

FINANCIAL POSITION AND CAPITAL STRUCTURE

As at 30 September 2005, the Group had approximately HK\$812 million of cash on hand compared to approximately HK\$514 million as at 31 March 2005. The strong cash position has paved the way to finance the working capital requirements of the Group. On the other hand, the Group had neither committed any substantial capital expenditure nor borrowed long-term loan. This further consolidated our liquidity position in the longer run.

However, the total short-term bank debts had increased from HK\$302 million as at 31 March 2005 to HK\$701 million as at 30 September 2005. The substantial increase in bank borrowings was inevitable as the increase in the volume of business during the six months' period has fostered the need for bank financing in the procurement of raw materials. As a result, the gearing ratio (defined as total bank borrowings on shareholders' equity) increased from 0.27 as at 31 March 2005 to 0.53 as at 30 September 2005. The Group's liquidity position remained healthy, with a current ratio of 1.9 times as at 30 September 2005 compared with 2 times as at 31 March 2005.

The Group's sales and purchase transactions are primarily denominated in either Hong Kong Dollars or US Dollars. The Group did not face significant risk from exposure to foreign exchange fluctuations.

There was no significant changes to the capital structure except as disclosed in the "Post Balance Sheet Event" (Note 19) and "Purchase Sale or Redemption of the Company's Listed Securities".

INTERIM DIVIDEND

The directors have resolved to pay an interim dividend of HK5 cents per share (2004: nil) and a special dividend of HK7 cents per share (2004: nil) to the shareholders of the Company whose names appear in the register of members on Friday, 6 January 2006.

STAFF COSTS

The total staff costs incurred for the period under review including directors' remuneration amounted to HK\$22 million (2004: HK\$17 million). The number of staff was approximately 901 as at the reporting date.

The remuneration policy and package of the Group's employees are structured by reference to market terms and statutory requirements as appropriate. In addition, the Group also provides other staff benefits such as medical insurance, mandatory provident fund and a share option scheme to its employees. During the period, 11,600,000 share options were granted to the directors and employees of the Group. For details, please see the section on "Share Options".

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2005, the interests of the directors, and the chief executive of the Company in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position

(a) Ordinary shares of HK\$0.05 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company (Note 2)
Mr. Pan Su Tong ("Mr. Pan")	Interest held as beneficial owner or through controlled corporation	441,868,894 (Note 1)	65.77%
Mr. Huang Hui (Note 3)	Beneficial owner	334,000	0.05%

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares	Percentage of the issued share capital of the Company (Note 2)
Mr. Siu Wai Yip, James	Beneficial owner	3,500,000	3,500,000	0.52%
Mr. Huang Hui (Note 3)	Beneficial owner	800,000	800,000	0.12%
Mr. Ding Zhi Qiang	Beneficial owner	2,300,000	2,300,000	0.34%
		<u>6,600,000</u>	<u>6,600,000</u>	

Notes:

1. The 441,868,894 shares comprise the followings:
 - (a) 2,446,000 shares held beneficially by Mr. Pan;
 - (b) 424,422,894 shares held by Jade Forest Limited ("Jade Forest"). Jade Forest was 100% owned by Mr. Pan as at 30 September 2005. Accordingly, Mr. Pan was deemed to be interested in the 424,422,894 shares held by Jade Forest; and
 - (c) pursuant to an agreement dated 3 November 2004 (the "Agreement") entered into between Matsunichi Hi-Tech Limited, a wholly owned subsidiary of the Company and Matsunichi International Holdings Limited ("MIHL") as part consideration to MIHL for the acquisition by Matsunichi Hi-Tech Limited of certain trademarks from MIHL. 15,000,000 shares were agreed to be allotted and issued to MIHL or its nominee(s). MIHL was 99% owned by Mr. Pan as at 30 September 2005. Accordingly, Mr. Pan as at 30 September 2005 was deemed to be interested in the 15,000,000 shares to be issued to MIHL or its nominees. The said 15,000,000 shares were issued to Jade Forest as nominee of MIHL on 1 November 2005.
2. On 30 September 2005, the number of issued share capital of the Company was 671,874,683.
3. Huang Hui resigned as a director of the Company with effect on 1 November 2005.

Save as disclosed in above:

1. none of directors of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the period;
2. at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate; and
3. none of the directors or chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTIONS

Pursuant to the share option scheme (the "Scheme") adopted on 27 August 2002 by a resolution passed by the Company's shareholders on the same date, the directors of the Company may grant options as incentives to any participants as described in the Scheme for the shares in the Company within a period of ten years commencing from 27 August 2002 at the price determined by the directors. Such price shall not be lower than the higher of (i) the closing price of the Company's shares on the Stock Exchange of on the date of grant; (ii) the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. The maximum number of shares in respect of which options may be granted under the share option scheme is not permitted to exceed 10% of the issued share capital of the Company on the date of adopting the Scheme. An option may be exercised at any time within ten years from the date of grant of the relevant options.

