Zodiac Fashion Company

Upholding style with a touch of modernity

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Executive Summary

This report aims to resolve a recent interest dispute faced by Zodiac Fashion Company (ZFC) and provide insights for remedying the company's underlying problems. The "HAGU" measures are listed to settle the interest dispute and prevent similar cases. "Triple A" plan is designed to strengthen ZFC against future economic disruptions. This report also suggests measures which aim to improve ZFC's financial efficiency. The implementation of these plans expects to relieve the financial burden of ZFC and advance its operations.

Business Analysis

Founded in Europe 100 years ago, ZFC was acquired by a Hong Kong investor in 2005 and listed on the Hong Kong Stock Exchange in 2007. Its two brands, Zodiac Fashion and ZF Libra, enjoy international success. Currently, it operates 800 retail stores and 7000 wholesale stores in Europe, Asia, and North America, with Europe contributing to over 80% of sales. Although ZFC has considerable profitability thanks to its high-quality products, its net profit margin plummeted due to various factors including delayed response from manufacturers under the COVID-19 pandemic, a surge in supplier cost in Mainland China, and insufficient optimization of outlet channels. Moreover, ZFC is facing an internal crisis involving a dispute over the interests of an operations director. If not timely addressed, this incident can endanger the integrity and stakeholder confidence of ZFC.

Strength

- Global fame
  - Favours market expansion outside EU
- Good CSR policy
  - Attracts CSR-concerned customers if there is good publicity
- Long history
  - High customer loyalty
- Strong designer team
  - Good fashion forecasting

Weaknesses

- Rigid fashion calendar
  - Disability in disposal may lead to backlash
- Lack of publicity of CSR policy
  - Potential competitive edge not optimized
- High marketing costs
  - Reduces profit
- Little control on supply
  - Over-reliance on small, outsourced manufacturers

Opportunities

- High demand in Mainland China
  - Favours entrance to the Chinese market
- Customers are more socially and environmentally concerned
  - Great opportunity to stand out from other apparel companies
- Social media industry growing unprecedentedly
  - Allows promotion with exposure on social media
- Blooming of e-commerce industry
  - Online market expansion

Threats

- Lack of international travellers in Europe
  - Severe drop in customers
- Increasing supplier cost
  - Difficult to reduce operating costs
- Fluctuating exchange rates
  - Causes losses during transactions
- Unstable manufacturers and thus supply
- Slow response of manufacturers to just-in-time demand
- Severe competition

Remedies to Recent Incident

Overview: The operation Director of ZFC, Eric Kam, proposed an acquisition of Ron Fashion Limited to ZFC's board of directors in March 2018. The full shares of Ron Fashion were purchased in August 2018 with the whole board's agreement. An operations director later discovered that Eric Kam had bought a substantial quantity of Ron Fashion' shares before recommending the acquisition to the board. Eric Kam made this purchase under the nomination of a corporation owned by his mother-in-law, hiding his identity, and subsequently made a huge personal profit from the sale of his shares. The chairman of ZFC got informed and Eric Kam admitted his action.

Legal Consideration

According to Chapter 14A of the Main Board Listing Rules, Eric Kam's mother would be an associate of Eric Kam, a connected person to ZFC. If she owned more than 50% of the shares of Ron Fashion, the acquisition of Ron Fashion by ZFC would be classified as a connected transaction[1]. In that case, ZFC is at risk of breaching the Rules, as a connected transaction must be conditional on shareholders' approval at a general meeting. For the interest of ZFC, it should investigate the details of Mrs. Kam's ownership of Ron Fashion shares, to understand if its acquisition of Ron Fashion was a connected transaction and consider its announcement.

Moreover, according to Part 11 of the Companies Ordinance, directors who have a material interest, directly or indirectly, in a transaction with the company that has significance to the company's business, should disclose to the board of directors the nature and extent of interest[2]. Eric Kam has a risk of violating the declaration of material interest regulation. ZFC should seek legal advice and consider taking legal actions.

