

FINANCIAL REVIEW

During the year, the Group's continuing operations, sales in PVC films, was approximately HK\$282.89 million, compared with approximately HK\$292.02 million for the last year, a decrease of about 3.13%. Gross profit margin had increased to 7.82% as compared with last year of 6.77%. Gross profit for the year was HK\$22.11 million as compared with HK\$19.78 million last year. The sales volume for the year was 30,640 tones as compared with last year of 31,958 tones. The average selling price per ton was HK\$9,232 per ton and slightly rising of HK\$95 per ton as compared with last year of average selling price of HK\$9,137 per ton. The decrease in revenue and improved gross profit margin was mainly due to the Group tightening cost controls over factory overheads. The profit for the year from continuing operations was HK\$0.66 million, compared with the loss of HK\$15.62 million last year. The Group's basic earnings per share from the PVC films for the year was HK0.01 cent when compared with loss per share of HK0.46 cent last year.

The management of the Company had satisfied the profit performance of the Company in the 1st half year which had a net profit of HK\$14.5 million including (i) a gain on write-off of indebtness of HK\$11.1 million by a shareholder, (ii) a gain of HK\$1.6 million on disposal of a long term investment in Suzhou Fuyi Plastic Products Co Ltd and (iii) an operating income of HK\$1.8 million. But in the 2nd half year, due to the competitive market in PVC films and the continued rising of crude oil price and its created a history high record as well as poly vinyl chloride resins and plasticizer, that are mainly raw materials used for our production of finished products. As a result, our costs of production had increased sharply. On the other hand, we could not shifted the material costs to the customers immediately. Eventually, our 1st half year profit was erased.

財務回顧

年內，本集團持續經營業務膠布之銷售額約為282,890,000港元，相對於去年約292,020,000港元下跌約3.13%。毛利率上升至7.82%，而去年毛利率則為6.77%。本年度毛利為22,110,000港元，而去年毛利則為19,780,000港元。本年度銷售量為30,640噸，而去年銷售量則為31,958噸。每噸平均售價為每噸9,232港元，較去年平均售價每噸9,137港元輕微上升每噸95港元。收益下跌及毛利率有所改善主要因為本集團就廠房經營開支實行嚴格成本監控。本年度持續經營業務溢利為660,000港元，而去年則為虧損淨額15,620,000港元。年內，本集團來自膠布之每股基本盈利為0.01港仙，而去年則為每股虧損0.46港仙。

本公司之管理層透過以下各項達致本公司首半年純利14,500,000港元之溢利表現，包括(i)撇銷一名股東之債務11,100,000港元；(ii)出售蘇州富藝膠製品有限公司之一項長期投資之收益1,600,000港元；及(iii)經營收入1,800,000港元。然而，於下半年，由於膠布業市場競爭激烈，原油價格持續上升並達致歷史高位，加上用作生產本集團製成品之主要原材料聚氯乙烯及可塑劑之價格亦不斷上漲，故本集團之生產成本亦大幅度增加。此外，本集團未能即時將原材料成本轉嫁客戶。因此，本集團上半年之溢利已被抵銷。

管理層討論及分析

Management Discussion and Analysis

During the year, the management continued its efforts to maintain a profit margin for the Company by the following events:

- (1) tightening cost controls over factory overheads.
- (2) The management anticipated that the crude oil price would be continued rising in the future as well as poly vinyl chloride resins and plasticizer, that are mainly raw materials used for our production of finished products. We have changed our procurement policy to buy raw materials at appropriate time and at appropriate quantity to prevent persistently uprising in the price of raw materials depressing our profit margin.
- (3) The management anticipated that the interest rate would be continued rising in the future. We had partially repaid of loans and other borrowings to diminish the burden of higher interest costs. As a result, the finance cost had reduced from HK\$10.13 million last year to HK\$3.92 million for the current year

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2006, the Group's interest-bearing bank and other borrowings amounted to HK\$49,690,000 which was a decrease of HK\$46,408,000 from its borrowings of HK\$96,098,000 (restated) at 31 March 2005. It was mainly due to (i) the Company had raised funds of HK\$27.3 million on 22 April 2005 and applied HK\$24.9 million to partially settle the HK\$36.0 million Secured Term Loan due to Wealthguard (the substantial shareholder) through placing of Shares, (ii) Wealthguard had waived its debts amounting to HK\$11.1 million due from the Company on 13 June 2005, and (iii) net repayment of other loans of HK\$10.4 million.

