

# Financial Review

## Structure of Assets

As at 31 December 2005, the total assets of the Group amounted to HK\$1,820 million (2004: HK\$2,143 million), representing a decrease of 15% as compared to last year. The decrease was mainly attributable to a decrease in trade and other receivables of HK\$128 million and the non-cash, non-recurring impairment losses made on available-for-sales securities, fixed assets, goodwill and intangible assets.

## Liquidity and Financial Resources

The Group maintains a strong financial position. As at 31 December 2005, the total shareholders' equity of the Group was HK\$1.3 billion (2004: HK\$1.6 billion). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 2.70 as at 31 December 2005 (2004: 3.24).

At the year end, the Group held a liquid portfolio of HK\$794 million (2004: HK\$820 million) of which HK\$416 million (2004: HK\$669 million) was in cash and cash equivalents and HK\$378 million (2004: HK\$151 million) in securities. The unsecured interest-bearing bank loans and overdrafts and bills payable amounted to HK\$99 million (2004: HK\$99 million). The gearing ratio (bank loans and overdrafts over net assets) was 7.4% (2004: 6.1%).

The Group's inventory turnover ratio for the year was 7.3 times (2004: 7.3 times). Debtor turnover for the year was 70.9 days (2004: 91.2 days).

## Cash Flows

In the year under review, the Group's cash generated from operations amounted to HK\$279 million (2004: 149 million), representing an increase of 87.2% over last year. This was mainly attributable to the decrease in trade and other receivables in 2005 of HK\$128 million. In addition, there was a decrease in inventories in 2005 and this had an effect of increasing cash flow by HK\$79 million.

Net cash used in investing activities increased to HK\$405 million, largely due to an increase in payment for purchase

of available-for-sale securities. During the year, a total of HK\$115 million was paid for acquisition of plant, machinery, tools and equipment mainly for our Heyuan production complex.

## Contingent Liabilities

At 31 December 2005, the Company had contingent liabilities for guarantees given to banks in respect of banking facilities granted to certain subsidiaries, which were utilised to the extent of HK\$100.0 million (2004: HK\$76.7 million).

## Commitments

At 31 December 2005 the Group had commitments to contribute capital of HK\$38.4 million for the acquisition of all the remaining interest, not held by the Group, in a non-wholly owned subsidiary in the PRC. The Group also had capital commitments of HK\$2.0 million (2004: HK\$7.2 million), representing purchase of property, plant and equipment not provided for in the financial statements. The total future minimum lease payments under non-cancellable operating leases for properties payable within one year amounted to HK\$3.8 million (2004: HK\$3.7 million).

## Foreign Currency Exposure

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Euros, United States dollars, Japanese Yen and Reminbi.

## Staff

As at 31 December 2005, the Group employed approximately 4,130 persons around the world, of whom approximately 271 were in Hong Kong, 3,536 in the PRC and 323 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.