

# Management Discussion and Analysis

## Liquidity and financial resources

As at March 31, 2003, net current assets and current ratio of the Group were approximately HK\$14 million (2002: HK\$23 million) and 1.63 (2002: 1.52), respectively. The current assets mainly comprised inventories of approximately HK\$23.9 million (2002: HK\$46.7 million), accounts receivable of approximately HK\$3.0 million (2002: HK\$3.6 million) and cash and bank balances of approximately HK\$3.6 million (2002: HK\$7.1 million). The Group had total assets of HK\$81.4 million (2002: HK\$123.5 million), current liabilities of HK\$22.6 million (2002: HK\$43.4 million), non-current liabilities of HK\$14.5 million (2002: HK\$6.8 million) and shareholders' equity of HK\$44.3 million (2002: HK\$73.3 million).

The overall gearing ratio increased from 34% in previous year to 51% in this year with total borrowings of HK\$22.8 million (2002: HK\$25.3 million) and net worth of HK\$44.3 million (2002: HK\$73.3 million) as at March 31, 2003. Overall gearing ratio is defined as the total borrowings over the net worth at March 31, 2003.

The Group recorded a net cash outflow from operating activities of approximately HK\$6.5 million for the year (2002: inflow HK\$1.8 million) and incepted aggregated net bank and other loans of HK\$8.5 million. (2002: repaid HK\$1.7 million).

## Treasury policies

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks in Hong Kong. Cash used in the Group's operating activities amounted to approximately HK\$6.5 million (2002: generated HK\$1.8 million). As of March 31, 2003, the total outstanding short-term borrowings stood at approximately HK\$8.3 million (2002: HK\$19.1 million). Borrowing methods used by the Group mainly include overdrafts, bank loans and other loans from financial institutions. The interest rates of most of these are fixed by reference to the Hong Kong dollar prime rate. The Directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

## Capital expenditure

Capital expenditures amounted to approximately HK\$1.1 million (2002: HK\$4.2 million) for the year ended March 31, 2003. These expenditure were used in retail network improvement.

## Pledge of assets and contingent liabilities

At March 31, 2003, the Group pledged leasehold land and buildings and investment properties in Hong Kong with an aggregate net book value of HK\$8 million (2002: HK\$8 million) and HK\$16 million (2002: HK\$22 million) respectively. At March 31, 2003, the Group had no significant contingent liabilities (2002: Nil).

## Investment in properties

The Group's investment properties were valued at HK\$16 million (2002: HK\$22 million) at March 31, 2003 by FPD Savills (Hong Kong) Limited on an open market, existing use basis.

Properties owned in Hong Kong: Revaluation deficits of approximately HK\$4.9 million (2002: HK\$1.5 million), in which HK\$0.9 million (2002: HK\$1.5 million) has been debited to investment property revaluation reserve due to impairment in values and the remaining balance HK\$4 million (2002: Nil) was charged to income statement.

Properties leased in Hong Kong: the Group leases 16 (2002: 24) retail outlets from independent third parties with a total floor area of 34,751 sq.ft. (2002: 42,082 sq.ft). The Group also leases certain units at Siu Lek Yuen, Shatin, New Territories as warehouse and office space.

Property leased in the PRC: the production facilities and dormitories of the Group are located in Shediju, Shenzhen, PRC.

## Segment Information

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for goods returned and trade discounts, and after elimination of intra-group transactions. The Group's revenue is derived predominantly from retail and wholesale of ladies' and men's fashion apparel and complementary accessories.

The following table presents revenue and results information for the business segments of the Group.

	Fashion apparel		Property investment		Corporate and Other		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:								
Sales to external customers	150,981	244,918	—	—	—	—	150,981	244,918
Other revenue	206	1,189	7	840	871	979	1,084	3,008
<b>Total</b>	<b>151,187</b>	<b>246,107</b>	<b>7</b>	<b>840</b>	<b>871</b>	<b>979</b>	<b>152,065</b>	<b>247,926</b>
Segment results	(22,136)	3,815	(5,392)	384	(696)	(1,745)	(28,224)	2,454
Interest income							11	120
(Loss)/profit from operation							(28,213)	2,574
Finance costs							(1,019)	(3,014)
Loss before taxation							(29,232)	(440)
Taxation							293	(449)
<b>Net loss for the year</b>							<b>(28,939)</b>	<b>(889)</b>

Fashion apparel is the major segment of the Group. This segment incurred a loss of HK\$22.1 million (2002: Profit HK\$3.8 million). This reduction is mainly due to a substantial decrease of turnover in the slump economy in Hong Kong and the negative impact of "SARS" in March 2003. The loss of HK\$5.4 million (2002: Profit HK\$0.4 million) in the segment of Property investment mainly came from the revaluation deficit of the investment properties of the Group. As there is no major disparity of the segment of Corporate and others of the Group, no analysis for it is provided.

## **Employees and remuneration policies**

As of March 31, 2003, the Group had employed approximately 203 (2002: 255) full-time employees in Hong Kong and approximately 377 (2002: 482) full-time employees in the PRC. The total number of full-time employees of the Group is 580 (2002: 737). The Group has a share option scheme for the benefit of its directors and eligible employees of the Group.

## **Foreign exchange exposure**

The Group had limited exposure to fluctuation in foreign currencies as most of its transactions were conducted in Hong Kong dollars and Renminbi. Exchange rates between these currencies were relatively stable during the year under review. However, the recent fluctuation of the exchange rate of EURO may render the Group suffers a greater exchange risk as in the forthcoming year, certain amount of the Group's raw materials are sourced from European countries.