

Management Discussion and Analysis

FINANCIAL RESULTS

Consolidated turnover of the Group for the year ended 31 December 2003 amounted to HK\$400,708,000 (nine months ended 31 December 2002: HK\$230,497,000). Net profit from ordinary activities attributable to shareholders was HK\$43,324,000 (nine months ended 31 December 2002: HK\$25,525,000).

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to rely on internally generated funds as well as banking facilities granted by its principal bankers and other financial institutions to finance its operations. In March 2003, a three-year syndicated loan of HK\$105 million was concluded which help strengthen and rationalise the Group's liquidity and finance structure. Part of the proceeds from the syndicated loan has been utilised for repaying some short-term loans and trade finances. Besides, the Group has entered into interest rate swap contracts to hedge interest cost over the loan period. Subsequent to the balance sheet date, the syndicated loan has been successfully re-financed at lower interest rates.

As at 31 December 2003, cash and bank balance amounted to approximately HK\$ 93.8 million (2002: HK\$44.7 million). Guided by a prudent treasury practice, the Group usually maintains a high level of cash to ensure smooth and efficient operation and to enable timely seizure of investment opportunities. The significant increase in cash and bank balance has been attributed to (i) surplus funds made available from the syndicated loan completed in March 2003 ; and (ii) improved inventory management leading to a lower stock level.

The Group has in aggregate banking facilities approximating HK\$354.9 million comprising the syndicated loan; import and export facilities; overdrafts and term loans. As at 31 December 2003, total borrowings from banks and financial institutions amounted to HK\$140.3 million, of which HK\$35.1 million is repayable within one year. The Group's gearing ratio, defined as total bank borrowings and finance lease payable less cash and bank balances of approximately HK\$46.5 million divided by the shareholders' equity of approximately HK\$182.8 million, was 25.4% (2002: 34.8% as restated). As a result of improved treasury management, the gearing ratio of the Group has been consistently reduced.

The Group has been able to maintain a strong and healthy financial position through adoption of prudent and effective treasury policies. As at 31 December 2003, the net assets of the Group amounted to approximately HK\$182.8 million (2002: HK\$162.8 million as restated). Current ratio and quick ratio of the Group were 2.39 (2002: 1.38) and 1.72 (2002: 0.85) as at 31 December 2003 respectively. Both ratios have shown significant improvement after completion of the syndicated loan of HK\$105 million during the year.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group has limited exposure to exchange rates fluctuations as most of the business transactions were conducted in the currency of United States dollars, Hong Kong dollars and Renminbi, all of which remained relatively stable during the year.

EMPLOYEE AND REMUNERATION POLICIES

At 31 December 2003, the Group employed a total of approximately 3200 staff in Hong Kong, the PRC and the United States. The employees were remunerated having regard to their performance, experience and expertise as well as the industry practices. Their remunerations are reviewed annually and discretionary bonuses are granted based on the performance and contribution of individual employees.