於年內，管理層藉著以下行動，繼續致力保持本公司之邊際利潤：

- (1) 加緊控制廠房經營開支之成本。
- (2) 管理層預期，原油以及用作生產本集團製成品之主要原材料聚氯乙烯及可塑劑之價格將持續上升，本集團已改變採購政策，選擇適時適量購入原材料，以避免原材料價格持續上漲收窄本集團之邊際利潤。
- (3) 管理層預期，利率未來將持續上升，本集團已償還部份貸款及其他借款以減輕利息成本上揚的壓力。因此，本年度財務成本已由去年10,130,000港元減至3,920,000港元。

流動資金及財政資源

於二零零六年三月三十一日，本集團之計息銀行貸款及其他借貸為49,690,000港元，較於二零零五年三月三十一日之借貸96,098,000港元（重列）減少46,408,000港元，主要由於(i)本公司於二零零五年四月二十二日籌得資金27,300,000港元，並且透過配售股份，應用24,900,000港元清償部份結欠Wealthguard（主要股東）36,000,000港元之有抵押有年期貸款；(ii)Wealthguard於二零零五年六月十三日免除本公司欠負達到11,100,000港元之債項；及(iii)償還其他貸款淨額10,400,000港元。

Of the Group's total borrowings at 31 March 2006:

- (i) HK\$13,251,000 is at floating interest rates and HK\$36,439,000 is at fixed interest rates.
- (ii) 1.59% is denominated in Hong Kong Dollars and 71.74% is denominated in Renminbi and 26.67% in United States Dollars

As at 31 March 2006, the Group's cash and bank balances amounted to HK\$14,200,000 (as at 31 March 2005: HK\$ 13,336,000). The Group's net asset of value amounted to approximately HK\$66.06 million (as at 31 March 2005: deficiency in net assets 6.39 million(restated)) with total assets of approximately HK\$166.20 million (as at 31 March 2005: 184.12 million(restated)). Net current assets were approximately HK\$2.58 million (net current liabilities as at 31 March 2005: 7.31 million(restated)) and the current ratio was 1.03 times (as at 31 March 2005: 0.92 times).

The gearing ratio, expressed as the percentage of total borrowings to total net assets, was 75.22% as at 31 March 2006 (It was meaningless for comparison with amounts as at 31 March 2005 because of deficiency in net assets).

On 22 April 2005, Wealthguard placed 682,000,000 ordinary shares of HK\$0.01 each in the Company to certain independent investors at HK\$0.04 per share. On the same day, the Company allotted and issued 682,000,000 new shares to Wealthguard at HK\$0.04 per share, with net proceeds of approximately HK\$27.3 million. Out of the net proceeds of approximately HK\$27.3 million, HK\$24.9 million was applied to partially settle the HK\$36 million Secured Term Loan due to Wealthguard. As a result of Placing, the Group returned from deficiency in assets to positive in equity.

本集團於二零零六年三月三十一日之總借貸中：

- (i) 13,251,000港元按浮動利率計息，而36,439,000港元則按固定利率計息。
- (ii) 1.59%以港元計算、71.74%以人民幣計算及26.67%以美元計算。

於二零零六年三月三十一日，本集團之現金及銀行結餘為14,200,000港元（於二零零五年三月三十一日：13,336,000港元）。本集團之資產淨值約為66,060,000港元（於二零零五年三月三十一日：資產淨值虧絀6,390,000港元（重列）），而資產總值約為166,200,000港元（於二零零五年三月三十一日：184,120,000港元（重列））。流動資產淨值約為2,580,000港元（於二零零五年三月三十一日之流動負債淨額：7,310,000港元（重列）），而流動比率則為1.03倍（於二零零五年三月三十一日：0.92倍）。

