



FINANCIAL ANALYSIS

(All the analysis below is based on the results of the Group for the year ended 31st March, 2003 and the year ended 31st March, 2002 for comparison purpose only)

For the year ended 31st March, 2003, the Group recorded a turnover of approximately HK\$154 million, representing approximately 2.7% growth as compared to that of 2002. The surge of Group's turnover was mainly attributable to the significant increase of sales in Europe and the successful expansion to other markets such as Malaysia, Singapore, the Philippines, Taiwan, Australia and Canada. In addition, the increase in the sales orders of small leather goods from the U.S. was also the driving force to the growth of the Group's turnover for the year ended 31st March, 2003. For small leather goods, the Group recorded a turnover of approximately HK\$4.9 million during the year under review, representing approximately 3% of the total turnover, or approximately 473% increase as compared to that of 2002. The overall gross profit margin of the Group was approximately 35% in 2003 while the gross profit margin was approximately 39% in 2002.

Profit attributable to shareholders dropped from approximately HK\$41.7 million in 2002 to approximately HK\$35 million in 2003, which was however, approximately 4.5% higher than the forecast at the initial public offerings. The reduction in profit was a result of the increase in operating costs and production costs after relocation of the Group's main production facilities. To cope with the need for increasing production capacity, the Group relocated its original factory to approximately 2.4 times larger new premises in July 2002. The operating costs including rental, water and electricity expenses increased correspondingly. In addition, hiring more new workers and outsourcing partial procedures of the processing also resulted in the increase in the production costs. The Board considers that the sustainable growth in sales can further enhance the economies of scale of production, thus enabling a gentle turnaround of the gross profit margin. The basic earnings per share of 2003 were approximately HK14.2 cents as compared to approximately HK17.3 cents in 2002.

GEOGRAPHICAL ANALYSIS

The Group's customers are mainly from Japan, the U.S., Europe and Hong Kong. For the year ended 31st March, 2003, the sales in the Japanese market reached approximately HK\$87 million, representing about 56% of the Group's total turnover. The sales in the U.S. market reached approximately HK\$22 million, representing approximately 14% of the Group's total turnover. The sales in the European market was approximately HK\$24 million, representing 16% of the Group's total turnover. For the local market, approximately HK\$15 million of sales was recorded for the year ended 31st March, 2003, representing approximately 9.7% of the Group's total turnover.

The Group has only started its expansion to the PRC market since March 2003. In this single month, approximate HK\$344,000 of sales was recorded, representing approximately 0.2% of the total turnover of the Group. The Group anticipates the proportion of the turnover contributed from the PRC sales to the total turnover will increase in the coming years.



Save for the aforesaid markets, the Group also exported its original design manufacturing (“ODM”) and original equipment manufacturing (“OEM”) products to Canada, Australia, Taiwan, the Philippines, Singapore and Malaysia, etc., in aggregate representing the Group’s total turnover of approximately 4% and approximately 133% increase as compared to that of 2002.

BUSINESS ANALYSIS

Keeness for advancement to the domestic market

The Group has been addressing product sales and marketing and thus a proactive strategy is adopted. In addition to further develop the well-established overseas markets, the Group is devoted to expanding the domestic sales market in the PRC. Currently, the domestic orders received by the Group are primarily from existing Hong Kong customers who have extensive sales network covering over a thousand sales points in the PRC. The Group’s major customer in Japan has already set up branches in the PRC. It is believed that the domestic sales volume will boost and become the principal driving force for the growth of the Group’s turnover in the coming year.

Promotion of own brand name and establishment of desirable corporate image

The Group has been focusing on the development of its own brand names and doing its utmost to promote them. During the year under review, the Group, through utilising the sales network of the young fashion apparel retailer, Bauhaus, as its local sales distribution channels, sold its own brand name products, **Stranger**. The Group’s another own brand name products, **Natalie Creations**, will be launched to the market soon. In the future, the Group and Bauhaus will keep an even closer co-operation.

To uphold an integral advancement to the local market, the Group plans to set up counters in local large scale department stores by the end of 2003. It is anticipated that a distinctive product image can be effectively built among the target customers through the unique design of the counters. Apart from this, the Group will launch widespread promotion activities to quickly lift up the popularity of its brand name products. To advertise in the local mass media, for example, to advertise in some best-selling teenagers’ magazines.

The Group intends to expand the market of the PRC after the establishment of brand awareness in the local market. In order to build a positive product image and raise the awareness, the Group is going to join fashion exhibitions in Dalian, the PRC in October 2003. Products of the Group manufactured on both ODM and OEM basis, on top of its own brand name products, are also being promoted to build a desirable product image to better serve the expansion of the Group’s market in the PRC.





