

## FINANCIAL REVIEW

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has continued to adopt prudent financial policies.

The Group's current assets and current liabilities as at 30 June 2005 were HK\$254,583,000 and HK\$122,965,000, respectively (31 December 2004: HK\$262,590,000 and HK\$156,409,000 respectively). As at 30 June 2005, the Group had cash and bank deposits of approximately HK\$45,182,000 (31 December 2004: HK\$55,446,000), and short-term bank borrowings of HK\$51,899,000 (31 December 2004: HK\$50,032,000).

As at 30 June 2005, the Group's gearing ratio, which was calculated on the basis of bank borrowings and other loan to shareholders' funds, was 28.1% (31 December 2004: 35.6%).

The Group has limited exposure to the foreign exchange fluctuations risks as most of its sales are denominated in Hong Kong dollars, United States dollars and Renminbi, being the same currencies in which the Group's costs and expenses are denominated. The Directors considered that the recent appreciation of Renminbi may have positive but immaterial impact to the Group. During the Current Period, the Group did not use any financial instruments for hedging purposes and the Group did not have any hedging instruments outstanding as at 30 June 2005.

During the Current Period, the Company successfully raised additional working capital through the following fund raising activities:–

- 1) In February 2005, the Company had entered into a placing agreement with a placing agent for placing an aggregate of 9,000,000 new shares at HK\$0.96 per share (the "Placing") to independent investors. The net proceeds raised by the Placing amounted to approximately HK\$8,300,000, which are, as planned, being used as general working capital and also for expansion of operation of the Group. Details of the Placing were contained in the Company's announcement dated 4 February 2005.

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- 2) In May 2005, the Company completed the open offer of 50,146,384 new shares (the "Open Offer") on the basis of one offer share for every two shares held by the then shareholders on the specified record date at the subscription price of HK\$0.38 per offer share. The net proceeds raised by the Open Offer amounted to approximately HK\$18,000,000, which are, as planned, being used as general working capital and also for financing ongoing business development of the Group. Details of the Open Offer were contained in the Company's circular dated 3 May 2005.

During the Current Period, the Company issued and allotted an aggregate of 59,146,384 new shares as a result of the Placing and the Open offer. As at 30 June 2005, the Company had 150,439,152 shares in issue.

**INTERIM DIVIDEND**

The Board of the Company does not recommend the payment of an interim dividend in respect of the Current Period (2004: Nil).

**EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2005, the Group employed approximately 2,300 employees, out of which approximately 2,200 were production workers in China. In addition to the provision of annual bonuses, medical insurance and in-house and external training programs, discretionary bonuses and share options are also available to employees based on their individual performance. The remuneration policy and packages of the Group are reviewed from time to time.

**PLEDGE OF ASSETS**

As at 30 June 2005, the Group pledged bank balances in the amount of HK\$14,706,000 (31 December 2004: HK\$16,288,000) and land and buildings situated overseas with a net book value of HK\$4,080,000 as at 30 June 2005 (31 December 2004: HK\$4,220,000) to banks as securities for banking facilities provided to certain subsidiaries.