



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover for the year ended 31 March 2001 amounted to approximately HK\$116,266,000, representing a slight increase of approximately 3 per cent as compared to that of last year. Net loss attributable to shareholders amounted to approximately HK\$6,158,000, representing an improvement of 41 per cent as compared to that of last year.

Business Review

The demand for fur pelts and fur garments, especially from the People's Republic of China ("PRC") and the United States of America ("USA") was good. Since the Group carried reasonable level of these stocks, the Group was able to sell at competitive prices. As a result, the overall turnover of the Group was slightly better than that of last year. The current year's demand for leather garments from the USA and South America was not as good as prior year's. Moreover, the raw material cost for leather garments increased a lot during the year due to worldwide supply of tanned leather decreased. Therefore, the sales of leather garments and its profit contribution dropped during the year. Since the improvement of sales of fur pelts and fur garments has out-weighted the decrease in sales of other products including tanned leather and leather garments, the Group's current year's turnover improved slightly than last financial year.

The Group was able to control its production and operating costs, the Group was able to improve its operating results this year despite severe competitive pressures. During the year, the Group has reassessed its stock value on hand and has accelerated its provision for depreciation. As a results, the total stock provision made for the year was about HK\$8,298,000.

Outlook

As the worldwide demand for fur products was good during the year and should be better in coming year, the Group will allocate more resources on the sale and manufacturing of fur products hoping to improve the overall results.

The Group believes that the USA and South America economic situation will improve gradually, therefore, the Group will continue to focus on leather garment manufacturing as its core business. The Group will continue to seek for trading partners from these markets so as to further expand its business there.

Since the economic condition of the PRC and Japan is improving, the Group will continuously adopt careful but aggressive marketing strategies to enhance the relationship with customers, so as to improve the sales to these markets.

The Group will continuously exercise appropriate measures to control its production and operating costs, improve its productivity so as to improve its profitability.

The Group will continue its in-house training to the production staff in order to improve productivity and quality.



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Employees, Training and Remuneration Policy

The Group continued to follow a prudent approach towards the size and remuneration of the workforce and remained committed to its staff training. As at 31 March 2001, the Group employed 543 full time employees, of which, 524 were in the PRC and 19 in Hong Kong.

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

Capital Expenditure

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

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. Recently, the Group initiated the reduction of composite banking facilities. The Group currently has aggregate composite banking facilities of approximately HK\$61,050,000.

As at 31 March 2001, the Group's net current assets is approximately HK\$77,310,000 (2000: HK\$81,928,000). Total cash and bank balances and pledged bank deposits increased from HK\$40,151,000 to HK\$44,335,000; whereas, bank overdrafts and trust receipt loans increased from HK\$34,715,000 to HK\$41,122,000. Inventories decreased from HK\$73,755,000 to HK\$54,394,000, due to better sales performance and control over stock level. Trade and bills receivables increased by approximately 37% to become HK\$31,902,000; whereas, trade and bills payables decreased by approximately 73% to become HK\$4,349,000, mainly due to seasonality of sales.

The Groups gearing ratio at the year end is 0.49 (2000: 0.48), which was calculated by dividing total liabilities of HK\$56,227,000 (2000: HK\$58,506,000) by shareholders' funds of HK\$115,018,000 (2000: HK\$121,460,000)



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Application of Proceed of New Issue

The Group raised approximately HK\$51.6 million, net of related expenses, from the issue of 64.75 million new shares in connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 7 March 1997. In last year, there were changes made.

The application of the net proceeds from the new issue have been applied as follows:

	Planned Amount	Revised Amount	Amount utilised up to 24 July 2001
	HK\$'000	HK\$'000	HK\$'000
– for repaying bank loans	10,000	10,000	10,000
– for upgrading the Group's manufacturing facilities and office premises	3,000	3,000	3,000
– for setting up representative offices and showrooms in the PRC	15,000	7,000	3,395
– for additional working capital for the Group	13,600	31,600	31,600
– for setting up or acquiring an interest in a tannery	10,000	–	–
	<u>51,600</u>	<u>51,600</u>	<u>47,995</u>

The balance of the proceeds of approximately HK\$3,605,000 has been placed on fixed deposits with a bank.

Financial Risk Management

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

In the normal course of business, the Group is exposed to fluctuation primarily in these currencies and in prices of key raw materials. These 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.

Payment terms with customers are mainly on letters of credits, cash on delivery and on credit terms. In order to minimize the credit risk associated with trade debtors, the Group is very cautious in granting credits. Credit terms granted vary among individual customers.