Management Discussion and Analysis

Financial and Business Review

During the year under review, sales of the Group's major product to major markets recorded promising improvement. Sales to Germany, PRC and the local market continued to record growth. Despite of intensified market competition and increasing cost, we were able to maintain the overall gross profit margin. With stringent control over other expenses and the low bad debt level, the net profit after tax for this year was better than that of last year.

Outlook

With the well recognition of our sub-contracting works by the PRC customers, we will allocate more marketing resources in order to solicit more customers in this area. We will continuously seek further opportunities to extend our sales network in the PRC especially in major and second – to third – tiers cities. For overseas markets, we shall actively adopt appropriate marketing strategies to enhance the relationship with existing customers and to seek for new trading partners.

Employees, Training and Remuneration Policy

As at 31 March 2006, the Group employed 548 full time employees, of which 529 were in the PRC and 19 in Hong Kong. The Group continues to maintain and upgrade the capabilities of its workforce by providing them with training.

The Group fully recognises the importance of its employees who contribute so significantly to its success. The Group's remuneration policies are based primarily on the prevailing market situation and the performance of individual employee, which are subject to annual review. Discretionary bonuses are awarded to employees based both on individual and Group performances. Other benefits include Mandatory Provident Fund retirement benefits scheme and other subsidies. In the PRC, the Group provides staff welfare and bonus to its employees with prevailing labour laws in China.

Capital Expenditure

During the year under review, other than the incorporation of a mink farm in the PRC, there is no other material capital expenditure for business development. Saved as disclosed, as of today, there is no plan for any other material investments or capital assets to be acquired.

Liquidity and Financial Resources

The Group continues to finance operations from internal cash flows and banking facilities provided by its bankers. The Group currently has aggregate composite banking facilities of approximately HK$74,050,000. All outstanding bank borrowings were for purpose of trade-finance and working capital and are short term in nature.

As at 31 March 2006, the Group's net current assets is approximately HK$93,225,000 (2005: HK$92,121,000). Total cash and bank balances and pledged bank deposits increased from HK$34,334,000 to HK$36,762,000 whereas, bank borrowings also increased from HK$13,669,000 to HK$13,758,000. The net cash and bank balances increased by HK$2,339,000 over the year. Foreseeing the market demand for the Group's product in the coming year, the Group has started to stock up raw materials. Therefore, inventories increased from HK$68,211,000 to HK$73,119,000. Trade and bills receivables increased by approximately 13% to become HK$13,010,000; whereas, trade and bills payables also increased by approximately 2 times to become HK$10,962,000, mainly due to seasonality of sales.

The Group's gearing ratio at the year-end is 0.24 (2005: 0.18), which was calculated based on total liabilities of HK$31,253,000 (2005: HK$22,581,000) and total equity of HK$128,604,000 (2005: HK$128,659,000). With low gearing ratio and sound financial position, the management believes that the Group is well placed to avail itself to future expansion.

Financial Risk Management

It is our policy not to engage in speculative activities.

The Group's major transactions are primarily denominated in Hong Kong dollars, United States dollars ("US$") and Renminbi ("RMB"). Foreign exchange exposure of the Group is considered minimal as the exchange rate of RMB and US$ against Hong Kong dollars were relatively stable during the year. No financial instrument have been used for hedging purposes.

Payment terms with customers are mainly on letter of credits, cash on delivery and on credit terms. In order to minimize the credit risk associated with trade debtors, the Group is very cautious in granting credits. Credit terms granted vary among individual customers.

Use of Proceeds from the Company's Initial Public Offering

The Group raised approximately HK$51.6 million, net of related expenses, from the issue of 64.75 million new shares in connection with the listing for the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 7 March 1997.

The application of the net proceeds from the new issue, as revised in 2001, have been applied as follows:

	Planned Amount HK$'000	**Amount utilised up to 17 July 2006** HK$'000
– For repaying bank loans	10,000	10,000
– for upgrading the Group's manufacture facilities and office premises	3,000	3,000
– for setting up representative offices and showrooms in the PRC	7,000	3,848
– for additional working capital for the Group	31,600	31,600
	51,600	48,448

The balance of the proceeds of approximately HK$3,152,000 had been placed on fixed deposits with a bank.