

## REVIEW OF RESULTS

The Group's turnover was HK\$99.1 million (2005: HK\$70.1 million), representing an increase of 41.2% over the same period of last year. Gross margin fell to gross loss of 4% (2005: gross profit of 8%) due to increase in material prices and production cost. Net loss of the Group was HK\$29.8 million (2005: HK\$19.6 million) and loss per share was HK10.8 cents (2005: HK0.41 cents).

## BUSINESS REVIEW AND PROSPECTS

### Consumer electronics business

The turnover of the Group's electronics business was HK\$52.5 million (2005: HK\$23.6 million), a 122% increase over last year. Adversely affected by an overall increase in material prices and production costs, the electronics business enhances its negative contribution to HK\$15.8 million (2005: HK\$9.1 million).

Subsequent to the balance sheet date, considering continuously underperformance of consumer electronic business, the Group decided to terminate it.

### Snap off blade cutter business

The turnover of the Group's cutter business was HK\$43.7 million (2005: HK\$43.1 million), a 1.4% increase over last year. Adversely affected by an overall increase in material prices and production costs, the results of this business segment have a negative contribution of HK\$4.8 million (2005: HK\$3.1 million).

The Group will continue to develop new models and add into the existing product mix in order to improve the result of the business segment. The Group will not eliminate any potential opportunity for the disposal of its major business if appropriate buyer could be seek.

### Geographical segment analysis

The Group's client base is quite well diversified in terms of geographical locations. There was a high concentration in the Hong Kong market since sales were classified according to the location of direct clients. Most of the goods sold to our clients in Hong Kong were in fact exported to other countries.

## 8 MANAGEMENT DISCUSSION AND ANALYSIS

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2006, the current and non-current liabilities of the Group amounted to HK\$84.5 million (2005: HK\$66.4 million as restated) and HK\$1.5 million (2005: HK\$17.5 million as restated), respectively. The amount of net current liabilities enhances further to HK\$60.8 million (2005: HK\$26.6 million as restated) mainly due to the increase in the loss incurred during the year and interest-bearing borrowings within one year.

During the year, the Group recorded an operating cash outflow of HK\$12.6 million (2005: HK\$10.8 million outflow) and the gearing ratio, defined as the percentage of total borrowings to shareholders' funds, increase to 299% (2005: 127% as restated).

The Group's financial position will be enhanced after (i) the Group entered into placement agreement with independent third party, which will raise net proceeds of HK\$13.24 million subsequent to the balance sheet date; and (ii) subject to the shareholders' approval, the Group proposed to dispose the investment properties and certain land and buildings in Panyu at consideration of RMB75 million, as stated in the announcement dated 17 July 2006.

From the management's point of view, the amount of financial resources available to the Group is adequate. The Group may consider further disposing of its assets if additional financial resources are required for operation.

### INVESTMENT POSITION AND PLANNING

All of the Group's investment properties are situated in Northern Industrial Complex, Panyu, Guangdong Province of Mainland China. These investment properties have been rented out for manufacturing, storage and office purposes and have continued to generate a stable stream of income for the Group.

On 8 July 2006, the Group entered into a letter of agreement with an independent third party to dispose of all of its interest in the properties in Panyu in Mainland China, at a consideration of RMB75 million, resulting a gain of approximately RMB4 million attributable to the Group. The proposed disposal is subject to the approval by shareholders at the special general meeting.

The Group does not have any significant investment position in stocks, bonds and other financial derivatives. The Group's exposure to fluctuations in exchange rates is very limited because its assets and liabilities have been well matched in terms of denominations.

## SHARE CAPITAL AND OPTION

During the year, the share capital and the option of the Company have the following changes:

### Consolidation of shares and adjustment to options

A proposal to consolidate 20 issued and un-issued shares of HK\$0.01 each into 1 share of HK\$0.20 each (the "New Share(s)") (the "Consolidation") was approved by the shareholders of the Company on 4 May 2005. The Consolidation and change in board lot size for trading in The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from 50,000 shares to 5,000 New Shares became effective on 5 May 2005. Immediately after the Consolidation, the Company had 243,497,885.25 issued New Shares and 1,256,502,114.75 un-issued New Shares.

Before the Consolidation, the Company had outstanding options granted under the share option scheme of the Company to subscribe for a total of 19,300,000 shares at the price of HK\$0.01 per share. Immediately after the Consolidation, the number of shares issuable under each outstanding option granted was reduced by 95%, and the exercise price per share was increased from HK\$0.01 to HK\$0.20. Accordingly, after the Consolidation became effective, the Company had outstanding options to subscribe for a total of 965,000 New Shares at the exercise price of HK\$0.20 per New Share.

### Subscription of new shares

On 14 July 2005, the Company entered into a conditional subscription agreement with a subscriber, a third party independent of and not connected with the Company or its connected persons (as defined in the Listing Rules), for the subscription of 48 million New Shares at a price of HK\$0.26 per New Share under the general mandate granted to the directors of the Company pursuant to the resolutions of the shareholders of the Company passed at its annual general meeting held on 27 August 2004.

All conditions of the subscription agreement were fulfilled and the 48 million New Shares were issued on 29 July 2005.

## 10 MANAGEMENT DISCUSSION AND ANALYSIS

### **POST BALANCE SHEET EVENTS**

#### **Subscription of new shares**

On 18 May 2006, the Company and an independent subscriber entered into a conditional agreement for the subscription of 58,000,000 new shares of HK\$0.2 each at a price of HK\$0.23 per share for a total of HK\$13,340,000. The net proceeds from the subscription of approximately HK\$13.24 million will be used as general working capital. The subscription is being granted of a listing of and permission to deal in the new shares by the Listing Committee of the Stock Exchange of Hong Kong Limited. Details of the subscription have been disclosed in the Company's announcement dated 19 May 2006.

All conditions of the subscription agreement were fulfilled and the 58 million New Shares were issued on 20 June 2006.

#### **Disposal of the property**

On 8 July 2006, the Group entered into a letter of agreement with an independent third party to dispose of all of its interest in the property in Panyu in Mainland China, at a consideration of RMB75 million, resulting a gain of approximately RMB4 million attributable to the Group. The proposed disposal is subject to the approval by shareholders at the special general meeting. Details of the transaction have been disclosed in the Company's announcement dated 17 July 2006.

#### **Termination of consumer electronics business**

In June 2006, the Group decided to terminate the consumer electronic business due to the continuously underperformance and is in the progress to assess its financial impact.

### **CHARGES ON GROUP'S ASSETS**

The Group's investment properties situated in Panyu, Mainland China are all rented out. As at 31 March 2006, all (2005: 100%) of the Group's investment properties were pledged to banks to secure credit facilities granted to the Group.

As at 31 March 2006, approximately 94% (2005: 58% as restated) of the Group's land and buildings were pledged to banks to secure credit facilities granted to the Group.

## CONTINGENT LIABILITIES

### The Group

The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK\$338,000 (2005: HK\$275,000) as at 31 March 2006.

### The Company

As at 31 March 2006, the Company had given guarantees to banks in connection with banking facilities granted to certain subsidiaries amounting to HK\$57,469,794 (2005: HK\$55,201,866).

## EMPLOYEES

At 31 March 2006, the Group had approximately 650 employees. Most of the employees were working in Northern Industrial Complex, the Group's manufacturing plant in Panyu, Guangdong Province, Mainland China. Employees are remunerated on a performance basis with reference to market practices.

Share option scheme and incentive schemes are adopted to encourage personal commitment of employees to achieve the Group's business goals.