At 30 September 2005, the number of shares in respect of which options had been granted and remained outstanding under the Scheme were 51,500,000, representing 7.7% of the shares of the Company in issue at that date.

The following tables disclose details of the Company's share options and movements in such holding during the period:

Details of the Company's share options and movements in such holding during the period

Directors

	Name	Date of Grant	Subscription price per share HK\$	Exercise Period	Number of share options				
					Outstanding at 1.4.2005	Granted during the period	Lapsed during the period	Exercised during the period	Outstanding at 30.9.2005
Lot 1A	Siu Wai Yip	5 Feb 2004	1.30	5 Feb 2005 to 4 Feb 2015	750,000	-	-	-	750,000
	Huang Hui	5 Feb 2004	1.30	5 Feb 2005 to 4 Feb 2015	400,000	-	-	-	400,000
	Dong Zhi Qiang	5 Feb 2004	1.30	5 Feb 2005 to 4 Feb 2015	150,000	-	-	-	150,000
Lot 1B	Siu Wai Yip	5 Feb 2004	1.30	5 Feb 2006 to 4 Feb 2016	750,000	-	-	-	750,000
	Huang Hui	5 Feb 2004	1.30	5 Feb 2006 to 4 Feb 2016	400,000	-	-	-	400,000
	Dong Zhi Qiang	5 Feb 2004	1.30	5 Feb 2006 to 4 Feb 2016	150,000	-	-	-	150,000
Lot 2	Dong Zhi Qiang	20 Apr 2004	1.54	20 Apr 2004 to 19 Apr 2014	500,000	-	-	-	500,000
Lot 3	Siu Wai Yip	28 Sept 2005	1.43	28 Sept 2005 to 27 Sept 2015	-	2,000,000	-	-	2,000,000
	Dong Zhi Qiang	28 Sept 2005	1.43	28 Sept 2005 to 27 Sept 2015	-	1,500,000	-	-	1,500,000
					<u>3,100,000</u>	<u>3,500,000</u>	<u>-</u>	<u>-</u>	<u>6,600,000</u>

Employees

	Date of Grant	Subscription price per share HK\$	Exercise Period	Number of share options				
				Outstanding at 1.4.2005	Granted during the period	Lapsed during the period	Exercised during the period	Outstanding at 30.9.2005
Lot 1A	5 Feb 2004	1.30	5 Feb 2005 to 4 Feb 2015	2,550,000	-	(1,100,000)	(750,000)	700,000
Lot 1B	5 Feb 2004	1.30	5 Feb 2006 to 4 Feb 2016	2,550,000	-	(1,100,000)	-	1,450,000
Lot 2	20 Apr 2004	1.54	20 Apr 2004 to 19 Apr 2014	8,350,000	-	(1,650,000)	-	6,700,000
Lot 3	28 Sept 2005	1.43	28 Sept 2005 to 27 Sept 2015	-	8,100,000	-	-	8,100,000
				<u>13,450,000</u>	<u>8,100,000</u>	<u>(3,850,000)</u>	<u>(750,000)</u>	<u>16,950,000</u>

Other participants

	Date of Grant	Subscription price per share HK\$	Exercise Period	Number of share options				
				Outstanding at 1.4.2005	Granted during the period	Lapsed during the period	Exercised during the period	Outstanding at 30.9.2005
Lot 1A	5 Feb 2004	1.30	5 Feb 2005 to 4 Feb 2015	6,150,000	-	-	-	6,150,000
Lot 1B	5 Feb 2004	1.30	5 Feb 2006 to 4 Feb 2016	6,150,000	-	-	-	6,150,000
Lot 2	20 Apr 2004	1.54	20 Apr 2004 to 19 Apr 2014	21,150,000	-	-	(5,500,000)	15,650,000
Lot 3	28 Sept 2005	1.43	28 Sept 2005 to 27 Sept 2015	-	-	-	-	-
				<u>33,450,000</u>	<u>-</u>	<u>-</u>	<u>(5,500,000)</u>	<u>27,950,000</u>
				<u>50,000,000</u>	<u>11,600,000</u>	<u>(3,850,000)</u>	<u>(6,250,000)</u>	<u>51,500,000</u>

- (i) The weighted average closing price of the Company share immediately before the date on which the options were exercised on 13 May 2005 and 25 July 2005 were HK\$2.425 and HK\$1.650.
- (ii) During the period, 11,600,000 share options granted under the share option schemes were approved by the Board of Directors of the Company on 28 September 2005.
- (iii) During the period, 3,850,000 share options were lapsed under the share option schemes. No share options were cancelled under the share option schemes.
- (iv) The fair value of the options granted in the current period at the date of grant (28 September 2005) totalled approximately HK\$4.56 million. The following significant assumptions were used to derive the fair values using the Binomial option pricing mode:
 - 1. an expected volatility of 44%;
 - 2. employee exit rate of 15%
 - 3. annual dividend rate of 6%; and
 - 4. the Hong Kong Exchange Fund Notes rate of 4.18% as estimation of risk-free rate.

The Binomial model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.