

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

As a result of the outstanding performance of the Group's business operations and the effective financial management and control for the year ended 31 December 2000, coupled with the placements of new shares during the year, the Group's total net assets increased by approximately HK\$182.9 million compared with last year. The Group's total turnover recorded at HK\$659.8 million, representing 9.7 per cent increase compared with the same period of last year. Net profit attributable to shareholders amounted to HK\$32.5 million. Basic earnings per share for the year was HK4.7 cents. Details of variance are summarised as follows:

	<b>Increase/(Decrease) in the Group's total net assets HK\$ million</b>
Fixed assets	3.3
Prepaid rental	(0.7)
Rental deposits	0.4
Deferred product development costs	0.4
Interests in associates (including amounts due from/to associates)	2.8
Cash and bank balances and time deposits	73.6
Accounts receivable, bills receivable, deposits and prepayments	12.0
Loans and loan interest receivables	45.6
Short term investments	35.5
Properties held for sale	(2.2)
Inventories	5.9
Bank borrowings	24.1
Accounts payable, bills payable and accrued liabilities	22.8
Taxation (including tax payable and deferred tax)	(7.2)
Minority interests	(33.4)
<b>Net increase in Group's total net assets</b>	<b>182.9</b>

In April 2000, the Group disposed of properties held for sale with net book value of HK\$22 million. On the other hand, during the year under review, the Group has invested about HK\$20 million of fixed assets in the manufacturing plants in Mainland China to enhance their production capacities.

The investments in associates were sold to the majority shareholders of the associates in April 2000 at a consideration of HK\$1.2 million.

Through four placements of new shares during the year, the Group raised funds of HK\$149.4 million.

To diversify the business of the Group, secured short term loans were granted to independent borrowers.

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Three residential properties were acquired for short term investment purposes at a consideration of HK\$19.8 million.

As part of our cost control measures, lower purchase price with shorter credit term was negotiated with suppliers that led to a decrease of accounts payable balance as at 31 December 2000.

In September 2000, the Group has completed the sale of 45% interest of the PCB operations to another listed company in Hong Kong. The consideration was satisfied by the allotment and issue of 178,250,000 new Cedar Base shares. The Group treated the shares as a short term investment and has disposed part of it. The balance as at 31 December 2000 values to HK\$28.1 million. In view of the disposal of interest in PCB operations, the minority interests carried by the Group substantially increased by HK\$33.4 million comparing with the same period of last year.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position reflected the strength of its operating results. The gearing of the Group, measured as total debts to total assets, has improved from 50.8% in year 1999 to 33.5% in year 2000. After the placing of 386.0 million shares with net proceeds of HK\$149.4 million in year 2000, cash and bank balances (including time deposits) maintained by the Group as at 31 December 2000 were HK\$144.6 million, representing an increase of HK\$73.6 million compared with last year. On the other hand, the Group had outstanding bank borrowings of HK\$6.1 million as at the balance sheet date which represented trade finance borrowings for the normal working capital requirements. A decrease of HK\$24.1 million in total in the bank borrowings was recorded comparing with the same period of last year.

The Group has available banking facilities of HK\$55 million. Together with the net positive cash and bank balances, it is believed that it has adequate cash resources to meet working capital requirements and all commitments for future expansion should the opportunities arises.

### CAPITAL STRUCTURE

Pursuant to four placing agreements between the Company and placing agents, a total of 386.0 million new shares were issued to independent investors. The issued share capital of the Company had increased to 825.2 million shares. Moreover, share options were granted to three directors of the Company in February, March and May 2000 under the Share Option Scheme approved by the Company on 21 July 1995. The Company's issued share capital will be increased by 30.5 million shares should the options be fully exercised.

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2000, the Group employed approximately 2,500 full time employees, with 2,400 in the Mainland China and 100 in Hong Kong.

The Group remunerates its employees largely based on industry practice. In the Mainland China, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, the Group provides staff benefits including medical scheme, performance related bonuses and mandatory provident fund.