Moral Consideration

Discipline and Mutual Trust - ZFC should have its corporate values and mission statement outlined explicitly, to serve as a behavioural compass for employees.

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[1] Hong Kong Stock Exchange. 2021. "Chapter 14A: Connected Transactions" https://en-rules.hkex.com.hk/sites/default/files/net_file_store/HKEX4476_2775_VER50.pdf
[2] Companies Ordinance. 2012. "Part 11: Fair Dealing by Directors". https://www.cr.gov.hk/en/companies_ordinance/docs/part11-e.pdf

Measures to enhance internal relations and communication should be taken as well. It is vital to maintain cohesion within the company especially during an impactful economic recession. ZFC must maintain its team morale and prevent suspicion among staff.

Cyber Security - The board should ensure the security of its information technology infrastructure in order to minimize the privacy risk and data breaches. This incident was exposed by a director who searched through Eric Kam's email folder, revealing loose cyber security in its systems. Future incidents can result in an extensive and irreversible leak of confidential information, causing serious trust crisis.

Equity - The chairman should ensure that directors and staff are treated equally with consistent regulation and punishment. It is important to avoid differential treatment resulting from specific relations. Unfair treatment between directors might trigger interest disputes, which might harm the corporate morale and productivity.

Apart from seeking legal advice, ZFC should consider taking the following actions to protect company interests:

Immediate Solutions

Arranging Disciplinary Hearings: Detailed investigation should be carried out to collect relevant evidence and statements from witnesses. A disciplinary hearing letter should be sent to Eric Kam, clarifying the allegation he faces and his rights of defence, to ensure fairness. The whole board should be present at the disciplinary hearing. If Eric Kam's misconduct is formally determined to be true, the Board should discuss and vote for the suitable punishment, which can range from fine and suspension of promotion to dismissal.

Releasing Internal Announcement among Directors: ZFC should release an internal announcement among directors, which should describe the incident and emphasize the follow up measures. It should also clarify the conflict of interest regulation to warn directors the consequences of related misconduct.

Long-term Preventive Measures

Standardizing Guidelines on Code of Conduct: The board should standardize the regulation on declaration of conflict of interest, specifying the mechanism for reporting material interest and the approval progress on acceptance of advantages. All staff should be made clear of the government ordinances and internal disciplinary measures, including all possible penalties. This can eliminate misunderstandings and deter undesirable behaviour and suspicion among employees.

Upgrading Information Technology Infrastructures: ZFC should strengthen its investment in cyber security. It should enhance its technology stack on the basis of endpoint security, cloud services security as well as system and network security. ZFC can consider cooperating with white hats to detect the vulnerability of its information systems and subsequently take actions to eliminate loopholes. This can ensure the protection of confidential information.

Current Financial Analysis

Profitability	Industry Average	2020	2019	Year-on-year changes (%)
Net Profit Margin	-3.20%	-31.90%	15.13%	-310.75
Gross Profit Margin	31.50%	49.00%	53.48%	-8.36
Return on equity	-10.10%	-58.41%	59.10%	-198.84

Profitability: During the pandemic, sales and profit of ZFC decreased drastically. The turnover and gross profit decreased by 54% and 58% respectively. Despite a decrease in turnover, expenses such as staff and advertising costs increased by 32.8%, leading to a significant reduction in net profit by 203%. Consequently, net profit margin and return on equity plummeted by 311% and 199% respectively. It indicates that ZFC lacks efficiency in controlling operating expenses. More efficient cost management is needed.

Management Efficiency	Industry Average	2020	2019	Year-on-year changes (%)
Inventory turnover	4.40	2.73	5.70	-52.02
Assets turnover	1.09	1.22	2.16	-43.45
Accounts receivable turnover	N/A	2.68	6.44	-58.31
Accounts payable turnover	N/A	2.18	4.43	-50.82

Management efficiency: Due to the pandemic, both ZFC and its wholesale clients suffered from weakening cash flow, with a lower repayment ability and customers' purchasing power. Accounts receivable turnover decreased by 58%, implying a fall in the ability to collect dues from wholesale customers. Inventory turnover fell below industry average, implying a slow movement in inventory and potential excess inventory. A 51% drop in accounts payable shows that ZFC repays its suppliers for a longer period. To protect its cash flow and to spare enough resources to repay payables, ZFC is suggested to implement better policies for its account receivables.

