

# Management Discussion and Analysis

## LIQUIDITY AND FINANCIAL RESOURCES

At the end of December 2001, the consolidated indebtedness of the Group, including short-term borrowings of HK\$23,395,000, was HK\$38,999,000. All of the borrowings are denominated in Hong Kong dollars. The cash and bank deposits amounted to HK\$1,744,000.

The Group's trade receivables balance was HK\$45,448,000, representing 22% of the year's turnover of HK\$205,510,000. The Group adopted a stringent credit policy to minimize credit risk. Reduced level of trade receivables has helped to mitigate the risk of bad debts, strengthen liquidity, and reduce interest expenses. The percentage of doubtful debts was only 0.99% of trade receivables. The interest coverage ratio was (1.9 times) as compared to 2.1 times in 2000.

## CAPITAL STRUCTURE

As at 31st December 2001, the consolidated shareholders' equity of the Group was HK\$113,610,000, a decline of 13% over that of the previous year. The debt to equity ratio, calculated by dividing Total Liabilities to Shareholders' Equity, was approximately 64%.

## PLEDGE OF ASSETS

At 31st December 2001, the Group's banking facilities amounting to approximately HK\$72 million (2000: HK\$74 million) were secured by legal charges over certain land and buildings and investment property of the Group with a total net book value of HK\$37,781,000 (2000: HK\$41,120,000) and corporate guarantees given by the Company.

Letters of undertaking from the company and a subsidiary covenanting that their tangible net worth will be maintained at not less than HK\$45 million (2000: HK\$45 million) and HK\$10 million (2000: HK\$10 million) respectively.

## CONTINGENT LIABILITIES

At 31st December 2001, the Group has contingent liabilities of HK\$1,342,000 in respect of 13 employees that would be eligible for long services payment on termination of their employment under the Employment Ordinance. In the opinion of the Directors, the amount is unlikely to crystallise in the foreseeable future.

In additions, as at 31st December 2001, the bills of exchange discount with recourse amounted to HK\$770,000.

## EMPLOYEES' REMUNERATION POLICY

As at 31st December 2001, the Group employed approximately 1,400 full time management, administrative and production staff in Hong Kong and the PRC. The Group follows market practice on remuneration packages. Employee's remuneration is reviewed and determined by senior management annually depending on the employee's performance, experience and industry practice. The Group invests in its human capital, besides providing on the job training for workers, the Group reimburses the staff for fees paid to attend pre-approved external business courses or seminars.