資產負債比率以借貸總額比資產淨值總額之百分比表示，於二零零六年三月三十一日為75.22%（由於資產淨值虧絀，與二零零五年三月三十一日之數額作出比較並無意義）。

於二零零五年四月二十二日，Wealthguard按每股0.04港元向若干獨立投資者配售本公司682,000,000股每股面值0.01港元普通股。同日，本公司按每股0.04港元向Wealthguard配發及發行682,000,000股新股份，所得款項淨額約為27,300,000港元。於所得款項淨額約27,300,000港元中，24,900,000港元用於清償結欠Wealthguard 36,000,000港元之部份有抵押有年期貸款。經上述配售，本集團由出現資產虧絀轉為正資產。

管理層討論及分析

Management Discussion and Analysis

On 13 June 2005, Wealthguard had waived of its debts amounting to HK\$11,100,000 due from the Company.

On 23 June 2005, Wealthguard had exercised its right to convert all the HK\$50,414,704 of 1.5% Second Tranche Convertible Bonds into 252,073,520 shares at the conversion price of HK\$0.2 per share.

On 12 September 2005, the Company had passed a special resolution to approve of the reduction of the entire amount of HK\$254,421,266.38 standing to the credit of the share premium account of the Company to offset part of the accumulated losses.

On 13 December 2005, the Company had a sale and purchase agreement with Hebei Cangzhou Chemical Group for the conditional acquisition of the Sale Share, which represents 12% of the existing issued share capital of Cangzhou Chemical which is listed on Shanghai Stock Exchange, at a consideration of RMB124,908,888 and entered a Placing Agreement with the VC Brokerage Limited to finance the above acquisition on a best effort basis respectively. Since some of the conditions set forth in the Agreement have not been fulfilled as at the balance sheet date and the Original Condition Fulfilment Date, the Company has, at the request of the Vendor, agreed to further extend the Original Condition Fulfilment Date to 13 January 2007.

Post Balance Sheet Events

Subsequent to the balance sheet date, the following events had occurred:-

On 11 May 2006, the Group disposed of its entire interest in Luen Fat Hong Investment Limited(BVI) to an independent third part at a consideration of RMB4,200,000 (equivalent to approximately HK\$4,038,000). Luen Fat Hong Investment Limited holds the 25% equity interests in Shenzhen Wuye Jifa Warehouse Co Limited ("SWJ"). The major asset of the SWJ is holding a parcel of land located at Yantian Port, Yantian, Shenzhen.

於二零零五年六月十三日，Wealthguard已免除本公司欠負達到11,100,000港元之債項。

於二零零五年六月二十三日，Wealthguard按每股換股價0.2港元將全部50,414,704港元1.5厘第二批可換股債券兌換為252,073,520股股份。

於二零零五年九月十二日，本公司通過一項特別決議案以批准削減本公司股份溢價賬產生之全部進賬金額254,421,266.38港元，用於抵銷部分累計虧損。

於二零零五年十二月十三日，本公司與河北滄州化工集團訂立一份買賣協議，以代價人民幣124,908,888元有條件收購銷售股份（佔滄州化工（一家於上海交易所上市之公司）現有已發行股本之12%）；本公司亦於同日與VC Brokerage Limited訂立一份配售協議，以竭誠盡力為上述收購籌集資金。由於該協議所載部分條件於結算日及原訂該等條件達成日期仍未達成，應賣方之要求，本公司已將原訂該等條件達成日期進一步延長至二零零七年一月十三日。

結算日後事項

於結算日後，有如下事項發生：

於二零零六年五月十一日，本集團以代價人民幣4,200,000元（相等於約4,038,000港元）將其於Luen Fat Hong Investment Limited (BVI)之全部權益售予一獨立第三方。Luen Fat Hong Investment Limited持有Shenzhen Wuye Jifa Warehouse Co Limited（「SWJ」）之25%股權。SWJ之主要資產為持有一幅位於深圳鹽田鹽田港之土地。

On 9 June 2006, the Company entered into a subscription agreement with Forex Investment Development Limited (“Forex”), a company incorporated in the British Virgin Islands and independent to the Group, in relation to the subscription of a 2-year, 4% guaranteed convertible note and convertible into ordinary shares of, the Company up to a principal amount of HK\$46.5 million (the “New CBs”). It is intended that, among the estimated net proceeds of HK\$46.2 million, HK\$28.2 million will be used as general working capital and HK\$18 million will be used as the Group’s future investments in construction of production plant and its ancillary facilities.