Liquidity	Industry Average	2020	2019	Year-on-year changes (%)
Current ratio	1.61	1.58	2.33	-32.12
Quick ratio	0.61	0.78	1.54	-49.70

Liquidity: In 2020, ZFC saw a 32% decline in current ratio and 50% drop in quick ratio. The quick ratio decreased in a larger percentage, implying inventory level rose due to the weak sales as purchasing power decreased during the pandemic. Also, cash and cash equivalents decreased by almost 80%, due to the weaker ability in receiving repayment from customers. There are new bank loans of 1900M too. ZFC is recommended to look for ways to finance to prevent cash and cash equivalents from further dropping to a dangerous level or even leading to a negative balance, improving its ability to meet its short-term obligations.

Strategic Planning

To improve long-term sustainability of ZFC, the Triple A strategic plan is designed as follows:

Advance The Cost Management Plan

Problem: ZFC is in need of a cost reduction policy to maintain sustainable operation. The percentage decline in profit (197%) is higher than that in turnover (53%), implying the operating cost increased significantly. Moreover, since the inventory level increased by 10% during 2020, accompanied with slow movement in inventory, it can be expected that there is a surge in inventory management cost. Without appropriate cost-saving policies, ZFC will face difficulties in sustainable expansion in the long run, obscuring its potential growth. After reviewing ZFC's cost drivers, CPAC proposes the following solutions to help ZFC reduce expenses.

Collaborating with influencers in advertising campaigns: In the past, ZFC spent a considerable budget in advertising, primarily for hiring top models and features in premium fashion magazines. It is proposed that ZFC increases its collaboration with social media influencers with solid supporter base on YouTube and Instagram. ZF Libra can be promoted more effectively in this method, as the higher flexibility of social media platforms can allow greater creative freedom in marketing to increase brand consciousness. This helps ZFC appeal to a broader audience, attracting more potential customers. Meanwhile, the company is suggested to reduce its spending in traditional advertising campaigns by focusing on featuring Zodiac Fashion at prominent fashion events such as the Big Four Fashion Week, instead of coordinating their own runway shows. This allows ZFC to maintain its position as a high fashion brand more economically, expecting to save more than 70% of the advertising expenses.

Introducing commission-based salary policies: In 2020, ZFC's staff cost rose by 12.3%. To prevent the loss of ZFC's fashion talents which contributed to its good reputation, it is not recommended that ZFC furloughs their team of designers. Instead, it is proposed that ZFC lowers the basic salary of designers and pairs it with a commission, which is a certain percentage of the sales from each item. With the new policy, ZFC can partially shift its financial burden since a part of the staff costs depends on the sales. By rewarding designers who produce popular designs, the new policy can also incentivize the team to focus on quality rather than quantity of items.

Organizing charity sales to dispose of unsold inventory: To uphold ZFC's image as a socially and environmentally responsible company, ZFC must dispose of its unsold inventory with caution. It is recommended to hold a charity sales week in their stores worldwide, where unsold inventory can be sold at 60% of the original price. After deducting the production and selling costs, the remaining proceeds can be donated to charities for COVID-19 impact relief and climate change causes. As such, ZFC can propel the movement of its unsold inventories and therefore lower inventory management costs. At the same time, it is a valuable chance for ZFC to publicize its commitment in corporate social responsibility. The global nature of the charity sales also minimizes the logistics cost for transporting inventories.

