

## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF THE FINANCIAL PERFORMANCE

The Group's turnover decreased by 9.4% to HK\$1,041 million from HK\$1,149 million in 2001. Operating profit was HK\$69 million, as compared to HK\$148 million in 2001. Profits attributable to shareholders amounted to HK\$48 million, as compared to HK\$110 million in 2001. Basic earnings per share were 8.4 Hong Kong cents, as compared to 23.0 Hong Kong cents in 2001.

The output level of the Group increased by approximately 3% whereas the average selling price decreased by approximately 12%. The cost of materials decreased by approximately 20% per sq. ft. due to decrease in purchase price of materials but production overheads increased by 8.3% per sq. ft. mainly due to increase in production staff cost and depreciation. The increase in production staff costs was a direct result of enhancements in the Group's labour force, especially in areas such as quality control, research and development and process management. At the same time, the Group's continuous investments in production facilities also resulted in an increase in depreciation. As a result, the overall gross profit margin decreased from 27.5% to 23.2%.

### LIQUIDITY AND FINANCIAL RESOURCES

On 21 June 2002, the Company's shares were listed on the Stock Exchange. The Group raised approximately HK\$198 million, net of related expenses, from the issue of 160 million new ordinary shares in the Company. The listing enlarged the base of shareholders and provided additional funds for the Group's future expansion.

The Group generally finances operations through a combination of internally generated cash flows, shareholders' equity and borrowings from banks.

As at 31 December 2002, the Group had total assets of approximately HK\$1,333 million (31 December 2001: HK\$1,142 million) and interest-bearing borrowings HK\$328 million (31 December 2001: HK\$305 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 24.6% (31 December 2001: 26.7%).

The Group's net current assets of approximately HK\$6 million (31 December 2001: HK\$16 million) consisted of current assets of approximately HK\$492 million (31 December 2001: HK\$433 million) and current liabilities of approximately HK\$486 million (31 December 2001: HK\$417 million), representing a current ratio of approximately 1.01 (31 December 2001: 1.04).

As at 31 December 2002, the Group's current assets consisted of approximately HK\$74.4 million (2001: approximately HK\$58.5 million) held as cash and cash equivalents, of which 69% in HKD, 23% in USD, 4% in RMB and 4% in other currencies including Singapore dollars, New Taiwan dollars, Korean Won and British Pound.

As at 31 December 2002, bank loans, overdrafts and other banking facilities of the Group were secured by:—

- (a) assignment of all trade receivables of a subsidiary and the related trade credit insurance policy;

## MANAGEMENT DISCUSSION AND ANALYSIS

- (b) cross corporate guarantees by subsidiaries;
- (c) mortgage over certain land and buildings of a subsidiary;
- (d) personal guarantee from a director of the Company;
- (e) charge over the construction in progress of the Group; and
- (f) charge over certain land and buildings held by a related company.

Consent has been obtained from the banks for the personal guarantee given by a director of the Company to be released and replaced by a corporate guarantee and/or other security to be provided by the Company and/or other members of the Group.

### INTEREST-BEARING BORROWINGS

As at 31 December, the Group had the interest-bearing borrowings as follows:—

	2002 HK\$'000	2001 HK\$'000
Amount payable:—		
Within one year	196,192	127,317
In the second year	68,974	76,626
In the third to fifth year, inclusive	62,358	100,284
Beyond five years	—	969
	<b>327,524</b>	<b>305,196</b>
Less: Portion classified as current liabilities	<b>(196,192)</b>	<b>(127,317)</b>
Long term portion	<b>131,332</b>	<b>177,879</b>

USD denominated loans accounted for 3.6% (2001: 1.6%) of the total interest-bearing borrowings while the remaining portion in HKD. All interest-bearing borrowings are charged with floating rates ranging from 0.5% to 2.75% above basic lending rates per annum. The Directors do not recognise a significant seasonality of borrowing requirements during the year ended 31 December 2002.

### FOREIGN EXCHANGE EXPOSURE

Sales of the Group's products are principally denominated in USD and the purchases of materials and expenses are mainly in USD, HKD and RMB. As both HK dollars and RMB are pegged to the USD under the current exchange rate systems in Hong Kong and the PRC, the Group is not exposed to significant risk in exchange rate fluctuations.

## MANAGEMENT DISCUSSION AND ANALYSIS

Currently, the Group does not have a foreign currency hedging policy and its foreign exchange gains and losses over past few years were relatively low. The Directors will continue to monitor foreign exchange exposure in the future and will consider hedging any materials foreign exchange exposure to minimize foreign exchange risk should the need arise.

### NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2002, excluding the associate, the Group employed 4,811 staff, of which 124 were employed in Hong Kong, 4,657 in the PRC and 30 in various overseas marketing offices. For the financial year ended 31 December 2002, total staff costs amounted to 174 million. Under the Group's remuneration policy, employees are rewarded in line with market rate and in compliance with statutory requirements of all jurisdictions where it operates.

The company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants including any employees of the Group. However, no share options have been granted under the share option scheme up to the date of this announcement.

The Group follows a policy of encouraging its subsidiaries to send their staff to attend training classess or seminars that are related directly or indirectly to the Group's businesses.

### CONTINGENT LIABILITIES

As at 31 December 2002, the Group had no material contingent liabilities not provided for.

### CAPITAL COMMITMENTS

As at 31 December 2002, the Group's capital commitments authorized but not contracted for amounted to HK\$43 million (2001: approximately HK\$157 million) and those contracted but not provided for amounted to HK\$62 million. (2001: approximately HK\$54 million). All of these capital commitments were related to construction of factory building or acquisition of fixed assets.

### USAGE OF PROCEEDS FROM THE NEW ISSUE

The net proceeds from the initial public offer and placing of the Company's ordinary shares amounted to approximately HK\$198 million, net of related expenses. As at 31 December 2002, the Group had utilized a total of approximately HK\$75 million in construction of new factory building, HK 12 million in acquisition of new equipment, HK\$41 million in reduction of bank loans. The remaining proceeds were placed on short term deposits with licensed banks in Hong Kong. The Directors planned to apply the remaining proceeds in construction of new factory building and acquisition of new equipment.

## MANAGEMENT DISCUSSION AND ANALYSIS

### DIVIDENDS

The Board has proposed a final dividend of 1.5 Hong Kong cents per share for the financial year ended 31 December 2002. The final dividend, if approved at the forthcoming Annual General Meeting, will be payable to shareholders whose names appear on the Register of Members at the close of business on 15 May 2003.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 12 May to Thursday, 15 May 2003, both dates inclusive. In order to qualify for the final dividend, transfer forms accompanied by relevant share certificates, must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on Friday, 9 May 2003.