



The Group's performance was discussed in detail in the Chairman's Statement. This part intends to offer further information not mentioned in the Chairman's Statement.

CASH FLOWS

In the year under review, the Group's net cash inflow amounted to HK\$132 million notwithstanding that a total amount of HK\$84 million was paid for capital expenditures. These capital expenditures related mainly to the acquisition of plant, machinery, tools and equipment for our new Heyuan production complex.

Cash generated from operations was HK\$149 million, a decrease of HK\$119 million as compared with that of 2003. The change resulted mainly from the rise of the total amount of trade and other receivables.

Net cash from investing activities increased to HK\$57 million compared to net cash used in investing activities HK\$53 million in 2003. The increase was due to the increase in proceeds from disposal of non-trading securities and a fall of payment for purchase of fixed assets and patent rights.

Net cash used in financing activities decreased to HK\$58 million in 2004 from HK\$104 million in 2003 because less dividends were paid during the year.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Group maintains a strong financial position. As at 31 December 2004, the total shareholders' equity of the Group was HK\$1.6 billion. The Group's current ratio, being the proportion of total current assets against total liabilities, was 2.73 as at 31 December 2004 (2003 : 2.92).

At the year end, the Group held a liquid portfolio of HK\$820 million (2003: HK\$819 million) of which HK\$669 million (2003: HK\$549 million) was in cash and cash equivalents and HK\$151 million (2003: HK\$270 million) in securities. The unsecured interest-bearing bank loans and overdrafts increased to HK\$99 million (2003: HK\$86 million).

The Group's inventory turnover ratio for the year was 7.3 times (2003 : 5.9 times). Debtor turnover for the year was 91.2 days (2003 : 71.4 days). The return on assets for the year rose to 12.4% satisfactorily (2003 : 10.6%).



EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2004, the Group employed approximately 4,510 persons around the world, of whom approximately 511 were in Hong Kong, 3,582 in PRC and 417 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.

CONTINGENT LIABILITIES

Details of contingent liabilities are set out in note 29 on the financial statements.

FOREIGN CURRENCY EXPOSURE

The Group continues to conduct most of its business in US dollar or HK dollar. That, together with a policy of keeping the majority of our assets also in these currencies, ensures that our exposure to exchange rate fluctuations is minimal.