

Management Discussion and Analysis

SHAREHOLDERS' EQUITY

The Group shareholders' equity continued to increase. At 30 June 2004, shareholders' equity was HK\$816.8 million (2003-restated: HK\$684.3 million), an increase of 19.4% over last year mainly due to profits earned during the year

GROUP'S LIQUIDITY AND FINANCIAL RESOURCES

The Group's bank borrowings are mainly denominated in Hong Kong and US dollars. At 30 June 2004, 56.1% (30 June 2003: 59.6%) of the Group's bank borrowings were repayable within one year, 43.9% (30 June 2003: 40.4%) were repayable between two to five years. Bank borrowings are unsecured and negotiated on floating interest rates. At 30 June 2004, the Group has arranged an average SIBOR interest rate swap contract to cover 6.0% or HK\$54.6 million and two fixed interest rate contracts to cover another 12.0% or HK\$109.2 million of the total bank loans so as to reduce interest rate exposure.

SHARE CAPITAL

During the year, 23,850,000 shares were issued at exercise price of HK\$0.91 under employees share option scheme. As a result, share premium account had increased by HK\$19.3 million.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARY

The Group had no material acquisition and disposal of subsidiary during the year.

EMPLOYEES

At 30 June 2004, the Group had approximately 14,600 employees. (30 June 2003: 10,400) The Group continues to offer competitive remuneration packages in line with the industry practice. Employee benefits such as insurance, medical scheme, year-end bonus, discretionary bonus, share option scheme were also granted to certain eligible staffs. The Group has strengthened internal staff communication and upgrading of management skill by organising regular communication meetings, training, top management forum and by publishing of corporate newsletter.

GROUP'S ASSETS

The ongoing replacement of machinery and the increased capacity to cope with increase in turnover has given rise to the increase in investment in machinery. The Group had an addition of fixed assets of HK\$731.1 million during the year (2003: HK\$195.5 million). The Group will continue to expand its production capacity and look for new investment opportunities. These will be financed by internally generated cash flows and banking facilities.

The Group's assets are free from charge.

GEARING RATIO

At 30 June 2004, the Group's gearing ratio, calculated as the net bank borrowings (total bank borrowings net of cash) over shareholders equity and minority interest was 44.4% (2003: 36.3%).

FOREIGN EXCHANGE FLUCTUATION EXPOSURES AND HEDGES

The revenue of the Group were mainly denominated in US dollars. The trade payables were also mainly denominated in US dollars, Hong Kong dollars and Renminbi. The trade payables denominated in Japanese Yen were hedged by entering forward exchange contracts. At 30 June 2004, total Japanese forward exchange contract outstanding were JPY228.1 million (30 June 2003: JPY94.8 million).

CONTINGENT LIABILITIES

The Group had no material contingent liabilities at 30 June 2004.

The Company had contingent liabilities of unlimited guarantees given to banks in connection with facilities granted to subsidiaries.



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