



# Management Discussion and Analysis

## Liquidity and financial resources

As at March 31, 2006, net current assets and current ratio of the Group were approximately HK\$33.9 million (2005: HK\$30.5 million) and 3.3 (2005: 3.5), respectively. The current assets mainly comprised inventories of approximately HK\$27.4 million (2005: HK\$19.3 million), accounts receivable of approximately HK\$1.1 million (2005: HK\$2.0 million) and cash and bank balances of approximately HK\$12.2 million (2005: HK\$14.1 million). The Group had total assets of approximately HK\$68.4 million (2005: HK\$63.3 million), current liabilities of approximately HK\$14.5 million (2005: HK\$12.3 million), non-current liabilities of approximately HK\$1.6 million (2005: HK\$1.2 million) and shareholders' equity of approximately HK\$52.3 million (2005: HK\$49.8 million).

The overall gearing ratio for the year was maintained at 9.8% (2005: 9.2%) with total borrowings of approximately HK\$5.1 million (2005: HK\$4.6 million) and net worth of approximately HK\$52.3 million (2005: HK\$49.8 million) as at March 31, 2006. Overall gearing ratio is defined as the total borrowings over the net worth.

The Group recorded a net cash inflow from operating activities of approximately HK\$0.5 million (2005: HK\$7.4 million) for the year and repaid aggregated bank and other loans of HK\$4.2 million. (2005: HK\$4.3 million).

## Treasury policies

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks and financial institutions in Hong Kong. As of March 31, 2006, the total outstanding short-term borrowings stood at approximately HK\$5.0 million (2005: HK\$4.3 million). Borrowing methods used by the Group mainly include bank loans and other loans from financial institutions. The interest rates of most of these loans are determined by reference to the Hong Kong dollar prime rate. The Group had no interest rate hedging arrangement during the year. The directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

## Capital expenditure

Capital expenditures amounted to approximately HK\$3.0 million (2005: HK\$3.1 million) for the year ended March 31, 2006. These expenditure were mainly used in retail network improvement. There were no material capital commitments at March 31, 2006 (2005: Nil).

## Pledge of assets and contingent liabilities

At March 31, 2006, the Group pledged the leasehold land and buildings in Hong Kong with an aggregate net book value of approximately HK\$5.4 million (2005: HK\$5.2 million). At March 31, 2006, the Group had no significant contingent liabilities (2005: Nil).

## Investment in properties

The Group's leasehold land and buildings were valued at approximately HK\$5.4 million (2005: HK\$5.2 million) at March 31, 2006 by Savills Valuation and Professional Services Limited on an open market, existing use basis. This valuation gave rise to a revaluation surplus of approximately HK\$0.3 million which has been credited to reserves. Such leasehold land and buildings were reclassified from investment properties to leasehold land and buildings at March 31, 2005. Upon reclassification at March 31, 2005, the properties were revaluated and the revaluation surplus arising thereon amounted to HK\$1.3 million was credited to income statement.

Properties leased in Hong Kong: the Group leases 15 (2005: 13) retail outlets from independent third parties with a total floor area of 24,911 sq.ft. (2005: 24,901 sq.ft). The Group also leases certain units at Siu Lek Yuen, Shatin, New Territories as warehouse and office space.

Property leased in the PRC: the production facilities and dormitories of the Group are located in Shediju, Shenzhen, PRC.

## Segment Information

Details of the segment information of the Group are disclosed in Note 5 of this report.

Hong Kong is the major geographical segment of the Group. This segment incurred a profit of approximately HK\$2.0 million (2005: HK\$14.9 million). The decrease in profit is mainly due to the keen price competition and the worsened operating environment in Hong Kong retail market.

## Employees and remuneration policies

As of March 31, 2006, the Group had employed approximately 187 (2005: 161) full-time employees in Hong Kong and approximately 375 (2005: 367) full-time employees in the PRC. The total number of full-time employees of the Group is 562 (2005: 528). The Group has a share option scheme for the benefit of its directors and eligible employees of the Group.

## Foreign exchange exposure

The Group had limited exposure to fluctuation in foreign currencies as most of its transactions were conducted in Hong Kong dollars and Renminbi. Exchange rates between these currencies were relatively stable during the year under review. However, the recent fluctuation of the exchange rate of EURO may render the Group suffering a greater exchange risk as in the forthcoming year, certain amount of the Group's raw materials are sourced from European countries. The Group had no foreign exchange rate hedging arrangement during the year. However, the management will monitor foreign exchange exposure and considers hedging significant foreign currency exposure should the need arises.