 0.58 US cent to -0.15 US cent. The Group's net asset value also declined mildly from 15 US cents per share in last year to 14 US cents per share in this year.



The Group declared an interim dividend of 1 HK cent per share for the year ended 31st December, 2004. The Directors do not recommend the payment of a final dividend.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its business needs with internal cash flows. The Group's total assets as at 31st December, 2004 amounted to US\$148,834,000, 8% or US\$12,867,000 lower than 2003. Meanwhile, the Group's shareholders' funds fell by 3% or US\$3,146,000 to US\$103,197,000. The ratio of net bank borrowings to shareholders' funds remained at a healthy level of approximately 24%. As at 31st December, 2004, the Group had a very robust financial liquidity position as revealed by a current ratio of 2.29 times. There was no charge on the fixed assets of the Group.

### CAPITAL EXPENDITURE

During the year, the Group invested US\$5,069,000 in fixed assets, of which 66% was used for the purchase of additional plant and machinery.

