Financial Review

Revenue

The Group's revenue increased by approximately HK$20.5 million, or approximately 15.7%, from approximately HK$130.6 million for the year ended 31 March 2005 to approximately HK$151.1 million for the year ended 31 March 2006. The increase was attributable to the better overall economic environment in major markets of the Group that allowed it to generate larger volume of business, while consolidation of the financial result of Dardel S.A.S for a longer period also contributed to the increase in the Group's revenue. Orders from customers in Europe increased from approximately HK$72.4 million to approximately HK$95.3 million.

Products manufactured by the Group are mainly sold directly to customers located in Europe and North America. For the year ended 31 March 2006, sales to Europe and North America accounted for a total of approximately 73.0% (2005: 68.3%) of the Group's revenue.

Group profit and gross profit margin

The Group's gross profit increased from approximately HK$55.8 million for the year ended 31 March 2005 to approximately HK$57.8 million for the year ended 31 March 2006. Gross profit margin decreased from approximately 42.7% for the year ended 31 March 2005 to approximately 38.2% for the year ended 31 March 2006, primarily due to the increase in cost of sales in terms of raw materials and direct labour costs.

Other income

The Group's other income increased from approximately HK$6.6 million for the year ended 31 March 2005 to approximately HK$9.0 million for the year ended 31 March 2006. The increase was mainly due to an increase in income from investing activities.

Distribution costs

The Group's distribution costs as a percentage of turnover were approximately 2.9% and 2.8% for the years ended 31 March 2005 and 2006 respectively.

Administrative expenses

The Group's administrative expenses increased substantially by approximately 33.5% from approximately HK$23.2 million for the year ended 31 March 2005 to approximately HK$31.0 million for the year ended 31 March 2006. The increase was mainly attributable to the one-off expenses of approximately HK$5.2 million incurred for the preparation of the listing of the Company during the year ended 31 March 2006, an approximately HK$1.9 million increase in staff costs mainly due to Dardel's result being consolidated for the full year, as opposed to ten months in 2005 and an approximately HK$1.8 million net foreign exchange loss recorded.

Finance costs

The Group's finance costs slightly decreased to approximately HK$216,000 for the year ended 31 March 2006 from approximately HK$320,000 for the year ended 31 March 2005 as the French subsidiary gradually paid down its borrowings.

Taxation

The effective tax rate of the Group has increased from approximately 13.3% to 14.2%. The increase was mainly attributable to the incurrence of the listing expenses which were non-deductible for tax purpose for year ended 31 March 2006.

Net Profit

The Group's net profit decreased by approximately 11.2% from approximately HK$30.2 million for the year ended 31 March 2005 to approximately HK$26.8 million for the year ended 31 March 2006 and the respective net profit margin decreased from approximately 23.1% to approximately 17.7% as a result of the listing expenses as disclosed in the pervious paragraph.

Liquidity, Capital Structure and Financial Resources

The Group funds its growth principally from internal funds.

The Group had net current assets of approximately HK$123.9 million as at 31 March 2006. Its current assets of approximately HK$158.6 million comprised of bank balances and cash of approximately HK$54.7 million, investments held for trading of approximately HK$50.1 million, trade and bills receivables of approximately HK$17.9 million, inventories of approximately HK$24.4 million and other receivables, deposits and prepayments of approximately HK$11.5 million while its current liabilities of approximately HK$34.6 million included trade payables of approximately HK$10.5 million, other payables, deposits received and accruals of approximately HK$22.0 million, taxation of approximately HK$1.1 million, short-term borrowings of approximately HK$0.8 million and financial liabilities of approximately HK$0.3 million in relation to the investment schemes entered into. The Group principally funds its working capital requirement by its internally generated resources.

During the financial year under review, the Group's borrowings had decreased to approximately HK$0.8 million (2005: HK$1.6 million), as the French subsidiary gradually paid down its borrowings. The borrowings, which are due within one year, are denominated in Euro which represent borrowings from an independent third party bearing an interest of 10.2% per annum and were secured by a freehold land and buildings of the Group.

The current ratio (a ratio of total current assets to total current liabilities) of the Group was approximately 4.6 (2005: 5.9). The gearing ratio (a ratio of total borrowings to total assets other than goodwill) was approximately 0.4% (2005: 0.9%).

The Group has executed a deed of charge in favour of the bank to facilitate the purchase of financial instruments. The deed is secured by the charge over the assets of Group held by the bank, including investments held for trading, derivative financial instruments and bank balances and cash. As at 31 March 2006, total assets of the Group charged in favour of the bank were approximately HK$32,800,000. The Group has pledged leasehold buildings and freehold land and buildings with a net book value of HK$4,066,000 (2005: HK$4,168,000) and HK$1,432,000 (2005: HK$1,690,000) respectively to secure general banking facilities and other borrowings granted to the Group.