Armor the Supply Chain with Centralization and Technology

Problem: Currently, outsourced manufacturers are responding slowly to orders for additional quantities of products in the just-in-time purchasing system. Besides, ZFC's many manufacturers are in Mainland China, where manufacturing costs are increasing. As a result, ZFC experienced difficulties in negotiating prices. This shows that ZFC has insufficient control of its supply chain, which is caused by geographical barriers between the markets and the supply, as well as a deficiency of centralization of manufacturing.

Adopting proximity manufacturing: In the past, most of ZFC's manufacturers are in Asia, while the stores in Europe. Meanwhile, governments of Eastern Europe provide considerable incentives for foreign investors. For example, Bulgaria offers to help investors purchase land and provide state financing for basic infrastructure and training new staff[3]. It is suggested that ZFC shifts 40% of manufacturing to Eastern Europe. CPAC Advisory Team can provide advice for the Financial Due Diligence, and the valuation of target manufacturers. This is to ensure that the European manufacturing supply chain supports the company's market in Europe, while the manufacturing chain in Asia focuses on the Asian market. High proximity between the manufacturing and the outlets allows ZFC to reduce its distribution cost by reducing the demand for long-haul

[3] Fitch Solutions. 2021. "Bulgaria: Market Profile" https://research.hktdc.com/en/article/MzU3ODQwODI0

shipping of finished products. It can also increase ZFC's speed to response to a surge in the local demand.

Establishing hub-and-spoke system: The headquarters of ZFC are in Hong Kong, but it is distant from the manufacturing. It is proposed that ZFC establishes two main distribution centers each in Europe and China as "hubs", which coordinate the receipt and distribution of garment orders and finished products between stores, e-fashion storage, and manufacturers. A new distribution subsidiary is to be set up in the eurozone, while the manufacturing subsidiary already existing in China will shift its focus onto distribution. With distribution centers, ZFC can supervise the progress of manufacturers in proximity and give prompt directions according to changes. As a result, the efficiency of ZFC's purchasing/manufacturing system can be improved.

Utilizing Supply Chain Visibility (SCV) technologies: While ZFC should increase the centralization of its supply model, it is crucial not to sacrifice the convenience of outsourcing its manufacturing. Therefore, it is proposed that ZFC adapts a cloud-based digital platform in the supply chain, connecting manufacturers and outlets to the hubs. All outsourced manufacturers of ZFC are required to use this system. This allows the hubs to track the production process from the arrival of raw materials, manufacturing processes to the deliveries of the finished garment. The platform can also record performance parameters of different manufacturers, including the total cycle, yield, and capacity utilization. As such, manufacturing efficiency can be evaluated and be used to determine the feasibility of contract renewals with outsourced manufacturers.

Amplify Digital Presence for Business Expansion

Problem: ZFC's survival in the European market is threatened by the reduced flow of customers in physical stores, especially the blockage of international travellers with strong purchasing power. Also, good opportunities are observed in China, as the percentage of total sales occupied by ZFC's Chinese sales has increased by 2.7% in 2020. This demonstrates that the relative position of the Chinese market is rising against European market. While ZFC should look for channels to secure its European market, anchoring itself to the Chinese customer base is also vital. The increase in scale and complexity of ZFC's e-commerce and social media promotion, is suggested to address the problems.

Increasing localization in e-shops in European countries: The decline in international travellers contributed to the drop in sales revenue in both retail and wholesale stores in Europe. It is suggested that ZFC recovers its sales in Europe through the attraction of local customers, by providing exclusive localized products on their e-shops in different European countries. ZFC's strong team of designers can conduct research and design products matching preferences of local customers. The physical stores with smaller customer inflow can act as local pickup points. As such, ZFC can anchor to a local customer base which can possibly be attracted to physical stores when economic activities gradually resume.

Launching online flagship stores in China: To grasp opportunities in China, ZFC is suggested to kickstart online flagship stores on platforms such as Tmall and Viashop. Similar to the approach taken in Europe, localized products can be featured exclusively on these online stores in China. CPAC's tax accountants can offer assistance on the tax reporting and compliance of business tax in Mainland China. This allows ZFC to enjoy the online sales surge during shopping seasons such as the Double Eleventh Festival, and increase its market penetration and sales exposure.

