MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 March 2007, the Group recorded a turnover of approximately HK$166.4 million (2006: HK$194.3 million), representing a decrease of approximately 14.4% as compared to the previous year.

Despite the decrease in turnover, the Group was able to maintain the gross profit margin as compared with the previous year. The gross profit margin for the year under review was approximately HK$26.4 million or 15.8% of the turnover of the year while the corresponding amount in the preceding year was approximately HK$30.1 million or 15.5% of the turnover of the preceding year.

The operating loss was approximately HK$1.7 million (2006: HK$10.4 million) which was mainly attributable to (i) the relatively low profit margin of our PRC joint ventures in Ningbo and Huzhou, as both production plants were facing a higher cost of production in terms of raw materials, fuel and labor; (ii) the increase in costs of sales as a result of the appreciation in Renminbi and (iii) the general falling trend in selling prices of garment products under keen competition. Nevertheless, the loss for the year was improved as compared to the previous year.

During the year under review, the Group recorded a loss attributable to equity holders of the Company of approximately HK$38.6 million (2006: HK$36.9 million). This was mainly due to an impairment loss on goodwill of approximately HK$19.5 million and the agreed settlement with the Inland Revenue Department of the additional profits tax assessments, tax penalties and surcharges for the previous years for certain subsidiaries of the Group in an aggregate amount of approximately HK$11.1 million.

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 2007, garment products accounted for approximately 95.9% (2006: 95.9%) of the Group's turnover. Revenue derived from garment product businesses decreased by approximately 14.3% to approximately HK$160 million. The decrease in turnover was mainly due to the change in accounting treatment as a result of the change of status of Rontex Co., Ltd. from a subsidiary into a jointly-controlled entity since 1 October 2006. Thus, the turnover of Rontex Co. Ltd. was not incorporated in the Group's turnover since then. Loss attributable to garment products was approximately HK$2.6 million (2006: HK$9.3 million). This was mainly due to the low profit margin in the PRC joint ventures, the general increase in cost of sales and the keen competition which drove down the selling prices of garment products.

Premium products

For the year ended 31 March 2007, the revenue of premium products accounted for approximately 4.1% (2006: 4.1%) of the turnover of the Group. The revenue and operating profit of premium products were approximately HK$6.9 million (2006: HK$8.1 million) and HK$0.9 million (2006: loss HK$1.0 million) respectively.

Geographical

Chile continues to be the Group's major market segment which accounted for approximately 56.1% (2006: 48.1%) of the total revenue. China market being the second largest market of the Group attributed to approximately 14.7% (2006: 10.0%) of total revenue. Other markets include various countries located in Europe, North America, South America and Australia.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

In view of the sustaining growth of the PRC market and the recovery of the global economy, the Directors have to reap the emerging opportunities by expanding to new markets. During the year under review, the Group has progressively developed in markets like Argentina, Brazil, Mexico and Poland etc. The Group will try to build up a close trading relationship in these newly explored markets and continue to explore other new markets such as the United States of America and Greece.

The Directors have noticed the high operating costs in both Hong Kong and the PRC which are eroding our profit margin. The Group will continue to carry out and reinforce stringent control measures so as to improve the efficiency in operation and to minimize the operating costs. The Group will also implement conservative strategies on new investments and assess the prospects of the existing investments in light of the current market environment.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2007, the Group had net current liabilities of approximately HK$8.5 million (2006: HK$15.4 million). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 78.1% (2006: 60.4%) and the Group's gearing ratio, being a ratio of total interest-bearing borrowings to total assets, was maintained at a level of approximately 21.5% (2006: 10.6%).

The Group generally finances its operations with internally generated cash flow, facilities provided by its banks in Hong Kong and the PRC and the capital market in Hong Kong available for listed companies. During the year under review, the Group recorded a net cash inflow of approximately HK$0.4 million (2006: HK$1.0 million), which increased the total cash and cash equivalents to approximately HK$4.0 million as at the balance sheet date.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Interest-bearing bank borrowings of the Group as at 31 March 2007 include bank loans of approximately HK$5.8 million (2006: HK$7.8 million), which were denominated in Renminbi. The bank borrowings are at interest rates of 5.58% to 7.26% per annum. 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 fluctuations is limited, however, the use of financial instruments for hedging purposes will be considered when necessary.

INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the year under review, the Group did not acquire or dispose of any material investments or subsidiaries.

CONTINGENT LIABILITIES

As at 31 March 2007, the Group had contingent liabilities arising from long service payment of approximately HK$0.2 million (2006: HK$0.1 million).

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENT

As at 31 March 2007, the Group had no material capital commitment.

PLEDGE OF ASSETS

The Group's banking facilities are secured by the Group's land and buildings located in Hong Kong and the PRC with a total carrying value of approximately HK$21.3 million (2006: HK$27.9 million) as at 31 March 2007.

SHARE OPTION SCHEME

The Group has adopted share option schemes whereby Directors, employees and consultants of the Group may be granted options to subscribe for the shares of the Company. Details of the share option scheme are set out in note 28 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2007, the Group had approximately 150 staff and workers in Hong Kong and the PRC.

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