Capital Commitment and Contingent Liabilities

As at 31 March 2006, the Group was committed to capital expenditure of approximately HK$210,000 in respect of the acquisition of property, plant and equipment contracted but not provided for in the financial statements.

As at 31 March 2006, the Group committed to purchase 8,000 shares, 200 shares and 120 shares of the equity shares of China Construction Bank Corporation, Citigroup Inc. and Valero Energy corporation respectively under three structured financial products for an aggregate amount of approximately HK$136,000 as at 31 March 2006.

Other than as disclosed above, there were no significant capital commitments as at the balance sheet date.

The Group had no material contingent liabilities at the close of business on 31 March 2006.

Exposure to Fluctuations in Exchange Rates

The net foreign exchange loss for the year ended 31 March 2006 was approximately HK$1.8 million. The Group's foreign exchange risks arise mainly from the mismatch between the currency of its sales, purchases and operating expenses. Its sales are denominated in US dollars, Euros and Hong Kong dollars. The Group's purchases and expenses are mostly denominated in RMB and Hong Kong dollars, and some in US dollars and Euros. The Group has certain foreign currency investments held for trading and investment in foreign operations, which are exposed to foreign currency translation risk. For the year ended 31 March 2006, the Group did not have any financial instruments to hedge the foreign exchange rates risk.

Employment and Share Option Schemes

As at 31 March 2006, the Group had a total of 1,765 employees (including those employed through processing agreement) in the People's Republic of China, Hong Kong and France. Remuneration packages for the employees are maintained at a competitive level of the jurisdiction, within which employees are attracted, retained and motivated. Remuneration packages are reviewed periodically.

Summary of Share Option Schemes is set out on page 17 of this annual report.

Significant Investments, Material Acquisitions and Disposals

The Group did not have any significant investments, material acquisitions and disposals during the year ended 31 March 2006.

Future Plans and Prospects

The Directors believe that the demand for packaging products will continue to grow as a result of the increasing importance placed on packaging design in view of the intensifying competition in the retail market. The Directors also believe that, in order to achieve cost effectiveness, there is a growing trend for internationally recognised branded and luxury product manufacturers in North America and Europe to source packaging products from overseas suppliers, especially in Asia. Given the quality of the Group's products and the direct business relationships with customers is established by the Group, the Directors believe that the Group is well positioned to capitalise on these opportunities. At the same time, it is also the strategy of the Group to maintain close business relationships with its customers by assisting in their product design, provision of sourcing and logistics services and the supply of high quality products and services.

The Directors believe that the Group's production facilities in Longhua Town, Shenzhen, the PRC will be approaching its full capacity in the near future. In view of the increasing demand and in order to further expand its operation, the Group plans to expand its production facilities. The Group is currently planning to purchase a parcel of land in the Guangdong Province, the PRC and build its own production facilities. The Directors believe that the new production facilities will increase the Group's production capacity and thereby enable the Group to capture further demand and to achieve further economies of scales. In addition to the increase in production capacity, the Group also aims at installing new machinery at its new production facilities, to cater for the more diversified technical requirements by customers. The Group intends to fund the purchase of the land and the construction of the new production facilities by internal resources and possible bank financing. The Directors confirmed that as at the date of this report, the Group had not selected any particular piece of land to purchase nor the Group had entered into any agreement in relation to the purchase of land or the construction of the production facilities.

Following the initial success of the launch of its "Kolorkombi" products, the Group plans to develop its own retail products further under the "Kolorkombi" brand. The Group will continue to explore the retail market for the existing "Kolorkombi" products. The Group plans to continue promoting the "Kolorkombi" brand through media publicity and trade fairs in Hong Kong. In addition, different sizes and different shapes of "Intistack" and other product series under the "Kolorkombi" brand to cater for different needs of the customers are under development and planned to be launched in the near future.

The Group will continue to subcontract the production of less complicated products to free up its production capacity for higher profit margin products without having to sacrifice the quality of products with higher profit margin. The Directors believe that the Group may leverage its operation know-how to expand this mode of operation to serve its customers, and expand its business and overall profitability.

The Group's overseas customers are mainly based in North America and Europe. The Group will identify appropriate opportunities to strengthen its presence by establishing additional sales offices in these markets. The Group intends to leverage on its established reputation among the customers to expand further coverage in these markets.

At the same time, the Group will strengthen its design and product development capabilities in order to provide more value-added services to the existing and potential customers. The Group intends to recruit more design and product development staff with the expertise and technological know-how to assist customers in developing new designs and to provide more value-added services for its customers.