Although ZFC faces the competition from Platinum Fashion Limited, it is notable that Platinum Fashions focuses on fast fashion, and is still in the immature stage of quality improvement, which is vital in the world of high fashion. Therefore, it is a golden chance for ZFC to seize widespread marketing strategies on promoting its high-quality and credible image in Mainland China.

Promoting brand image through digital marketing strategies: It is proposed that ZFC should establish its social media identity in accordance with region culture. Instagram, Twitter, alongside short-video platforms such as Tiktok Global can be used to promote ZFC's ESG mission. Meanwhile, Weibo and Tiktok China can be utilized to promote culture of high fashion. Through these digital platforms, ZFC can reach the younger generation at ease and formulate data-driven advertising approaches from analysis on viewers' preferences.

Financial Planning

ZFC is also suggested to perform the following measures to mitigate their current financial problems:

Minimize transaction risk from exchange rate

Problem: ZFC is subjected to transaction risk, as it affords its cost in Hong Kong Dollar (HKD) and receives income in Euros (EUR). The fluctuation in exchange rate makes future cash flows uncertain. From March 2020 to December 2020, EUR appreciated against HKD by HKD1.2086[4]. This would reduce the amount of HKD convertible for facilitating transactions, resulting in a drop of revenue. While the suggested mode of proximity manufacturing helps ZFC receive and pay in the same currencies, ZFC is still suggested to act as follows.

Hedging against currency movements: ZFC can sign a forward exchange contract with the bank once the Sale and Purchase Agreement is signed between ZFC and its suppliers and wholesale clients. The exchange rate would be kept at one level and free from real fluctuations when ZFC receives its sales, therefore provide ZFC with a more stable cash flow.

Improve Turnover of Accounts Receivables and Accounts Payable

Problem: ZFC is facing difficulties in debt collection. Its allowance for non-payment rose by 61.8%, implying a higher percentage of receivables is expected to be uncollectible. This can be attributed to the liquidation and loss of sales of wholesale stores. Moreover, ZFC is facing a short-term debt-paying problem. In 2020, ZFC has a new bank loan of HKD 1,900 million, despite its fall in cash and cash equivalents (79.2%). If not timely

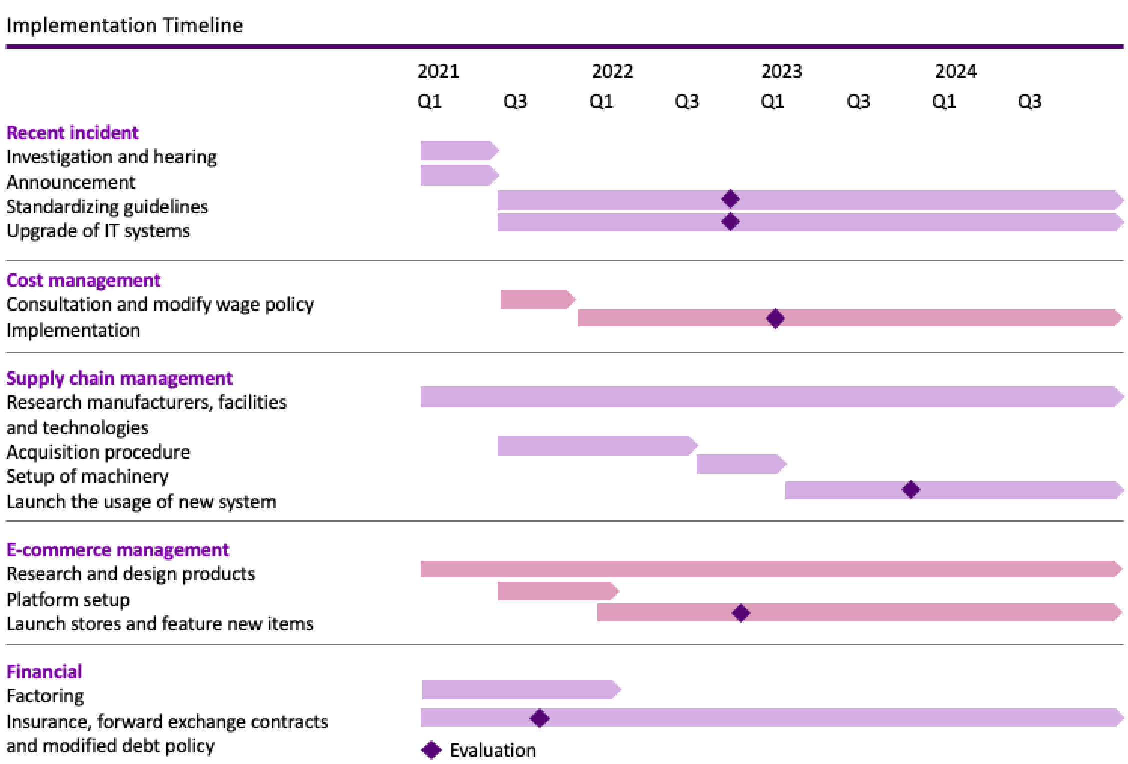
[4]European Central Bank. 2021. "Hong Kong Dollar (HKD)".
https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-hkd.en.html

