

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 March 2005, the Group recorded a turnover of HK\$331.8 million representing an increase of approximately 16.99% compared with HK\$283.6 million in the previous year. Operating loss for the year was HK\$19.7 million representing a further deterioration as compared with HK\$0.7 million last year. Net loss from ordinary activities attributable to shareholders was HK\$27.1 million, compared with HK\$7.0 million last year. The Group's basic loss per share was HK0.81 cent (2004: HK0.24 cent).

The average gross profit margin for the year was 5.29% compared with 3.4% last year. The improved average gross profit margin was the result of the struggle of the management to shift part of the material costs to the customers and to tighten cost controls over factory overheads.

DEBT ASSIGNMENT DEED

Wealthguard Investment Limited ("Wealthguard"), an independent third party investor, acquired from the Group's bank creditors in Hong Kong (the "Participating Banks") most of the Group's indebtedness under the Rescheduling and Restructuring Deed dated 30 May 2002, including the Secured Term Loan of HK\$36 million and two tranches of Convertible bonds of HK\$40 million (the "First CBs") and HK\$50.4 million (the "Second CBs"). On 22 December 2004, Wealthguard exercised the conversion right and converted the First CBs into 800,000,000 ordinary shares of HK\$0.01 each in the Company at a conversion price of HK\$0.05.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, the Group's bank and other borrowings amounted to HK\$143.99 million, including HK\$50.41 million convertible bonds, HK\$32.69 million bank loans and HK\$60.89 million other borrowings.

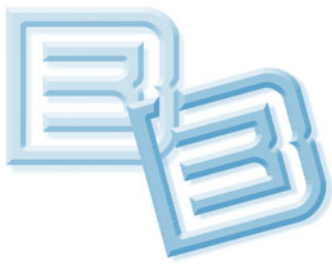
Of the Group's total borrowings at 31 March 2005:

- (i) HK\$36.67 million was at floating interest rates and HK\$107.32 million was at fixed interest rates.
- (ii) 65.40% was denominated in Hong Kong dollar, 27.48% in Renminbi and 7.12% in U.S. dollar.

Cash and bank balances as at 31 March 2005 amounted to HK\$13.3 million (2004: HK\$4.4 million).

As at 31 March 2005, the Group's deficiency in assets and net current liabilities were approximately HK\$9.6 million (31 March 2004: HK\$36.0 million) and HK\$7.4 million (31 March 2004: HK\$26.6 million) respectively.

Due to the capital deficiency position at 31 March 2005, the gearing ratio calculated as a percentage of the Group's consolidated borrowings and finance lease payables has remained a meaningless figure.



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LIQUIDITY AND FINANCIAL RESOURCES (Cont'd)

On 22 September 2004, the Company has issued 560,000,000 new shares at HK\$0.024 per share. The net proceeds was about HK\$13.3 million and utilised HK\$4.8 million for repayment of existing loan on 25 October 2004 and further HK\$5.3 million for repayment of loan in early April 2005. The remaining proceeds were used for purchase of raw materials for daily operation.

On 22 December 2004, Wealthguard converted all the HK\$40,000,000 of 3% First Tranche Convertible Bonds into 800,000,000 shares at the conversion price of HK\$0.05 per share.

POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following events had occurred:–

On 22 April 2005, Wealthguard placed 682,000,000 ordinary shares of HK\$0.01 each in the Company to certain independent investors at HK\$0.04 per share. On the same day, the Company allotted and issued 682,000,000 new shares to Wealthguard at HK\$0.04 per share, with net proceeds of approximately HK\$27.3 million. Out of the net proceeds of approximately HK\$27.3 million, HK\$24.9 million was applied to partially settle the HK\$36 million Secured Term Loan due to Wealthguard. As a result of Placing, the Group returned from deficiency in assets to positive in equity.

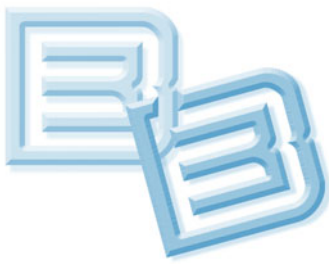
On 13 June 2005, Wealthguard had waived of its debts amounting to HK\$11,100,000 due from the Company.

On 23 June 2005, Wealthguard had exercised its right to convert all the HK\$50,414,704 of 1.5% Second Tranche Convertible Bonds into 252,073,520 shares at the conversion price of HK\$0.20 per share.

On 25 July 2005, the Company intends to put forward to the Shareholders a proposal to reduce the entire amount standing to the credit of the share premium account of the Company to offset part of the Accumulated Losses as at the date on which the Share Premium Reduction shall become effective, being the date of the general meeting at which the relevant special resolution approving the Share Premium Reduction is passed by the Shareholders.

CHARGE ON GROUP'S ASSETS

Bank deposits of HK\$4,237,000 as at 31 March 2005 (2004: 3,438,000) were pledged for trust receipt loans and other short term trade financing facilities granted to the Group. Certain of the Group's medium term leasehold land and the Plant with net book value of HK\$22.7 million (2004: HK\$28.67 million) were pledged to secure a Loan of RMB12.6 million granted to the Group and certain plant and machinery with aggregate net book value of HK\$29.13 million (2004: HK\$37.02 million) were pledged to secure a 1.5% Second Convertible Bonds.



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EXPOSURE TO FOREIGN EXCHANGE FLUCTUATION

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Renminbi and U.S. dollars. As the Hong Kong dollar is pegged to the U.S. dollar and there is minimal fluctuation in exchange rate between Hong Kong dollars and the Renminbi, the Group's exposure to currency exchange risk was minimal.

CONTINGENT LIABILITIES

As at 31 March 2005, the Group gave a guarantee of banking facilities granted to independent third parties amounting to HK\$8.4 million (2004: HK\$8.4 million).

EMPLOYEES

As at 31 March 2005, the Group had approximately 327 full time managerial, administrative and manufacturing employees. The Group affords competitive remuneration packages to its employees based on prevailing industry practice and provides to most of its employees in the PRC with rent-free quarters and messing. Compensation policies are reviewed regularly and are designed to reward and motivate productivity and performance.

No share option was granted during the year under review.