

# Management's Discussion and Analysis

## LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The cash and cash equivalents net of bank overdrafts at the end of year were HK\$65,093,000 compared with HK\$31,827,000 in year 2005.

As at 31st December 2006, the Group had net tangible assets of approximately HK\$227,028,000, comprising non-current assets of approximately HK\$115,355,000, net current assets of approximately HK\$119,832,000, and non-current liabilities of approximately HK\$8,159,000. On the same date, the total liabilities of the Group amounted to approximately HK\$380,789,000. On the other hand, the total assets of the Group were HK\$607,817,000. The gearing ratio, defined as the ratio of total liabilities to total assets of the Group, was approximately 0.63 (2005: 0.66).

The Group generally finances its operations with internally generated resources and banking facilities provided by banks. As at 31st December 2006, the Group had aggregate banking facilities of approximately HK\$674,553,000 of which approximately HK\$254,721,000 was utilised, bearing interest at prevailing market rates and were secured by certain leasehold land, buildings and restricted bank deposits of the Group in Hong Kong and Singapore with an aggregate carrying amount of HK\$95,504,000 (2005: HK\$90,929,000). The directors are confident that the Group is able to meet its operational and capital expenditure requirements.

## CAPITAL EXPENDITURE AND CONTINGENT LIABILITIES

In 2006, the Group spent a total of HK\$11,140,000 (2005: HK\$26,702,000) in capital expenditure, which primarily consisted of property, plant and equipment. As at 31st December 2006, the Group had no material capital commitments and HK\$9,962,000 (2005: HK\$8,850,000) contingent liabilities in respect of letters of guarantee was given to customers.

## EXPOSURE OF FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

A substantial portion of the Group's sales and purchases were denominated in foreign currencies, which are subject to exchange rate risks. The Group will use the foreign exchange received from its customers to settle payment to overseas suppliers. In the event that any material payment cannot be fully matched, the Group will enter into foreign currency forward contracts with its bankers to minimise the Group's exposure to foreign exchange rate risks.

As at 31st December 2006, the Group had commitments for foreign currency forward contracts amounting to approximately HK\$25,927,000 (2005: HK\$98,922,000).

## DETAILS OF THE CHARGE ON THE GROUP'S ASSETS

As at 31st December 2006, certain leasehold land, buildings and bank deposits in Hong Kong and Singapore with an aggregate carrying value of approximately HK\$95,504,000 (2005: HK\$90,929,000) were pledged to secure the banking facilities of the Group by way of a fixed charge.

## Management's Discussion and Analysis (Continued)

### EMPLOYEES

As at 31st December 2006, the Group had 541 employees (2005:482). Of these, 191 were based in Hong Kong, 316 were based in mainland China, and 34 were based in other offices around Asia. Competitive remuneration packages were structured to be commensurate with our employees' individual job duties, qualifications, performance and years of experience. In addition to basic salaries, MPF contributions and ORSO contributions, the Group offered staff benefits including medical schemes, educational subsidies and discretionary performance bonuses.

A share option scheme was adopted by the Company on 17th June 2003 for a period of 10 years for employees and other eligible participants so as to provide incentives and rewards for their continued contributions to the Group.