addressed, the high level of receivables will further hamper the liquidity for facilitating transactions, worsening the already-existing debt-paying problem.

Increasing cash flows in short-term: To ensure the stability of the supply chain, ZFC should prioritize repaying its manufacturers with resources available. Therefore, it is suggested to sell its account receivables to a factoring company at a discount, thereby decreasing its receivables. ZFC can then accelerate its cash flow to pay its suppliers. Moreover, ZFC is recommended to purchase trade credit insurance, which can cover most of the balance when its debtors (mostly wholesale clients) go bankrupt or liquidated.

Payment policy and analysis model in long-term: Collaborating with CPAC's Consulting Team, ZFC can set up a model which analyses its wholesale customers' payment patterns, financial positions, and business risks with the use of big data, afterwards determine the credit of each customer. ZFC can then accordingly charge different amounts of deposit, and set up clauses regarding extra interests in case customers cannot settle the payment upon due date. This can reduce the occasions that wholesale customers make late payment, and therefore control the change in account receivable within an acceptable range.

Implementation



Risk and Contingency

Strategy	*Risk Scenario*	*Contingency*
New cost management plan	Designers unsatisfied of new salary policies and threaten to leave	Managers will arrange individual meetings with high performers and persuade them to stay by offering pay raises. Employees will also be encouraged to input their thoughts with freedom.
	The influencer collaborating with ZFC is under a PR crisis	Communicate with the influencer to understand the incident. If the crisis will reflect ZFC's business ethics negatively, suspend and possibly announce the termination of the collaboration publicly.
	Lack of customers of the initial charity sales	Hype up the upcoming sales using social media platforms. Provide real-time photos and videos of the charity sales. Attract customers from the surrounding neighbourhood with physical signs.
Supply chain management	Breakdown of machinery paralyzing the whole supply chain	Immediately call for repairment service and notify the physical and virtual centres. Regular checking and upgrading of systems and machines by professional technicians will be performed as a preventive measure.
	The response from outsourced manufacturers is still slow	Conduct regular check-ups on factories and select manufacturers who are responsive and have good usage of technology. Collaborate with manufacturers to providing trainings to workers.
Business expansion through digital channels	Designs are appropriated by online sellers and sold at a lower price	Collect the evidence that ZFC's designs are appropriated. Contact CPAC Advisory for legal advice. Issue cease and desist letter. Ensure that the copyright of all old and new designs and is filed.
	Social media content is deemed controversial	Make the content invisible to the public immediately and issue statements when needed. Train the marketing team to have better sensitivity towards country culture and political climate.
New debt payment policy	Discontentment of wholesale customers	Meet with customers to inform them of the purpose of the policy. Promise providing small discounts on early-settled payments and other benefits .
Factoring finance	High discount rate only allows ZFC to gain back a very small proportion of its receivable values	Identify high-risk wholesale customers and reduce future sales to them, unless their financial stability shows improvement.

