FINANCIAL REVIEW

For the year ended 31 March 2006, the Group recorded a turnover of approximately HK$194,281,000 (2005: HK$162,122,000), increased by approximately 19.8% as compared to the previous year.

Net loss from operations was recorded by approximately HK$10,384,000 (2005: net profit from operations of HK$2,660,000 (Restated)). This was mainly due to: Firstly, the PRC joint ventures at Ningbo and Huzhou are operating at low profit margin. Both production plants are facing higher cost of production in terms of raw materials, fuel and labour. Secondly, the costs of sales increased resulted from the increase in production costs for our products. Thirdly, the selling and distribution costs increased with the increase in sales. Fourthly, appreciation in Renminbi has resulted in the increase of the cost of operation. Finally, the Group is facing a general trend of falling in selling prices of garment products under keen competitions.

During the year, the Group recorded a net loss attributable to shareholders of approximately HK$36,945,000. This was mainly due to keen competitions in garment product market and higher cost of operation to erode our gross profit, impairment loss on available-for-sale financial assets of approximately HK$23,657,000 and impairment loss on other assets of approximately HK$6,402,000.

OPERATION REVIEW

Garment products

Garment products business has continued to be the major source of revenue of the Group. For the year ended 31 March 2006, garment products accounted for approximately 95.9% (2005:95.1%) of the Group's turnover. Revenue derived from garment product business increased by approximately 20.7% to HK$186,221,000. The increase in turnover was mainly due to increase in demand resulted from the recovery of global economy. However, loss attributable to garment products was recorded by approximately HK$9,345,000 (2005: profit of HK$2,081,000 (Restated)) mainly due to low profit margin in the PRC joint ventures, higher cost of operation and impairment loss on non-financial assets of approximately HK$6,402,000. In addition to keen competition with competitors, the Group faces to the great pressure on the falling in selling price of garment products.

Premium products

For the year ended 31 March 2006, the revenue of premium products accounted for approximately 4.1% (2005:4.8%) of the turnover of the Group. The revenue and operating loss of premium products were approximately HK$8,060,000 (2005: HK$7,832,000) and HK$1,039,000 (2005: profit of HK$579,000) respectively.

Geographical

Chile continues to be the Group's largest market which accounted for 48.1% (2005: 50.5%). Other non-categorised markets accounted for 20.6% (2005: 14.6%) resulted from the efforts made by the Group in exploring new market during the year under review. The Group will continue the marketing strategy of exploring more potential new markets in future.

Development in PRC

The Group has acquired the entire share capital of Wisefull International Limited which owns 30% equity interests in 北京朗坤服裝有限公司(the "JV Co") for total consideration of HK$27,720,000 on 31 August 2005. The JV Co is engaged in the sales and manufacture of woven garment products. The Directors anticipated that the production facilities of the JV Co will reinforce our production capacity to cope with the Group's future development in the PRC market.

Prospects

In view of the sustaining growth of the PRC market and recovery of global economy, the Directors have to reap the emerging opportunities to expand new markets. During the year under review, the Group has entered into some new markets including Argentina, Poland, Spain and etc. The Group will try to build up a closely trading relationship with these newly explored markets and continue to explore other new markets.

The Directors have noticed the high operating costs in both Hong Kong and PRC which eroding our profit margin. The Group will continue to carry out and reinforce the stringent control measures to improve our efficiency in operation and to minimize the operating costs. The Group will also implement conservative strategies on new investments and review in-depth the continuity of the past investments.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2006, the Group had net current liabilities of approximately HK$15,725,000 (2005: net current assets of HK$1,664,000). The Group's current ratio, as a ratio of current assets to current liabilities, was approximately 57% (2005: 105%) and the Group's gearing ratio, as a ratio of total interest-bearing borrowings to total assets, was maintained at a lowest level of approximately 7.8% (2005: 7.3%).

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and the PRC. During the year under review, the Group recorded a net cash inflow of HK$967,000 (2005: outflow of HK$17,647,000), which increased the total cash and cash equivalents to HK$3,777,000 as at the balance sheet date.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The bank borrowing of the Group as at 31 March 2006 were approximately HK$7,843,000 (2005: HK$10,247,000), which were denominated in Renminbi. The Renminbi bank borrowings are at fixed interest rates of 5.22% and 6.045% per annum respectively. As the Group's transactions are mostly settled by Hong Kong dollars, Renminbi and United States dollars and the existing currency peg of Hong Kong dollars with United States dollars will likely to remain steady in the near future; the exposure to foreign exchange fluctuation is minimal, however, the use of financial instruments for hedging purposes will be considered when necessary.

CONTINGENT LIABILITIES

As at 31 March 2006, the Group had contingent liabilities arising from bills of exchange discounted with recourse and long service payment of approximately HK$2,024,000 (2005: HK$8,587,000) and HK$195,000 (2005: HK$139,000) respectively.

Since December 2002, Rontex Holdings Limited ("RHL"), a subsidiary of the Company, has been queried by the Inland Revenue Department of the Hong Kong Special Administrative Region Government (the "IRD") in respect of sales and marketing support service expenses claimed by RHL as deductible expenses in its profit tax computation. As at 31 March 2006, the IRD raised queries to the RHL for the years of assessments 2000/2001, 2001/2002, 2002/2003, 2003/2004 in respect of its sales and marketing support service expenses of an aggregate total of HK$61,548,000. Up to the date of the approval of these financial statements, the Group is still in the process of answering queries from the IRD.

CAPITAL COMMITMENT

As at 31 March 2006, the Group had no material capital commitment.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2006, the Group had approximately 549 staff and workers in Hong Kong and the PRC.

The Group remunerates its employees largely based on industry practice. Remuneration packages comprised salary, commissions and bonuses based on individual performance.

PLEDGE OF ASSETS

The Group's banking facilities were secured against the Group's land and buildings located in Hong Kong and the PRC and motor vehicles in the PRC of approximately HK$26,816,000 (2005: HK$31,277,000 (Restated)) and HK$Nil (2005: HK$499,000).

AUDIT COMMITTEE

The Audit Committee comprises the three independent non-executive directors, Mr. Wan Ngar Yin, David, Mr. Lo Siu Tong, Alfred and Madam Wong Lai Wah, Ada. The audit committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the financial statements for the year ended 31 March 2006.

CORPORATE GOVERNANCE PRACTICES

During the year under review, the Company has complied with the code provisions of Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules, except the deviations from the Code as described below:

1) Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cheung Keng Ching has combined role of chairman and chief executive officer. The Board considers that as Mr. Cheung Keng Ching is the founder of the Group, the appointment of Mr. Cheung Keng Ching as the chairman and chief executive officer of the Group is beneficial to the Group as he has in-depth understanding of the operation of the Group and considerable experience in the industry,

2) Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. The independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election pursuant to the Company's Articles of Association (the "Articles"); and

3) Under code provision A.4.2 of the Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The chairman and managing director is not subject to retirement by rotation under the Articles, amendments to the Articles have been proposed to bring it in line with the Listing Rules and the Code as set out in Appendix 14 of the Listing Rules.