



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 September 2005, the Group's turnover was HK\$126,635,000, an increase of 2.5% as compared to the corresponding period of last year. Profit attributable to equity holders of the Company for the period was HK\$1,099,000, representing 128.48% increase over the same period of last year. Basic earnings per share was HK\$0.25 cent (Six months ended 30 September 2004: HK0.12 cent).

The period under review was still a hard time for our operation being characterized by intense competition together with the prevailing high international crude-oil prices, resulting in the moderately lower gross profit margin. Against the backdrop of adverse market condition, the Group's business strategy was premised on the reinforcement of operating cash flow by means of consolidating customer base and stringent control over costs.

To balance off the negative impact of the increase in raw material costs, the Group continued to exert strict cost control. As a result of the Group's relentless effort in reviewing and streamlining the core operating processes, the administrative expenses were significantly curtailed particularly by way of rationalizing the overall headcount within the Group's operation.

In August 2005 following the completion of acquisition of Dongguan City Changan Xinyimei Paint Company Limited ("Dongguan Xinyimei"), which was specialized in manufacture and sales of wooden furniture and industrial coatings, both product mix and market segments of the Group were further broadened. In taking advantage of the geographic proximity, the Group could capitalize its core competence in production and distribution through a more efficient and effective allocation of resources over the existing production plants in Dongguan and sales outlets in Yangtze and Pearl River Deltas.

OUTLOOK

Looking forward, the Group will intensify its business strategies of both product and market development. Soon after August 2005, Dongguan Xinyimei has already generated positive contribution to the Group. Moreover, in November 2005 the acquisition of Zhongshan Ling Feng has officially completed. Over the years, Zhongshan Ling Feng has already built up its four own brand names for its products, namely wooden furniture and decorative coatings for household usage, with extensive sales network scattered over the northern and eastern mainland. The consolidation of sales from Dongguan Xinyimei and Zhongshan Ling Feng will help to increase the Group's turnover in the second half of the financial year.

The full implementation of the enterprise resource planning system in the second half of this year will also enable the Group to optimize its operating synergy in full spectrum of production, distribution and financial management, especially when both production capacity and market segments have been expanded through its acquisition strategy pursued earlier this year.



FINANCIAL REVIEW

Working capital

As at 30 September 2005, the Group's working capital was kept at approximately HK\$12,300,000, as compared to HK\$12,393,000 as at 31 March 2005. The current ratio, being the proportion of total current assets against total current liabilities, was 1.09 (31 March 2005: 1.09). The Directors consider that the present working capital level is sufficient to meet the upcoming operating need.

Liquidity and financial resources

During the six months ended 30 September 2005, the Group had total outstanding borrowings of approximately HK\$84,164,000, cash and bank balances of approximately HK\$14,948,000 and total assets of approximately HK\$252,437,000. Current assets of the Group on the same date amounted to approximately HK\$145,292,000, whilst current liabilities were HK\$132,992,000. The gearing ratio, calculated by dividing the total borrowings by the total assets, was equal to 0.33 as at 30 September 2005 (31 March 2005: 0.41)

The Group generally finances its operations with internally generated cash flow and loan facilities from banks. Through proper management of its treasury functions, the Group will continue to maintain sufficient funds to meet its operational requirements as well as future development needs.

Pledge of assets

As at 30 September 2005, no assets of the Group were pledged to secure banking facilities granted to the Group.

Exposure to foreign exchange risk and interest rate risk

Business transactions of the Group are mainly denominated in Hong Kong dollars and Renminbi. All interest bearing bank borrowings of the Group are on floating rate basis. The Group has been engaging in hedging the foreign exchange risk and interest rate risk with some derivative instruments. The Directors consider the exposure to interest rate risks and foreign exchange risks is minimal.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2005, the Group had 556 employees (30 September 2004: 589) including 58 employees from the newly acquired subsidiary, Dongguan Xinyimei. Total 531 employees located in mainland China while the rest were based in Hong Kong and Macau. Employees' remuneration package includes salary, bonus and share options. Under the Group's remuneration policy, employees are rewarded on the basis of merits and market conditions and in accordance with the statutory requirements of the respective jurisdiction where the employees are engaged.