Financial Projection in the Upcoming 4 years

Profitability: The original source of income is from retail stores and wholesale stores, with less emphasis on online sales. After putting forward the strategies, the turnover is expected to go up considerably due to the exponential growth of online shopping during COVID-19 and is expected to continue its rise after COVID-19. Along with a series of cost-saving policies, profit is also expected to grow alongside revenue. The net profit margin would likely grow steadily to 16.05% in 2024.

Management efficiency: Efficiency is expected to improve. With proper disposal of the inventory, inventory turnover is expected to rise to 5.58 in 2024. With the customization of payment terms for wholesale customers, account receivables turnover would be increased to 5.08 in 2024. With ZFC being able to repay manufacturers after collecting the debt from wholesale customers, account payables turnover is also expected to grow to 6.54 in 2024.

Liquidity: As cash flow improves after the COVID-19, and the measures for protecting the financial strength and repaying the payables and loans timely, liquidity is expected to be enhanced. The current ratio and quick ratio would rise to 3.66:1 and 2.55:1 in 2024, respectively.

Appendices

Appendix 1: Statement of Expenses

	Assumption	2019	2020	2021	2022	2023	2024
(In HK$ Million)							
Staff Costs	Increase 2021: 10%, YOY growth 8% after 2021	3,730	4,186	4,605	4,973	5,371	5,800
Distribution costs	YOY growth: 15%	1,146	1,150	1,323	1,521	1,749	2,011
Advertising costs	One-off decrease: 30%	598	674	550	561	572	584
Depreciation & Amortization	Decrease: 10%, YOY growth after 2021: 5%	3,954	4,441	3,997	4,197	4,407	4,627
Other operating costs	YOY growth: 15%	2,330	2,074	2,385	2,743	3,154	3,627
Total Expenses		11,758	12,525	12,860	13,995	15,253	16,649

Appendix 2: Statement of Profit and Loss

	2019	2020	2021	2022	2023	2024
(In HK$ Million)						
Turnover	33,750	15,525	21,145	27,299	34,575	41,486
Cost of goods sold	(15,702)	(7,917)	(8,458)	(10,920)	(13,830)	(16,594)
Gross profit	**18,048**	**7,608**	**12,687**	**16,379**	**20,745**	**24,892**
Staff Costs	(3,730)	(4,186)	(4,605)	(4,973)	(5,371)	(5,800)
Distribution costs	(1,146)	(1,150)	(1,323)	(1,521)	(1,749)	(2,011)
Advertising costs	(598)	(674)	(550)	(561)	(572)	(584)
Depreciation & Amortization	(3,954)	(4,441)	(3,997)	(4,197)	(4,407)	(4,627)
Other operating costs	(2,330)	(2,074)	(2,385)	(2,743)	(3,154)	(3,627)
Operating profit / (loss)	**6,290**	**(4,917)**	**(173)**	**2,384**	**5,492**	**8,243**
Interest income	86	89	92	95	98	101
Finance costs	-	(28)	(28)	(22)	(22)	(22)
Profit / (loss) before taxation	**6,376**	**(4,856)**	**(109)**	**2,457**	**5,568**	**8,322**
Taxation	(1,268)	(96)	(96)	(491)	(1,114)	(1,664)
Profit / (loss) after taxation (attributable to shareholders)	**5,108**	**(4,952)**	**(205)**	**1,966**	**4,454**	**6,658**

