

Management Discussion and Analysis

REVIEW OF RESULTS

With the success of the Group's marketing strategies and benefited from the economies of scale, the Group had been able to increase its turnover and the net profit attributable to shareholders by 42% to HK\$300 million (2000: HK\$212 million) and 81% to HK\$66 million (2000: HK\$36 million) respectively.

LIQUIDITY AND CAPITAL STRUCTURE

As at 31 March 2001, the Group had cash and bank deposits of HK\$70 million (2000: HK\$18 million) which was mainly arising from the subscription of newly issued ordinary shares in December 2000. The current ratio and the quick ratio were 1.58:1 (2000:1:1) and 1.28:1 (2000: 0.55:1) respectively, reflecting a relatively healthy liquidity level.

In addition to the shareholders' fund, the Group's financial resources were obtained from current liabilities of HK\$110 million (2000: HK\$92 million) and non-current liabilities of HK\$2 million (2000: HK\$27 million). The gearing ratio as at 31 March 2001 was maintained at a reasonable level of 43% (2000: 83%). It is calculated as total liabilities of HK\$112 million (2000: HK\$119 million) over total assets of HK\$260 million (2000: HK\$144 million)

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions, including borrowings, were conducted in United States dollars, Hong Kong dollars or Renminbi and the exchange rates of these currencies were relatively stable for the year.

The Directors believes that the Group's cash reserves and future cash generated from its core operations will provide a solid base for its working capital requirements in the coming year.

OPTION FOR SUBSCRIPTION OF 2,200,000 NEW SHARES

On 28 April 2001, the Company granted to several directors and employees options for subscription of an aggregate of 2,200,000 new shares of the Company at a price of HK\$0.62 per share. The option shares represent approximately 0.733% of the Company's existing total issued share capital and approximately 0.728% of the enlarged issued share capital when the option is fully exercised.

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USE OF PROCEEDS

As at our reporting date, the Company has partial utilized the proceeds received from the initial public offer of the Company's shares as follows:

1. as to approximately HK\$15.6 million for expansion of the production lines; and
2. as to approximately HK\$2.9 million for increasing the plant and machinery and other fixed assets.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 March 2001, the Group employed approximately 1,500 full time staff based in mainland China and Hong Kong. The Group remunerates its employees based on their performance, responsibility, experience and prevailing market wages. Remuneration is reviewed annually and a discretionary bonus is declared based on the performance of the individual employee. In addition to basic salary payments, other employee benefits include insurance and medical scheme, mandatory provident fund scheme as well as a share option scheme.