MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE REVIEW

The final results for the year ended 31st March, 2006 reflected how year-round sluggish market environment had affected the Group. Revenue dropped by 14% to HK$267.2 million. Gross profit margin decreased to 12%. Financial expenses rose up by 76% to HK$4.9 million. Despite operating expenses remained constant at around HK55.8 million, the Group made loss of approximately HK$23.8 million. The Group experienced a hard winter. No matter they came from US or Europe, customers showed caution to procure. Both market segments recorded contribution decreases. Sales to US and Europe dropped by 13% and 15% respectively. Difficulties never come singly. The incessant rise in raw material prices and gradual inflation in Renminbi put a burden on the costs structure of the Group. Reallocation of our factory from Liaobu, Dongguan to Changan, Dongguan also added approximately HK$5 million on our rental expenses. Instead of struggling for low margin sales orders, the Group decided to take this opportunity to dig up the hatchet by consolidating its business and operation as well as strengthening its capital base. Beside reallocating our factory in Liaobu, Dongguan, the Group has reviewed its customer portfolio and screened out those customers with little or no growing potential, unsatisfactory payment pattern or unprofitable orders. Keeping abreast with the action, the Group has searched for new business opportunity to widen its portfolio. The first move was the investment in Vevion Hong Kong Limited ("Vevion"), a company conducting photo-finishing business and trading and sale of photographical and audio-visual products. The Group strengthened the capital base through the rights issue during the year.

MAJOR EVENTS

In December 2005, the Group relocated its factory in Liaobu, Dongguan to Changan Dongguan. The new location is situated in the vicinity of the existing factory of the Group in Changan Dongguan.

On 23rd January, 2006, the Company conditionally agreed to acquire 19% of the issued share capital of Vevion at a consideration of HK$9.5 million. Vevion is wholly owned by Mr. Chan Hoi Lam, the executive director and chief executive officer of the Group ("Mr. Chan"), and accordingly the transaction constitutes a related party transaction. The consideration was partly satisfied by proceeds from the Rights Issue and partly satisfied by internal funds. The acquisition was completed on 24th February, 2006.

On 3rd February, 2006, the Company announced that, subject to the satisfaction of certain conditions as stated in the prospectus of the Rights Issue date 2nd March, 2006, the Company proposed to raise approximately HK$19.77 million, before expenses, by way of the rights issue of 1,976,995,036 rights shares, on the basis of one rights share for every two existing shares held on the record date (being 1st March, 2006), at the subscription price of HK$0.01 per rights share ("Rights Issue"). The number of rights shares issued represented approximately 50% of the existing issued share capital of the Company on the record date and approximately 33.3% of the issued share capital of the Company as enlarged by the issue of the rights shares. Net proceeds from the Rights Issue were approximately HK$18.2 million. The Company used about HK$7.5 million for the acquisition of 19% of the equity interests in Vevion and the remaining balance for general working capital. The Rights Issue closed and became unconditional on 22nd March, 2006 with 1.65 times subscribed.

On 16th March, 2006, the Company proposed to put forward for approval by the shareholders of the Company at a special general meeting the capital reorganisation ("Capital Reorganisation") pursuant to which: (i) every twenty shares of par value HK$0.01 each in the issued ordinary share capital of the Company would be consolidated into one consolidated share of par value HK$0.20; (ii) the paid-up capital of each consolidated share in issue would be cancelled to the extent of HK$0.19 on the nominal value of HK$0.20 of each consolidated share so as to form (after the share consolidation and the capital reduction) one reorganised share of par value of HK$0.01 each; and (iii) the credit arising from the capital reorganisation would be transferred to the contributed surplus account of the Company. The Capital Reorganisation was approved by shareholders of the Company on 10th April, 2006 and became effective on 11th April, 2006.

Subsequent to the year end date on 14th July, 2006, Mr. Chan as the vendor entered into a placing agreement pursuant to which the placing agent, Kingston Securities Limited, had agreed to procure, on a fully underwritten basis, independent placees for up to 39,000,000 shares at a price of HK$0.21 per share ("Placing"), as agent for and on behalf of the vendor. On the same date, the Company entered into a subscription agreement with the vendor whereby, the vendor had agreed, upon completion of the Placing and subject to (a) the Listing Committee of The Stock Exchange of Hong Kong Limited granting the approval of the listing of and permission to deal in the subscription shares; and (b) completion of the Placing pursuant to the placing agreement, to subscribe for 39,000,000 new Shares as is equal to the Placing of shares actually placed by the placing agent at a price of HK$0.21 per share.

FINANCIAL AND CAPITAL RESOURCES

During the year, the Company conducted a Rights Issue and raised a net proceeds of approximately HK$18.2 million. This equity exercise enlarged and strengthened the capital of the Company by approximately 50%. The increment was partly offset by the current year loss of Group. Total equity attributable to equity holders of the Company finally reduced by approximately 3% as at year end.

MANAGEMENT DISCUSSION AND ANALYSIS

The reduction in equity together with increase in interest bearing loans by 7% stimulated a rise in gearing ratio to 66%. In view of the capital market performance and interest rate trend, the Group will keep a balance between debt and equity financing.

Banking facilities are all dominated in Hong Kong dollars with interest charged at certain percentage over the HIBOR or Hong Kong Prime Rate. The Group does not pledge any assets to banks for the facilities, except for certain machinery financed by medium term finance leases.

As all borrowings are in Hong Kong dollars and the Group's business is carried out in Hong Kong dollars, US dollars, and Renminbi, foreign exchange risk is relatively low under the current currency peg of Hong Kong dollar with US dollar. The Group did not carry out any hedging arrangement for its exchange risk.

HUMAN RESOURCES

The Group employed 1,895 staffs as at 31st March, 2006. They included 62 Hong Kong employees and 1,833 Chinese workers. The workforce reduced continually in line with the workforce slimming strategy of the Group. The Group offers competitive remuneration package to employees with discretionary bonus payable with reference to the performance and contribution of the employees.

CONTINGENT LIABILITIES

The Group has no significant liabilities as at the balance sheet date.