

## MANAGEMENT DISCUSSION AND ANALYSIS

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**

During the year 2002, the net cash flows increased by HK\$97 million notwithstanding that HK\$99 million was paid for capital expenditures.

Cash generated from operations was HK\$210 million compared with HK\$278 million in 2001. The change was due to a slight increase in trade and other receivables. Additionally, there was exceptionally high cash generation in 2001 when the inventory and receivables were cut down from very high levels.

Compared to 2001, cash used in investing activities decreased slightly to HK\$63 million from HK\$67 million. The slight decrease in cash used in investing activities was due to proceeds received from liquidation of a non-trading mutual fund which also resulted in a loss of HK\$10.5 million. Capital expenditures were HK\$99 million, a similar level to 2001. These expenditures related to the construction of a new manufacturing facility in Heyuan, PRC and the necessary expansion of various other facilities.

Net cash used in financing activities decreased to HK\$27 million in 2002 from HK\$32 million in 2001, primarily due to the lower dividends paid in 2002 compared to 2001 though the repayment of bank loan increased by HK\$28 million.

### **FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

Total assets as of 31 December 2002, increased HK\$116 million or 7.3% from 2001, largely due to increased liquid funds. The liquid funds comprising trading and non-trading securities, cash and cash equivalents amounted to HK\$777 million as at 31 December 2002.

For the year ended 31 December 2002, the Group's inventory turnover ratio was 5.3 times compared with 3.63 times for the twelve months ended 31 December 2001. The increase was primarily due to improved inventory management at the factories and in the distribution channels. Inventory turnover is defined as turnover divided by average inventory during the year.

Trade debtors and bills receivables were outstanding an average of 79.6 days for the year ended 31 December 2002, at similar level as 79.1 days for the same period in 2001. Working capital, defined as current assets less current liabilities, increased HK\$97.2 million from 31 December 2001 largely due to the increase in cash and cash equivalents.

The ratio of total debt to total capital (debt plus equity) was 6.2% at 31 December 2002 compared with 6.7% at 31 December 2001. Excluding the loss on liquidation of non-trading mutual fund during the year ended 31 December 2002, the return on assets was 8.7% compared with 6.7% for the year ended 31 December 2001, excluding the special write off of inventories.

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2002, the Group employed approximately 4,150 persons around the world, of whom approximately 529 were in Hong Kong, 3,066 in PRC and 555 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 7 on the financial statements.

### **CONTINGENT LIABILITIES**

Details of contingent liabilities are set out in note 28 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.