PEKING APPAREL INTERNATIONAL GROUP LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

Turnover for this period amounted to approximately HK$61,239,000, representing an increase of approximately 3 per cent as compared to that of last period. Net loss attributable to shareholders amounted to approximately HK$123,000, representing an improvement of 97 per cent as compared with that of last period.

Business Review

With the worldwide economy is improving, demand for our Group's product increased as well. As a result, the Group's turnover improved as compared with that of last period.

During the period under review, the Group has intensified its in-house training to the production staff. As a result, improved productivity led to a better profit margin. Furthermore, the Group's continuous appropriate measures to control its production costs and administrative expenses helped to reduce the loss during the period.

Outlook

The Group believes that worldwide demand for leather and fur garments will be good. Therefore, the Group will continuous to focus on leather and fur garment manufacturing as its core business.

With the strong America and Europe economic situation, the Group will continue to seek for trading partners from these markets so as to further expand its business there.

Furthermore, with the improving economic condition of the People's Republic of China ("PRC"), Japan and Korea, the Group will continuously adopt careful but aggressive marketing strategies to enhance the relationship with customers, so as to maintain as well as increase the sales to these markets.

The Group will continuously exercise appropriate measures to control its costs, improve its productivity and launch new designs to improve its profitability.

Employees, Training and Remuneration Policy

During this period, the Group continued to follow a prudent approach towards the size of the workforce and remained committed to its staff training. There is no material change in the information as compared to the most recently published annual report.

The Group remunerates its employees largely based on industry's practice. In the PRC, the Group provides staff welfare and bonus to its employees in accordance with the prevailing labour law. In Hong Kong, the Group provides staff benefits, including performance related bonus and other subsidies.

Capital Expenditure

During the period under review, there is no material capital expenditure for business development. As of today, there is no plan for any material investments or capital assets to be acquired till the end of this financial year.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and banking facilities provided by its principal bankers in Hong Kong. The Group currently has aggregate composite banking facilities of approximately HK$69,450,000.

As at 30 September 2000, the Group's net current assets is approximately HK$82,356,000 (as at 30 March 2000: HK$81,928,000). Total cash and bank balances and pledged bank deposits increased from HK$40,151,000 to HK$41,939,000; whereas, bank overdrafts and trust receipt loans decreased from HK$34,715,000 to HK$32,514,000. Inventories decreased from HK$73,755,000 to HK$63,909,000, due to better control of material usage and purchasing. Trade and bills receivables increased by approximately 46% to become HK$34,011,000; whereas, trade and bills payables increased by approximately 30% to become HK$20,899,000, due mainly to seasonality of sales.

The Group's gearing ratio at the period end is 0.50 (as at 31 March 2000: 0.48), which was calculated based on the total liabilities of HK$60,622,000 (as at 31 March 2000: HK$58,506,000) and shareholders' funds of HK$121,337,000 (as at 31 March 2000: HK$121,460,000).

Financial Risk Management

The Group's income and expenditure streams are mainly dominated in Hong Kong dollars, United States dollars and Renminbi.

In the normal course of business, the Group is exposed to fluctuation primarily in foreign currencies and in prices of key raw materials. These foreign currencies have been quite stable and so far do not have any material impact to the Group. When these currencies fluctuate, the Group will adjust its selling prices to customers to cover these currencies fluctuation.

Payments terms with customers are mainly on letters of credits or on credit. In order to minimise the credit risk associated with trade debtors, the Group is very cautious in granting credit.