

FINANCIAL AND CAPITAL RESOURCES

During the year under review, the Group spent approximately HK\$92.2 million on fixed assets investments. These fixed assets investments were financed by internal resources and bank loans. The daily operating activities of the Group were funded by cash generated from operations and banking facilities.

As at 31st March, 2006, the bank borrowings of the Group, which were either denominated in Hong Kong dollars or Chinese Renminbi, amounted to approximately HK\$310 million (2005: HK\$301 million). Of this amount, approximately HK\$164 million (2005: HK\$158 million) was secured by mortgages over the Group's land, buildings, machinery and pledged bank deposit with an aggregate net book value of approximately HK\$186 million (2005: HK\$195 million). The gearing ratio (defined as total interest-bearing borrowings divided by total assets) of the Group as at 31st March, 2006 was approximately 48.5% (2005: 46.9%).

The consolidated financial statements of the Company have been prepared on a going concern basis notwithstanding the net current liabilities of the Group of approximately HK\$171 million at 31st March, 2006 and the breach of covenants relating to certain of the Group's banking facilities. Subsequent to 31st March, 2006, the Group had obtained waivers from complying with such covenants from the relevant banks. The Group had also secured new banking facilities from three other banks amounting to a total of HK\$66 million. Accordingly, the Directors are of the opinion that, taking into account the continued support from the banks, the available banking facilities and the cash flows from operations, the Group will be able to operate as a going concern and have sufficient resources to meet its ongoing obligations and commitments.