

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts prudent treasury practices and maintains adequate funds to meet its operating needs. In general, our Group relies on internally generated funds and banking facilities to finance the operations.

In order to optimise the exposure to fluctuations in interest rates, the Group has entered into interest rate swap contracts to fix interest payments at agreed rates. The interest rate swap transactions have been accounted for in accordance with the provisions of HKAS 32 – Financial Instruments: Disclosure and Presentation and HKAS 39 – Financial Instruments: Recognition and Measurement.

Cash and bank balance as at 30 June 2005 amounted to approximately HK\$74.4 million (31 December 2004: HK\$84.1 million). The cash level decreased mainly because additional funds have been appropriated to stock up key raw materials such as titanium to combat the effect of price rises. The overall inventory level thus increased by approximately HK\$10 million in preparation for the coming production needs.

Bank borrowings as at 30 June 2005 aggregated to approximately HK\$173.8 million (31 December 2004: HK\$169.3 million), of which approximately HK\$108.0 million comprising import and export loans of about HK\$22.3 million (31 December 2004: HK\$6.2 million) and term loans of about HK\$85.7 million (31 December 2004: HK\$68.9 million) is repayable within one year. Gearing ratio at 30 June 2005, defined as total bank borrowings and finance lease payable less cash and bank balances of approximately HK\$99.5 million divided by shareholders' equity of approximately HK\$181.1 million, was 54.9% (31 December 2004: 49.9% (as restated)). The gearing ratio increased as a result of the increase in net bank borrowings.

As at 30 June 2005, the net asset value of the Group amounted to approximately HK\$181.1 million (31 December 2004: HK\$171.2 million as restated). Current and quick ratios were 1.58 (31 December 2004: 1.59) and 0.84 (31 December 2004: 0.95) respectively. There has been no material fluctuation in the current ratio while the quick ratio decreased because of the increase in inventory level. Both ratios stay at reasonable and healthy levels.