



MANAGEMENT DISCUSSION AND ANALYSIS

Financial and Business Review

Even though the economy remained sluggish in 2002 and in the first quarter of 2003, the Group was able to improve its overall turnover and loss before tax position over last year in view of our efforts and a solid customer base. This demonstrated that the products of the Group were generally well accepted by our customers and our sales and marketing strategy was effective in retaining existing and soliciting new customers.

Fur product sales and sales to the US market for the year was about 35% and 2.7 times respectively more than that of the last corresponding year. On the other hand, sales of leather garments and fabric garments was about the same as that of last corresponding year. The most encouraging fact is that the Group was able to improve its overall sales and showed a healthy growth in various markets including the US, Korea, the PRC as well as the local market.

The Group has been successful in controlling its production and operating costs, its workforce and improved productivity, the Group will continue to exercise appropriate strategy in order to improve its overall results in the coming year despite severe competitive pressures.

Outlook

Since the war on Iraq has ended and the SARS epidemic has been contained, the world economy should be heading for a recovery. However, both the strength and timing of such a recovery is still uncertain. With worldwide low interest rate, the recent economic data indicated some good signs for the US, Europe and other markets. Since our Group has been in the industry with good market recognition for long, the management believes our shareholders and customers will continue to give us their whole-hearted support. The Group is more ready than ever to take up the challenge.

During the financial year 2003, the trading of raw materials, in particular, fur pelts, has recorded an encouraging performance. With good market connection, the Group will continue to solicit for more customers and opportunities in fur pelts as well as tanned leather trading activities.

Regarding garment manufacturing operation, the Group will continue to enhance its relationship with existing customers as well as to seek for new trading partners in this field in order to improve its overall performance. Furthermore, the Group plans to participate in fashion fairs to be held overseas hoping to seek for more new customers.

The Group believes that the PRC economy is pretty steady and is a place to develop fashion industry. As mentioned in the Group's latest interim report, the Group has established a retail outlet in Shenzhen city and a marketing team has been set up with prime objective to develop and expand the Group's business in the PRC. Therefore, the Group prepares to allocate more resources in the PRC market. The Group plans to hold sales fairs and more retail outlets in the PRC hoping to seek for more new customers.

Apart from the PRC market, the Group will 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.

In order to remain competitive, the Group will continuously exercise appropriate measures to control its production and operating costs. The Group will continue to provide its in-house training to the production staff in order to improve productivity and quality so as to improve its profitability.

Overall, the Group is thus confident that, barring unforeseen circumstances, we will be able to improve the overall performance in the year ahead.



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Employees, Training and Remuneration Policy

As at 31 March 2003, the Group employed 505 full time employees, of which, 485 were in the PRC and 20 in Hong Kong. The Group continued to follow a prudent approach towards the size of the workforce. Furthermore, the Group continues to maintain and upgrade the capabilities of our workforce by providing staff training.

The Group fully recognizes the importance of its employees who contribute so significantly to the success of our business. We offer remuneration packages in line with industry practices, which are subject to annual review. Discretionary bonuses are awarded to employees based both on individual and Group performances. Other benefits include Mandatory Provident Fund retirement benefits scheme and other subsidies. In the PRC, the Group provides staff welfare and bonus to its employees with prevailing labour laws in China.

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 continues to finance its operations from internal cash flows and banking facilities provided by its bankers in Hong Kong and China. During the year, the Group has established a new banking facility with one of its bankers in China. The Group currently has aggregate composite banking facilities of approximately HK\$62,270,000. All outstanding bank borrowings were for purpose of trade-finance and working capital and are short term in nature.

As at 31 March 2003, the Group's net current assets is approximately HK\$80,354,000 (2002: HK\$80,044,000). Total cash and bank balances and pledged bank deposits increased from HK\$27,708,000 to HK\$30,318,000; whereas secured bank loan, bank overdrafts and trust receipt loans also increased from HK\$2,048,000 to HK\$8,685,000. The net cash and bank balances decreased by HK\$1,616,000 over the year. Foreseeing the market demand for the Group's product in the coming year, the Group has started to stock up raw materials. Therefore, inventories increased from HK\$41,126,000 to HK\$48,471,000. Trade and bills receivables increased slightly by approximately 2% to become HK\$14,044,000; whereas trade and bills payables also increased by approximately 1% to become HK\$3,116,000.

The Groups gearing ratio at the year end is 0.15 (2002: 0.06), which was calculated based on total liabilities of HK\$17,078,000 (2002: HK\$7,240,000) and shareholders' funds of HK\$111,867,000 (2002: HK\$114,248,000). With low gearing ratio and sound financial position, the management believes that the Group is well placed to avail itself to future expansion.



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Financial Risk Management

The objective of the Group's treasury policies is to manage its exposure to fluctuation in foreign currency exchange rates and interest rates on its interest bearing banking facilities. It is our policy not to engage in speculative activities. There was no outstanding forward contract as at 31 March 2003.

Since major transactions of the Group were primarily denominated in Hong Kong dollars, US dollars and Renminbi, foreign exchange exposure of the Group will continue to be minimal as long as the policy of the Government of the HKSAR to link the Hong Kong dollar to the US dollar remains in effect. There were no material exposure to fluctuations in exchange rates and therefore no related financial hedging instrument was applied during the year ended 31 March 2003.

Payment terms with customers are mainly on letter 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.

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 HK\$'000	Amount utilized up to 22 July 2003 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	3,644
– for additional working capital for the Group	31,600	31,600
	<u>51,600</u>	<u>48,244</u>

The balance of the proceeds of approximately HK\$3,356,000 had been placed on fixed deposits with a bank.