

## Liquidity and Financial Resources

As at 31 December 2001, the Group's cash and bank balances amounted to HK\$91 million while the total assets and the net assets were approximately HK\$1,252 million and HK\$678 million.

The current ratio at year-end 2001 decreased from 1.25 to 1.02 due to a significant reduction of closing inventories. As at 31 December 2001, the total bank borrowings has decreased by HK\$167 million and the net gearing ratio improved from 53% to 33%. The improvement was mainly attributed to the proceeds from the issue of 100,792,000 new shares to Smurfit International B.V. in February 2001. In view of the Group's ability to generate cash from its operations, together with approximately HK\$825 million unutilised banking facilities at the balance sheet date, the Board considers that the Group has sufficient financial resources to satisfy its future capital expenditure plans.

## Capital Structure

As at 31 December 2001, the Group's net assets was financed by internal resources through share capital and reserves. Total equity attributable to shareholders was HK\$678 million, representing an increase of 7% over last year. As at 31 December 2001, the Group's bank borrowings amounted to HK\$315 million (31 December 2000: HK\$482 million) which represents 46% (31 December 2000: 76%) of the shareholders' equity, all were matured within one year. Of the total borrowings, HK\$112 million was borrowed in Renminbi. The currency exposure in Renminbi borrowings has been hedged against the Group's Renminbi assets and Renminbi revenue as generated by the subsidiaries in China.

The capital base of the Company for the year had been enlarged by an amount of approximately HK\$162 million which was the result of the issue of 100,792,000 shares to Smurfit International B.V.. As at 31 December 2001, part of the proceeds amounting to approximately HK\$40 million have been invested in our Dongguan plant for the expansion of the Packaging Division. In the meantime, the unused proceeds are being used as working capital for the Group to reduce its bank borrowings.

# Management Discussion and Analysis

## Working Capital

The Group also works keenly towards better working capital management in further reducing the inventory level and tightening its measures on the trade receivables. The closing inventory has decreased by HK\$137 million and the average stock turnover ratio has decreased from 6.2 months to 2.7 months.

	2001 <i>HK\$ million</i>	2000 <i>HK\$ million</i>
Inventories	127.6	264.7
Direct material cost	566.4	508.4
Stock Turnover (months)	2.7	6.2

Trade receivables including discounted bills receivables decreased by HK\$63 million and the average debtor turnover period in terms of sales decreased from 3.3 months to 3.0 months.

	2001 <i>HK\$ million</i>	2000 <i>HK\$ million</i>
Net Trade Receivables	232.9	242.5
Discounted bills	18.1	71.3
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	251.0	313.8
Turnover	1,019.1	1,139.4
Debtor Turnover (months)	3.0	3.3

## Treasury Policies

The Group maintains a conservative approach on foreign exchange exposure management. Majority of the Group's borrowings, approximately 59% of the total at the year end date, was in HK\$ with the balance in Renminbi and US Dollars.

The Group's borrowings are principally on a floating rate basis. When appropriate and at times of interest rate uncertainty or volatility, hedging instruments including swaps are used in the Groups' management of interest rate exposure.

## Net Asset Value per Share

Net asset value per share decreased to HK\$1.68 compared with HK\$2.11 (after restatement of shareholders' equity) at the end of 2000. As of 15 April 2002, the market closing price was HK\$0.70, a discount of approximately 58% to the net asset value per share as at 31 December 2001.

## Pledge of Assets

As at 31 December 2001, the Group pledged its plant and equipments, investment properties, land & buildings and bank deposit with an aggregate carrying value of approximately HK\$22 million (2000: HK\$23 million), HK\$4 million (2000: HK\$9 million), HK\$186 million (2000: HK\$184 million) and HK\$2 million (2000: Nil) respectively as securities for generating banking facilities granted to the Group.

## Number of Employees and Remuneration Policy

At the end of 2001, the Group employed a total of approximately 150 employees in Hong Kong and a workforce of approximately 3,000 in the PRC.

The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. In addition to salaries, the Group provides staff benefits including medical insurance, contributions to staff's provident fund and discretionary training subsidies. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.