

Financial Review

STRUCTURE OF ASSETS

As at 31 December 2006, the total assets of the Group amounted to HK\$1,880 million (2005: HK\$1,820 million), representing an increase of 3% as compared to last year. At year end, inventories increased by 44% to HK\$337 million (2005: HK\$234 million) while available-for-sale securities decreased by 60% to HK\$74 million (2005: HK\$185 million).

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains a strong financial position. As at 31 December 2006, the total shareholders' equity of the Group was HK\$1.3 billion (2005: HK\$1.3 billion). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 2.73 as at 31 December 2006 (2005: 2.70).

At the year end, the Group held a liquid portfolio of HK\$737 million (2005: HK\$794 million) of which HK\$499 million (2005: HK\$416 million) was in cash and cash equivalents and HK\$238 million (2005: HK\$378 million) in securities. The unsecured interest-bearing bank loans and overdrafts and bills payable amounted to HK\$45 million (2005: HK\$99 million). The gearing ratio (bank loans and overdrafts over net assets) was 3.4% (2005: 7.4%).

The Group's inventory turnover ratio for the year was 6.5 times (2005: 7.3 times). Debtor turnover for the year was 67.9 days (2005: 70.9 days).

CASH FLOWS

In the year under review, the Group's cash generated from operations amounted to HK\$246 million (2005: HK\$279 million), representing a decrease of 11.8% over last year. The increases in inventories and trade and other receivables reduced cash flow by HK\$104 million and HK\$53 million respectively but the reduction was offset by the increase in trade and other payables which raised cash flow by HK\$141 million.

Net cash from investing activities amounted to HK\$67 million (2005: HK\$405 million net cash used in investing activities). There was an increase in proceeds from disposal of available-for-sale securities of HK\$132 million while payment for purchase of available-for-sale securities dropped to HK\$13 million (2005: HK\$321 million). During the year, a total of HK\$40 million (2005: NIL) was paid for acquisition of additional equity interest in a subsidiary.

Net cash used in financing activities increased to HK\$200 million (2005: HK\$90 million) due to increases in repayment of bank loans and dividend payments.

CONTINGENT LIABILITIES

As 31 December 2006, 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\$50.7 million (2005: HK\$100.0 million).

COMMITMENTS

At 31 December 2006, the Group had capital commitments of HK\$9.7 million (2005: HK\$2.0 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\$4.7 million (2005: HK\$3.8 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 2006, the Group employed approximately 5,098 persons around the world, of whom approximately 242 were in Hong Kong, 4,551 in the PRC and 305 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.

STAFF RETIREMENT SCHEMES

The Group operates an MPF Scheme which was compulsory as enforced by The Mandatory Provident Fund Schemes Authority of Hong Kong. The MPF Scheme is a defined contribution retirement benefit scheme administered by independent trustees. The employer and the employee have to contribute in total an amount equal to 10% of the relevant income (the "Relevant Income") of the employee to the MPF Scheme. Contributions from employer are 100% vested in the employees accounts as soon as they are paid to the relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions. The vesting for retirement scheme will remain unchanged.

In addition, the Group also operates a defined contribution retirement scheme, whose assets are separate from the Group. The scheme is formally established under trust and is approved by the Inland Revenue Department under Section 87A of the Inland Revenue Ordinance. This scheme is a Top-Up ORSO scheme and both the employer and the employee are required to contribute 5% of the excess of the employee's Relevant Income to the scheme.

The total retirement scheme cost charged to the Consolidated Income Statement for the year ended 31 December 2006 was HK\$4,472,000 (2005: HK\$6,452,000). Charges to administer the scheme are deducted from the employer's contributions. Forfeited contributions are used by the employer to offset against future contributions. The amount so utilised during the year ended 31 December 2006 was HK\$400,000 (2005: HK\$665,000) and at 31 December 2006, the balance available to reduce the level of contributions in future amounted to HK\$951,000 (2005: HK\$643,000).

Varitronix (Malaysia) Sdn. Bhd. operates a staff provident fund scheme under the Employees Provident Fund Act 1951. The employer and employee are required to contribute a certain percentage of the employee's basic monthly salary according to the Act. The total employer's contributions charged to the Consolidated Income Statement for the year was HK\$522,000 (2005: HK\$1,437,000).