THE FINANCIAL REVIEW

Debtor Aging Analysis

As at 30th June, 2001, the Group's consolidated trade debtors balance was approximately HK$237.9 million, representing approximately 39.9% of total turnover of this period. Although the debtor to turnover ratio increased 2.5% comparing the corresponding period last year, our customers still maintain a healthy repayment record with agreed terms.

Liquidity and capital structure

During the period, the Group recorded no movement on share capital. The Group financed its operations mainly with internal resources and general banking facilities.

As at 30th June, 2001, the Group's consolidated borrowings amounted to approximately HK$194.7 million, all were short-term in nature. This was an improvement over last year's figure of 7.6% and was the result of the Group's progressive approach to reduce interest burden. These borrowings were structured mainly for funding the operation. The currencies of the bank balances and cash was made up of approximately 0.1% Hong Kong dollars, 9.8% US dollars, 10.7% Renminbi and 79.4% New Taiwanese dollars. Most of the borrowings are structured at fixed interest rates.

Charge on Group Assets

Certain leasehold land and buildings of the Group having a carrying amount of approximately HK$91.8 million were pledged to banks in the PRC to secure the general banking facilities granted to the Group. The investment in listed securities was pledged to bank in Taiwan to secure general banking facilities granted to the Group.

Gearing ratio

The gearing ratio improved from 51.1% to 45.9%. This together with the interest cut series in Hong Kong reduced the Group's interest burden and hence facilitated the increase of the net profit for the period. Computation was based on the total borrowings divided by shareholders' funds as at 30th June, 2001.

Future Capital Investments

To achieve a greater market share in the PRC market and maintain a stable growth in the overseas OEM market, the board intends to expand its office in Taiwan and set up a factory in the PRC. It is anticipated that such expansion shall be financed by the internal resources of the Group.

As regards the PRC market, the board intends to increase about 40 specialty shops. The average setup cost of a specialty shop will be around RMB450,000, varies from locations in the PRC. With healthy and steady cash inflow from operation mentioned above, the Group plans to finance these establishments mainly by internal resources.

Material Acquisitions and Disposals

There are no material acquisitions and disposals of subsidiaries and associated companies in the six months ended 30th June, 2001, except the acquisition as mentioned above in Note 10.

Exchange Rate Exposure

Whilst the sales of the Group is mainly denominated in US dollars and Renminbi, the purchase of raw materials is made mainly in Hong Kong dollars, US dollars and New Taiwanese dollars. Bank borrowings are also denominated in Hong Kong dollars, US dollars and Renminbi, and interests are charged on a floating rate basis. As the exchange rates of New Taiwanese dollars and Renminbi against Hong Kong dollar were relatively stable during the period, the Group's exposure to fluctuations in exchange rates is minimal.

Contingent Liabilities

As at 30th June, 2001, the Group has no significant contingent liabilities.