Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2001, the Group had HK$117,506,000 bank balances and cash. The Group's working capital requirements were mainly financed by internal resources and short-term borrowings. As at December 31, 2001, the Group had HK$43,611,000 short term bank borrowings and HK$19,768,000 bank overdrafts. The Group's borrowings were mainly denominated in Singapore dollars and Malaysia Ringgit and were charged by banks at floating interest rates.

The Group continued to sustain a good liquidity position without any long term debt funding. At balance sheet date, the Group had a net cash surplus (bank balances and cash less bank borrowings due within one year) of HK$54,127,000 compared to HK$119,116,000 in 2000. The decrease of net cash surplus was a result of extra working capital needs.

Gearing ratio, as defined by total bank loans and bank overdrafts to shareholders' funds, as at December 31, 2001 was 15.45% (2000: 19.44%).

CHARGES ON GROUP ASSETS

At the balance sheet date, the Group had pledged bank deposits of HK$26,397,000 (2000: HK$11,300,000) to banks to secure general banking facilities granted to foreign subsidiaries.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES

As at December 31, 2001, the Group employed 528 staff and the salary and other benefits paid to employees, excluding Directors' emoluments, during the financial year amounted to HK$70,330,000. In addition to the contributory provident fund and medical insurance, the Company adopts share option schemes and shares are granted to key employees of the Group. The Directors believed that the Company's share option schemes could create more incentives and benefits for the employees and therefore increase employees' productivity and contribution to the Group. The Group's remuneration policy is to relate performance with compensation. The Group's salary and discretionary bonus system is reviewed annually.

CURRENCY RISK MANAGEMENT

The Company's subsidiaries use their respective local currencies as their functional currency. The financial statements of overseas operations and subsidiaries are translated at the rates ruling on the balance sheet date. Exchange differences are reflected in the reserves. The Company's exposure under these translation, which is unhedged, may affect the carrying value of its foreign net assets and therefore its equity and net tangible book value, but not its net income or cash flow.

Due to the Company has overseas operations and subsidiaries, earnings may experience some volatility related to movements in exchange rates. In order to reduce exposure to fluctuations in exchange rates, subsidiaries of the Company will make forward purchases from time to time. Besides, the Group has adopted a policy of attempting to match levels of local denominated account receivables with accounts payable and to limit holdings of local currencies.

CONTINGENT LIABILITIES

The Company's corporate guarantees extended to certain banks and vendors as security for banking facilities and goods supplied to the Group amounted to HK$189,775,000 (2000: HK$152,255,000). The increase was mainly due to increase in guarantees given on behalf of overseas subsidiaries.

COMPLIANCE CODE OF BEST PRACTICE

The Company has compiled throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities ("the Listing Rules") on The Stock Exchange of Hong Kong Limited ("the Exchange").

In compliance with the Code of Best Practice of the Exchange, the Company established an Audit Committee in 1998 to act in an advisory capacity and make recommendations to the Board. Its members currently include the two independent non-executive directors.