

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs costs in US dollars and Hong Kong dollars. Foreign exchange exposure of the Group is minimal so long as the Hong Kong SAR Government's policy to link the Hong Kong dollars to the US dollars remains in effect.

Since the Group's principal manufacturing operations are in the PRC and most of the operating expenses are denominated in RMB, the Management is aware of possible exchange rate exposure. As a hedging strategy, the Management emphasizes on using RMB borrowings to finance the Group's PRC operation and capital expenditure.