

# MANAGEMENT DISCUSSION AND ANALYSIS

## Shareholders' Equity

The Company's shareholders' equity continued to increase. As at 31 December 2004, shareholders' equity was HK\$794.3 million (2003: HK\$707.1 million), an increase of 12% over that of last year mainly due to profits earned during the year.

## Review of the Financial Performance

The Group's turnover increased by 13.3% to HK\$1,313 million from HK\$1,159 million in 2003. Operating profit reached HK\$93 million, while that in 2003 was HK\$52 million. Profits attributable to shareholders amounted to HK\$89 million, as compared to HK\$33 million in 2003. Basic earnings per share were 13.9 Hong Kong cents, as compared to 5.1 Hong Kong cents in 2003.

The Group's shipment volume increased by approximately 3.8% and average sales prices increased by approximately 9.1%. The cost of materials increased by 21.7% per sq. ft. whereas production overheads decreased by 6.7% 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 led to an increase in depreciation. As a result, the overall gross profit margin increased from last year's 18.6% to 19.8% this year.

## 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 2004, the Group had total assets of approximately HK\$1,763 million (31 December 2003: HK\$1,557 million) and interest-bearing borrowings of HK\$510 million (31 December 2003: HK\$462 million), representing a gearing ratio, defined as interest-bearing borrowings over total assets, of approximately 28.9% (31 December 2003: 29.7%).

The Group's net current asset of approximately HK\$51 million (31 December 2003: net current liabilities of HK\$10 million) consisted of current assets of approximately HK\$716 million (31 December 2003: HK\$582 million) and current liabilities of approximately HK\$665 million (31 December 2003: HK\$592 million), representing a current ratio of approximately 1.08 (31 December 2003: 0.98).

As at 31 December 2004, the Group's current assets consisted of approximately HK\$91 million (31 December 2003: approximately HK\$74 million) held as cash and cash equivalents, of which 21.2% was in HKD, 60.5% was in USD, 16.3% was in RMB and 2% in other currencies.

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As at 31 December 2004, bank loans and other banking facilities of the Group were secured by:

- (a) the assignment of certain trade receivables of a subsidiary;
- (b) cross corporate guarantees by the Company and certain subsidiaries of HK\$118 million; and
- (c) the land and buildings held by the Group.

The Group's net current assets also consisted of approximately HK\$396 million (31 December 2003: approximately HK\$321 million) trade receivables from customers. Debtors turnover days was approximately 100 days (31 December 2003: approximately 91 days). The increase was mainly due to the increase in the sales value and additional credits granted to major customers.

As at 31 December 2004, the Group's inventories totaled approximately HK\$206 million up from approximately HK\$136 million recorded at 31 December 2003. Inventory turnover days was approximately 59 days (31 December 2003: approximately 48 days). The increase was mainly due to the purchase of more raw materials at the end of 2004 to support the expected increase in production volume in 2005.

As a result of the increase in inventories, the Group's trade payables totaled approximately HK\$339 million up from the approximately HK\$282 million recorded in 2003. Creditor turnover days was approximately 108 days (31 December 2003: approximately 99 days).

## Interest-bearing Borrowings

As at 31 December 2004, the Group had the interest-bearing borrowings as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Amounts payable:		
Within one year	<b>249,403</b>	249,181
In the second year	<b>141,831</b>	134,568
In the third to fifth year, inclusive	<b>118,616</b>	78,470
	<b>509,850</b>	462,219
Less: Portion classified as current liabilities	<b>(249,403)</b>	(249,181)
Long term portion	<b>260,447</b>	213,038

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Of the total interest-bearing borrowings, USD denominated loans accounted for 14.1% (2003: 16.4%), and the balance of 85.9% were HKD denominated loans (2003: 83.6%). All interest-bearing borrowings are charged with floating rates. The Group had maintained Hong Kong Dollar unexpired interest rate swap contract of HK\$179 million (2003: Nil) to hedge the HIBOR dominated loans. 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 faces minimal risk from exchange rate fluctuations.

Currently, the Group does not have a foreign currency hedging policy and its foreign exchange gains and losses over the 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 2004, excluding the associate, the Group employed 5,975 staff, of which 88 were employed in Hong Kong, 5,851 in the PRC and 36 in various overseas marketing offices. During the financial year ended 31 December 2004, total staff costs amounted to HK\$160 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. During the year under review, 8,740,000 share options were granted under the share option scheme. Subsequent to the balance sheet date, a total of 1,860,000 share options were granted to a Non-executive Director of the Company and a total of 700,000 share options were exercised. As a result, the Company had 9,900,000 share options outstanding under the scheme, representing approximately 1.39% of the Company's shares in issue as at 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 2004, the Group had contingent liabilities related to trade receivables factored with recourse amounting to HK\$34.5 million. (31 December 2003: HK\$22.7 million).

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## Capital Commitments

As at 31 December 2004, the Group's capital commitments contracted but not provided for amounted to HK\$57 million. (2003: HK\$18 million). All of these capital commitments were related to construction of its factory building or acquisition of fixed assets.

## Other Commitments

At 31 December 2004, the Group had total commitments of HK\$5.6 million (2003: HK\$6.5 million) to make payments in respect of a technology collaboration agreement with Tsinghua University, the PRC, entered into in April 2001.

At 31 December 2004, the Group's contribution payable for the registered capital of a wholly-foreign-owned subsidiary of the Group, which is incorporated in the PRC, amounted to HK\$132.6 million (2003: HK\$156 million).

At 31 December 2004, the Group had commitments in respect of interest rate swaps to hedge its bank borrowings of HK\$179 million (2003: Nil).

## Placing of Existing Shares and Subscription for New Shares

Pursuant to the placing and subscription agreement both dated 24 February 2005, Inni International Inc., a substantial shareholder and controlling shareholder of the Company, placed 70,000,000 ordinary shares of HK\$0.10 each in the capital of the Company in total at HK\$0.90 per share to some third-party independent investors and, on the same day, subscribed for 70,000,000 new shares in total at HK\$0.90 per share.

The net proceeds from subscription of approximately HK\$61.5 million (after deducting expenses of approximately HK\$1.5 million) was used as part of construction cost for the production plant of the Group situated in Shaoguan.

## Dividends

The Board has proposed a final dividend of 2.8 Hong Kong cents per share for the financial year ended 31 December 2004. 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 17 May 2005 (Tuesday). Barring unforeseen circumstances and based on cash flow requirements, the Board of Directors proposes to distribute approximately 22% of the Company's annual earnings as dividends to shareholders.

## Closure of Register of Members

The Register of Members will be closed from 10 May 2005 (Tuesday) to 17 May 2005 (Tuesday), 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 9 May 2005 (Monday).

