Management Discussion and Analysis

OPERATING RESULTS

The turnover of the Group for the year increased 1% to HK$1,974 million. Profit attributable to equity holders of the Company for the year and earning per share increased 1.7% to HK$72 million and HK20.6 cents respectively.

The slight increase in the Group's turnover was largely attributable to the 35% growth in sales to Europe and other export markets. Export sales to North America and Asia dropped less than 1% and 4% respectively. The pre-tax contribution from North America segment and Europe and other market segment increased 5% and 37% respectively to HK$92 million and HK$9 million. Asia segment was making a loss of HK$3.3 million as compared to a pre-tax contribution of HK$0.4 million last year.

During the year under review a number of adverse factors were putting pressure on costs and margins. They include hiking interest rate, persistently high oil price, growing wages and material costs in China, and the appreciating value of RMB. Nevertheless, the Group managed to minimize the impact by stringent costs control and improving operating efficiency. Consolidated costs of sales were slightly improved to 76.0% of total sales (2005: 76.6%). Selling and distribution expenses and administrative expenses were also controlled at 5.4% (2005: 5.3%) and 13.7% (2005: 13.4%) of total sales respectively. Finance costs went up from HK$1.4 million to HK$3.7 million because of higher interest rate and increased utilization of short-term working capital financing. Higher interest rate on the other hand was one of the contributing factors of the increase in other income from HK$4.8 million to HK$6.0 million.

Thanks to the active industrial property market during the year, the Group recorded HK$18 million valuation gain on investment property.

CAPITAL EXPENDITURE

During the year, the Group's capital expenditure amounted to HK$24 million. It was lower than last year's HK$48 million when a new factory in China was acquired. At the time of this report, the Group does not foresee any major capital expenditure in the near future.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position remained solid. As at the balance sheet date, the Group's cash level was recorded at HK$148 million as compared to HK$206 million of last year. The key contributing factors of the lowered cash level were 100% dividend payout ratio in last fiscal year, the purchase of tax certificates, and the higher inventory level at the year end date. Most of the cash balance was placed in USD and HKD short-term deposits with major banks in HK. Total bank borrowings of HK$54 million included HK$45 million discounted export bills. The remaining balance comprised trust receipt loans, bank overdraft and short-term loans. The borrowings were mainly denominated in USD and HKD and the total bank borrowings represented 11% of the shareholders' funds at the year end date. With the net cash balance of HK$94 million and abundant banking facilities available, the Group has sufficient liquidity and financial resources to meet the operational and investment needs.

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Working capital cycle continued to be under stringent control. Inventory turnover lengthened from last year's 31 days to 44 days as a result of higher shipments in the first quarter of fiscal 2006/2007. According to the new Hong Kong Accounting Standards (HKAS), bills receivables discounted with full recourse were not derecognized on balance sheet this year and the corresponding proceeds received were accounted for as bank advances. Should last year's figures be adjusted accordingly for comparison purpose, the 45 days trade receivable turnover of this year would be 9 days shorter than last year's. Similarly, current ratio and quick ratio came down slightly to 1.8 and 1.2 respectively, as compared to the last year's adjusted figures of 1.9 and 1.4. We consider that these ratios still remain healthy and will be improved in the coming fiscal year.

As at March 31, 2006, certain land and buildings with an aggregate net book value of approximately HK$17 million (2005: HK$20 million) and certain investment properties with an aggregate carrying value of approximately HK$11 million (2005: HK$8 million) as well as bank deposits of HK$0.2 million (2005: HK$0.2 million) were pledged to banks to secure general banking facilities granted to the Group. No additional tangible security was given to banks during the year.

TREASURY POLICY

The Group continued to adopt prudent policies to hedge exchange rate and interest rate risks associated with our core business. It is our Group's policy not to engage in speculative activities. The majority of our export sales are denominated in USD while a tiny portion destined for the European markets is denominated in EURO. The Group entered into a limited number of forward contracts to hedge the risks as deemed appropriate. Our Mainland China retail business provided a natural hedge for our Renminbi expense to a certain extent.

HUMAN RESOURCES

As at March 31, 2006, the Group had approximately 9,400 employees globally, as compared to 8,800 as at March 31, 2005. The increase was mainly production workers for the new factory in Hangzhou and for the expansion of the factories in the Asian countries.

The Group put high emphasis on human resource management. We strive to attract and retain talented people in the industry by offering career development opportunities and competitive remuneration package with reference to the market practice.