Constant innovation in product styles and the comprehensiveness of business

With a view to meet customers' ever-changing needs and maintain competitiveness, the Group keeps on improving the product quality and pouring resources into the research and development of leather processing technology to refine product styles and multiply its product varieties. Having sophisticatedly mastered the leather processing technology and its development, the Group has set up a department responsible for the expansion of small leather goods' business in order to gradually increase its output volume and to promote it to existing customers. As the scrap leather used in the production of small leather goods is the by-product of the manufacturing process of leather belts, the profit margin of small leather goods is fairly high. It is anticipated that it will generate substantial income to the Group and facilitate the comprehensiveness of business.

Vertical Integration and production cost reduction

To ensure the steady supply of leather and strengthen the development of leather processing technology, the Group intends to carry out vertical integration and acquire a domestic leather processing company. The Group is presently seeking suitable target for acquisition which is targeted to be completed by the end of the next financial year. Such acquisition can reduce the overall production cost as well as enable the expansion of sales of leather.

New factory commencing production to accommodate the business development

The Group relocated its factory in July 2002 so as to accommodate the rapidly-changing development of the Group and the need for increasing production capacity. The operation of the new factory is located in Dongguan, the PRC, which is mainly responsible for export, has been running smoothly since its commencement of full operation in August last year. The production area of the new factory is approximately 13,200 sq. m., which is approximately 2.4 times larger than the old premises. The utilization rate of the new factory is close to 60%. In pace with the development of the Group's overseas sales, it is expected that the utilisation rate will climb.

Potent product quality control team

Product quality is of key concern of the Group. The Group pays great attention in respect of quality control. The quality control team comprises over 80 experienced team members and imposes stringent supervision over every stage of production ranging from the quality of raw materials to finished products to ensure the product quality meets certain standards. The products of the Group have been accredited by the largest casual wear chain stores in Japan with an honorable certificate for its high quality.





Use of Proceeds

The proceeds from the Company' issue of new shares at the time of its listing on the Stock Exchange on 12th March, 2003, after deduction of related issuance expenses, amounted to approximately HK\$29.3 million. The Directors intended to achieve its business goals through the implementation of the following with the net proceeds raised through the Company's initial public offerings:

- as to approximately HK\$7.0 million for vertical integration with leather processing companies and additional resources for research and development on leather processing technology;
- as to approximately HK\$5.8 million for further development of the Group's production facilities in Dongguan;
- as to approximately HK\$5.8 million for strengthening the Group's production development capability and to diversify the Group's product categories;
- as to approximately HK\$5.8 million for promotion of activities and further development of the Group's brand recognition;
- as to approximately HK\$1.0 million for geographical expansion by establishing representative offices in Beijing and Shanghai in the PRC; and
- as to the balance of approximately HK\$3.9 million as additional general working capital of the Group.

As the date of listing is closed to the Company's financial year end date, the Company has not commenced to apply the net proceeds during this reporting year. At 31st March, 2003, the proceeds from listing was placed on short-term deposits with licensed banks in Hong Kong.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At 31st March, 2003, the Group's cash and bank deposits were approximately HK\$54.3 million (2002: HK\$30.8 million).

At 31st March, 2003, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8 million, which were secured by deposits given by certain executive directors, a substantial shareholder and his wife and were guaranteed by the executive directors jointly and severally.

At the date of this report, the relevant banks had released the above guarantees and securities in exchange for corporate guarantees provided by the Company or a subsidiary of the Company.

The Group recorded total current assets of approximately HK\$87.8 million as at 31st March, 2003 (2002: HK\$54.6 million) and total current liabilities of approximately HK\$8.7 million (2002: HK\$15.3 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 10.1 times at 31st March, 2003 (2002: 3.6 times).

Supported by its strong financial position, the Group did not raise any bank loans during the year.



The Group recorded an increase in shareholders' funds from approximately HK\$41.4 million at 31st March, 2002 to approximately HK\$86.3 million at 31st March, 2003. The increase was mainly attributable to the fund raised from listing and operating profit generated during the year.

TREASURY POLICY

The Group generally finances its operation with internally generated resources.

Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars.

Transactions of the Group are mainly denominated either in Hong Kong dollars, Renminbi or United States dollars such that the Group does not have significant exposure to foreign exchange fluctuation.

CHARGES ON ASSETS

At 31st March, 2003, the Group did not have any assets pledged for general facilities granted by banks.

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals for the year ended 31st March, 2003.

EMPLOYEE INFORMATION

As at 31st March, 2003, the Group had 29 full-time employees in Hong Kong and 68 in the PRC. The Group remunerated its employees mainly based on their individual performance. Apart from basic salaries, discretionary bonus and contribution to the statutory retirement scheme, the Group adopted a share option scheme whereby certain employees of the Group may be granted options to subscribe for shares of the Company.

CONTINGENT LIABILITIES

At 31st March, 2003, the Group did not have any contingent liabilities.

