

Management Discussion and Analysis

Review of the Financial Performance

The Group's turnover increased by 11.3% to HK\$1,159 million from HK\$1,041 million in 2002. Operating profit reached HK\$52 million, as compared to HK\$69 million in 2002. Profits attributable to shareholders amounted to HK\$33 million, as compared to HK\$48 million in 2002. Basic earnings per share were 5.1 Hong Kong cents, as compared to 8.4 Hong Kong cents in 2002.

The Group's output increased by approximately 24.4% whereas average sales prices decreased by approximately 10.5%. The cost of materials remained steady per sq. ft. and production overheads decreased by 7% per sq. ft.. The decrease in production overheads was a direct result of improvement in production efficiencies and the implementation of a stringent cost reduction program. At the same time, the Group's continuous investments in production facilities resulted in an increase in depreciation. As a result, the overall gross profit margin decreased from 23.2% to 18.6%.

Liquidity and Financial Resources

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

As at 31 December 2003, the Group had total assets of approximately HK\$1,557 million (31 December 2002: HK\$1,324 million) and interest-bearing borrowings of HK\$462 million (31 December 2002: HK\$318 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 29.7% (31 December 2002: 24%).

The Group's net current liabilities of approximately HK\$10 million (31 December 2002: net current assets of HK\$2 million) consisted of current assets of approximately HK\$582 million (31 December 2002: HK\$478 million) and current liabilities of approximately HK\$592 million (31 December 2002: HK\$476 million), representing a current ratio of approximately 0.98 (31 December 2002: 1.00).

As at 31 December 2003, the Group's current assets consisted of approximately HK\$74 million (2002: approximately HK\$74 million) held as cash and cash equivalents, of which 19.9% in HKD, 66.8% in USD, 12.2% in RMB and 1.1% in other currencies.

As at 31 December 2003, bank loans and other banking facilities of the Group were secured by:—

- (a) cross corporate guarantees by the Company and its subsidiaries;
- (b) a mortgage over certain land and buildings of the Group; and
- (c) a letter of undertaking over the construction in progress of the Group.

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Interest-bearing Borrowings

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

	2003	2002
	HK\$'000	HK\$'000
Amounts payable:—		
Within one year	249,181	186,832
In the second year	134,568	68,974
In the third to fifth year, inclusive	78,470	62,358
	462,219	318,164
Less: Portion classified as current liabilities	(249,181)	(186,832)
Long term portion	213,038	131,332

Of the total interest-bearing borrowings, USD denominated loans accounted for 16.4% (2002: 3.6%), HKD for 83.6% (2002: 96.4%) . All interest-bearing borrowings are charged with floating rates. The Directors do not recognise a significant seasonality of borrowing requirements.

Foreign Exchange Exposure

Sales of the Group's products are principally denominated in US dollars and the purchase of materials and payments of operational expenses are mainly denominated in US dollars, HK dollars and RMB. Taking into account the Group's operational and capital requirements in the aforesaid currencies, the Group has minimal risk in the event of fluctuation of exchange rates of US dollars, HK dollars and RMB.

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 such exposure to minimize exchange risk should the need arise.

Number and Remuneration of Employees

As at 31 December 2003, excluding the associate, the Group employed 4,918 staff, of which 105 were employed in Hong Kong, 4,780 in the PRC and 33 in various overseas marketing offices. During the financial year ended 31 December 2003, total staff costs amount to 167 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.

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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 report.

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

Contingent Liabilities

As at 31 December 2003, the Group had contingent liabilities related to trade receivables factored with recourse amounting to HK\$22.7 million. (31 December 2002: HK\$9.4 million).

Capital Commitments

As at 31 December 2003, the Group did not have any capital commitments authorized but not contracted for (2002: approximately HK\$43 million). The capital commitments contracted but not provided for amounted to HK\$18 million. (2002: approximately HK\$62 million). All of these capital commitments were related to construction of factory building or acquisition of fixed assets.

Other Commitments

During the year ended 31 December 2003, a wholly-foreign-owned subsidiary was incorporated in the PRC. The Group's contribution payable for the registered capital of this subsidiary amounted to HK\$156 million as at balance sheet date.

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 2003, the Group has utilized a total of approximately HK\$108 million in construction of new factory building, HK\$32 million in acquisition of new equipment, HK\$58 million in reduction of bank loans.

Dividends

The Board has proposed a final dividend of 1.02 Hong Kong cents per share for the financial year ended 31 December 2003. 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 25 May 2004. Barring unforeseen circumstances and based on cash flow requirements, the Board of Directors proposes distributing approximately 20% of annual earnings as dividends to shareholders.

Closure of Register of Members

The Register of Members will be closed from Thursday, 20 May to Tuesday, 25 May 2004, 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 4:30 p.m. on Wednesday, 19 May 2004.