



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The worldwide unfavourable political and economic situation affected the Group's overall sales performance during the year under review. Sales to major countries, such as the PRC and the US were decreased. However, with the success in marketing strategies, the Group was able to improve the sales to Japan and the local markets.

The Group was able to control its production and operating costs, its workforce and improved productivity, the Group was able to improve its operating results this year despite severe competitive pressures.

Outlook

The management believes that the worldwide demand for fur products should be better in coming year, the Group will allocate more resources on the manufacture and sales of fur products hoping to improve the overall results.

Apart from continuously adopt careful but aggressive marketing strategies to enhance the relationship with existing customers, the Group will continue to seek for new trading partners from any market hoping to improve the Group's overall performance.

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.

Employees, Training and Remuneration Policy

The Group continued to follow a prudent approach towards the size of the workforce and remained committed to its staff training. As at 31 March 2002, the Group employed 454 full time employees, of which, 433 were in the PRC and 21 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.



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Liquidity and Financial Resources

The group generally finances its operations with internally generated cash flows and banking facilities provided by its principal banker in Hong Kong. During the year, the Group initiated a reduction of composite banking facilities. The Group currently has aggregate composite banking facilities of approximately HK\$57,600,000.

As at 31 March 2002, the Group's net current assets was approximately HK\$80,044,000 (2001: HK\$77,310,000). Total cash and bank balances and pledged bank deposits decreased from HK\$44,335,000 to HK\$27,708,000; whereas bank overdrafts and trust receipt loans also decreased from HK\$41,122,000 to HK\$2,048,000. Inventories decreased from HK\$54,394,000 to HK\$41,126,000 due to better control over stock level. Trade and bills receivables decreased by approximately 57% to HK\$13,786,000; whereas trade and bills payables decreased by approximately 29% to HK\$3,080,000 mainly due to seasonality of sales.

The Group's gearing ratio at the year end is 0.06 (2001: 0.49), which was calculated based on total liabilities of HK\$7,240,000 (2001: HK\$56,227,000) and shareholders' funds of HK\$114,248,000 (2001: HK\$115,018,000).

Generally speaking, the Group has a solid financial position, which provides a good foundation for the Group's future business developments.

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.

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



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Use of Proceeds from the Company's Initial Public Offering

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 for the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 7 March 1997.

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

	Planned Amount	Amount utilized up to 22 July 2002
	HK\$'000	HK\$'000
– for repaying bank loans	10,000	10,000
– for upgrading the Group's manufacture facilities and office premises	3,000	3,000
– for setting up representative offices and showrooms in the PRC	7,000	3,395
– for additional working capital for the Group	31,600	31,600
	<u>51,600</u>	<u>47,995</u>

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

New Share Option Scheme

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of share option schemes, which have come into effect on 1 September 2001. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the Board considers that it is in the interests of the Company to terminate the existing share option scheme of the Company adopted on 18 February 1997 and to adopt a new share option scheme. An ordinary resolution will be proposed at the Company's forthcoming Annual General Meeting to be held on 29 August 2002 for the approval of the said adoption of the new share option scheme and termination of the Company's existing share option scheme. A circular containing the details and conditions of the adoption of the new share option scheme will be dispatched to shareholders of the Company shortly.