

The Group's performance was discussed in detail in the Chairman's Statement. This part intends to offer further information not mentioned in the Chairman's Statement.

CASH FLOWS

In the year under review, the Group's net cash inflow amounted to HK\$72 million notwithstanding that a total amount of HK\$99 million, a similar level to 2002, was paid for capital expenditures. These capital expenditures related mainly to the acquisition of plant, machinery, tools and equipment for our new Heyuan production complex, which started production during the second half of 2003.

Cash generated from operations was HK\$268 million, an increase of HK\$59 million as compared with that of 2002. The change resulted mainly from the increase in operating profit.

Cash used in investing activities decreased slightly to HK\$53 million from HK\$63 million in 2002 because of a fall of the Group's investment in non-trading securities. Net cash used in financing activities increased to HK\$104 million in 2003 from HK\$27 million in 2002 because more dividends were paid during the year.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Group maintains a strong financial position. As at 31 December 2003, the total shareholders' equity of the Group was HK\$1.4 billion. The Group's current ratio, being the proportion of total current assets against total liabilities, was 2.92 as at 31 December 2003 (2002 (restated): 3.26).

At the year end, the Group held a liquid portfolio of HK\$819 million (2002: HK\$777 million) of which HK\$549 million (2002: HK\$466 million) was in cash and cash equivalents and HK\$270 million (2002: HK\$311 million) in securities. The unsecured interest-bearing bank loans and overdrafts and bills payable increased to HK\$86 million (2002: HK\$62 million). Working capital, defined as current assets less current liabilities increased to HK\$862 million (2002: 787 million) largely due to the increase in cash and cash equivalents.

The Group's inventory turnover ratio for the year was 5.9 times (2002: 5.3 times). Debtor turnover for the year also improved slightly from 79.6 days in 2002 to 71.4 days. The return on assets for the year rose to 10.6% satisfactorily (2002: 9.3% (restated and the loss on liquidation of non-trading mutual fund excluded)).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2003, the Group employed approximately 4,760 persons around the world, of whom approximately 514 were in Hong Kong, 3,660 in PRC and 586 overseas. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group operates an employee share option scheme and provides rent-free quarters to its employees in the PRC. For details of the Directors' emoluments, please refer to note 6 on the financial statements.

CONTINGENT LIABILITIES

Details of contingent liabilities are set out in note 30 on the financial statements.

FOREIGN CURRENCY EXPOSURE

The Group continues to conduct most of its business to US dollar or HK dollar. That, together with a policy of keeping the majority of our assets also in these currencies, ensures that our exposure to exchange rate fluctuations is minimal.