

Financial Year 2001 was a year of capital asset and business expansion. Capital expenditures were financed by equity fund-raising exercise, syndicated loan, and internally generated funds. The financing strategy was to devise the best capital structure not only to sustain business growth, but also to support capital expenditure on one part and to maintain the overall financial stability on the other. Below is a detailed financial analysis of the Group.

Ratio Analysis:

	2001	2000
Liquidity ratio	1.6	1.6
Current ratio	2.1	2.3
Debtor turnover	49 days	73 days
Inventory turnover	63 days	64 days
Gearing ratio	0.35	0.08
Return on capital employed	8%	4%

There has been no significant changes in both liquidity and current ratios for the years 2001 and 2000. Current assets was in excess of current liabilities by HK\$268 million which was a healthy sign of short term liquidity.

Debtor turnover was 49 days which was 24 days shorter than that of last year's as a result of better control over the credit extended to open account customers.

There has been no material impact on the liquidity position of the Group. Inventory turnover has slightly improved from 64 days to 63 days from year 2000 to 2001.

Gearing ratio (being total bank borrowings, net of bank balances, over shareholders' fund) recorded a comparatively low level of 0.35 even after the syndicated loan raised in the year 2001.

Return on capital employed was 8% for the year 2001. It is expected that the ratio will be further improved with more efficient utilisation of production facilities.

Liquidity and financial resources:

	2001 HK\$'000	2000 HK\$'000
Net cash inflow (outflow) from:		
Operating activities	(32,091)	(3,335)
Returns on investments and servicing of finance	(7,652)	(6,685)
Taxation	2,871	(9,716)
Investing activities	(149,015)	(48,446)
Financing	155,312	14,116
Decrease in cash and cash equivalents	(30,575)	(54,066)

(a) The net cash outflow of HK\$32.1 million (2000: HK\$3.3 million) from operating activities in 2001 included an operating profit of HK\$37.2 million (2000: HK\$16.3 million) and an increase in working capital of HK\$98.8 million (2000: HK\$47.2 million).

(b) The inventory value of HK\$125.8 million (2000: HK\$123.5 million) maintained as a result of improved inventory turnover.

(c) The returns on investments and servicing of finance included net interest expenses of HK\$9.2 million (2000: HK\$7.3 million).

(d) The investing activities included the purchase of fixed assets totalling approximately HK\$120.3 million (2000: HK\$37.4 million) and net cash outflow from investments in securities of HK\$2.1 million (2000: inflow of HK\$22.8 million).

(e) The financing activities included the new bank and syndicated loans raised of HK\$100.2 million (2000: Nil) and the placement of new shares of HK\$59.7 million (2000: Nil).

(f) Net current assets was approximately HK\$267.7 million (2000: HK\$235.9 million). The current assets comprised trade and other receivables of HK\$267.2 million (2000: HK\$176.5 million).

- (g) In April 2000, the Group signed a HK\$85 million three-year syndicated loan led by Ka Wah Capital Limited. The repayment has commenced from the second year from the drawdown in April 2000 by 5 equal instalments of HK\$17 million each. The loan was applied for capital expenditures and for the expansion of the timepiece business of the Group.
- (h) On 28th April, 2000, the Group entered into an agreement with Upbest Securities Company Limited, as the placing agent, for a placement of 596,500,000 new shares of HK\$0.10 each in the Company at a price of HK\$0.10 per share with independent private and professional investors. The net proceeds of the placement was approximately HK\$58 million, approximately HK\$34 million of which was used for the development and procurement of advanced technology and know-how for the application to timepiece business and the remaining has been used for additional working capital of the Group.