The New CBs, if fully subscribed for and issued, are convertible into a total of 191.4 million new ordinary shares of the Company at the initial conversion price of HK\$0.243 per ordinary share. As at the date of these financial statements, the subscription has not yet completed as certain conditions have not been satisfied.

CHARGE ON THE GROUP’S ASSETS

Bank deposits of HK\$5,688,000 as at 31 March 2006 (as at 31 March 2005: HK\$4,237,000) were pledged for trust receipt loans and other short term trade financing facilities granted to the Group. Certain of the Group’s medium term leasehold land the Plant were pledged to secure a loan of RMB12.6 million (equivalent to approximately HK\$12.1 million) granted to the Group.

EXPOSURE TO FOREIGN EXCHANGE FLUCTUATION

The Group’s monetary assets and liabilities were principally denominated in Hong Kong dollars, Reminbi and U.S. dollars. Inasmuch as the Hong Kong dollar is pegged to the U.S. dollar, and that there has been minimal fluctuation in exchange rate between Hong Kong dollars and the Reminbi, the Group’s exposure to currency exchange risk was minimal.

於二零零六年六月九日，本公司與一間於英屬處女群島註冊成立並獨立於本集團之公司匯裕投資發展有限公司（「匯裕」）訂立認購協議，其內容有關認購本金額最高達46,500,000港元為期兩年四厘有擔保可換股票據，而該等票據可兌換為本公司普通股（「新可換股債券」）。本公司計劃，在估計所得款項淨額46,200,000港元中，28,200,000港元將用作一般營運資金，而18,000,000港元將用作本集團未來投資興建生產廠房及其輔助設施所用之資金。

倘獲全數認購及發行，新可換股債券可按初步換股價每股普通股0.243港元兌換為合共191,400,000港元之本公司新普通股。於此等財務報表日期，因若干條件仍未獲達成，認購尚未完成。

本集團資產之押記

截至二零零六年三月三十一日，本集團就所獲授信託收據貸款及其他短期貿易信貸融資抵押銀行存款5,688,000港元（二零零五年三月三十一日：4,237,000港元）。本集團若干中期租賃土地及廠房已抵押以獲取一筆人民幣12,600,000元（相等於約12,100,000港元）之貸款。

外匯波動風險

本集團之貨幣資產及負債主要以港元、人民幣及美元為單位。基於港元與美元掛鈎，而港元與人民幣匯率波動甚微，因此，本集團所承受匯率風險極微。

CONTINGENT LIABILITIES

As at 31 March 2006, the Group gave a guarantee of banking facilities granted to independent third parties amounting to HK\$7.69 million (as at 31 March 2005:HK\$8.41 million).

EMPLOYEES

As at 31 March 2006, the Group had approximately 312 full time managerial, administrative and manufacturing employees. The Group affords competitive remuneration packages to its employees based on prevailing industry practice and provides most of its employees in the PRC with rent-free quarters and messings. Compensation policies are reviewed regularly and are designed to reward and motivate productivity and performance.

No share options were granted during the year under review.

或然負債

於二零零六年三月三十一日，本集團就向獨立第三方授出之銀行信貸達7,690,000港元（於二零零五年三月三十一日：8,410,000港元）提供擔保。

僱員

於二零零六年三月三十一日，本集團聘用約312名全職管理、行政及生產僱員。本集團根據現行業內慣例向僱員提供具競爭力之薪津，並向其中國大部份僱員提供免租宿舍及膳食設施。本公司定期檢討補償政策，旨在獎勵及激勵僱員之生產力及表現。

於回顧年內並無授出任何購股權。