Appendix 3: Financial Ratios

Profitability	2019	2020	2021	2022	2023	2024
Net profit margin	15.13%	-31.90%	-0.97%	7.20%	12.88%	16.05%
Return on capital employed	59.10%	-58.41%	-1.90%	37.15%	61.35%	64.10%
Management Efficiency						
Inventory turnover	5.70	2.73	3.44	5.29	5.58	5.58
Assets turnover	2.16	1.22	1.94	2.21	2.32	2.14
Accounts receivable turnov	6.44	2.68	3.16	4.05	4.58	5.08
Accounts payable turnover	4.43	2.18	2.49	3.70	5.05	6.54
Liquidity						
Current ratio	2.33	1.58	1.67	2.03	2.60	3.66
Quick ratio	1.54	0.78	0.93	1.16	1.62	2.55

Statement 4: Statement of Financial Position

	Assumption	2019	2020	2021	2022	2023	2024
(In HK$ Million)							
Non-current assets							
Intangible assets		1,045	1,030	1,082	1,136	1,192	1,252
Property, plant and equipment		3,946	4,217	3,795	3,985	4,184	4,394
		4,991	5,247	4,877	5,121	5,376	5,646
Current assets							
Inventories	One-off 40% decrease in inventory level	2,757	3,037	1,877	2,252	2,703	3,243
Receivables and prepayments		3,403	3,488	2,929	2,874	2,825	2,781
Cash and cash equivalents		4,461	928	1,205	2,092	4,003	7,690
		10,621	7,453	6,011	7,218	9,531	13,714
Total assets		15,612	12,700	10,888	12,339	14,907	19,360
Equity and liabilities							
Equity attributable to owners of the parent company							
Share capital		110	110	110	110	110	110
Reserves		10,679	5,727	5,522	7,488	10,442	15,300
Total equity		10,789	5,837	5,632	7,598	10,552	15,410
Non-current liabilities							
Bank loans		-	1,900	1,425	950	475	-
Deferred taxation		270	256	242	228	214	200
		270	2,156	1,667	1,178	689	200
Current liabilities							
Trade payables and accrued expenses	10% decrease per year (immediate repayment)	3,541	3,720	3,066	2,842	2,634	2,442
Taxation		1,012	512	48	246	557	832
Bank loans repayable within 12 months		-	475	475	475	475	475
		4,553	4,707	3,589	3,563	3,666	3,749
Total equity and liabilities		15,612	12,700	10,888	12,339	14,907	19,359

Appendix 5: Statement of Cash Flow

	2020	2021	2022	2023	2024
(In HK$ Million)					
Cash flows from operating activities:					
(Loss) / profit before taxation	(4,856)	(109)	2,457	5,568	8,322
Adjustments for:					
Depreciation	4,441	3,997	4,197	4,407	4,627
Interest expenses	28	28	22	22	22
	(387)	3,916	6,676	9,997	12,971
(Increase) / decrease in receivables and prepayments	(85)	559	55	49	44
(Increase) / decrease in inventories	(280)	1,160	(375)	(451)	(540)
Increase / (decrease) in payables and accrued expenses	179	(654)	(224)	(208)	(192)
Cash (used in) / generated from operations	(573)	4,981	6,132	9,387	12,283
Income tax paid	(500)	(48)	(245)	(557)	(832)
Net cash (used in) / generated from operating activities	**(1,073)**	**4,933**	**5,887**	**8,830**	**11,451**
Cash flow from investing activities:					
Payment for purchase of property, plant and equipment	(4,807)	(4,153)	(4,503)	(4,922)	(5,467)
Net cash used in investing activities	**(4,807)**	**(4,153)**	**(4,503)**	**(4,922)**	**(5,467)**
Cash flows from financing activities:					
Dividend paid	-	-	-	(1,500)	(1,800)
Interest paid	(28)	(28)	(22)	(22)	(22)
Proceeds from new bank loans	2,375	-	-	-	-
Repayment of bank loan	-	(475)	(475)	(475)	(475)
Net cash used financing activities	**2,347**	**(503)**	**(497)**	**(1,997)**	**(2,297)**
Net decrease / (increase) in cash and cash equivalents	(3,533)	277	887	1,911	3,687
Cash and cash equivalents at 1 January	4,461	928	1,205	2,092	4,003
Cash and cash equivalents at 31 December	928	1,205	2,092	4,003	7,690