



# Management Discussion and Analysis

## Liquidity and financial resources

As at March 31, 2004, net current assets and current ratio of the Group were approximately HK\$16.2 million (2003: HK\$14.3 million) and 2.2 (2003: 1.6), respectively. The current assets mainly comprised inventories of approximately HK\$17.3 million (2003: HK\$23.9 million), accounts receivable of approximately HK\$2.3 million (2003: HK\$3.0 million) and cash and bank balances of approximately HK\$2.6 million (2003: HK\$3.6 million). The Group had total assets of HK\$54.6 million (2003: HK\$81.4 million), current liabilities of HK\$13.1 million (2003: HK\$22.6 million), non-current liabilities of HK\$5.6 million (2003: HK\$14.5 million) and shareholders' equity of HK\$35.8 million (2003: HK\$44.3 million).

The overall gearing ratio decreased from 51% in previous year to 18% in this year with total borrowings of HK\$6.6 million (2003: HK\$22.8 million) and net worth of HK\$35.8 million (2003: HK\$44.3 million) as at March 31, 2004. Overall gearing ratio is defined as the total borrowings over the net worth.

The Group recorded a net cash inflow from operating activities of approximately HK\$2.3 million for the year (2003: outflow HK\$6.5 million) and repaid aggregated bank and other loans of HK\$9.8 million. (2003: net inception HK\$8.5 million).

## Treasury policies

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks and financial institutions in Hong Kong. As of March 31, 2004, the total outstanding short-term borrowings stood at approximately HK\$1.1 million (2003: HK\$8.3 million). Borrowing methods used by the Group mainly include bank loans and other loans from financial institutions. The interest rates of most of these loans are determined by reference to the Hong Kong dollar prime rate. The Group had no interest rate hedging arrangement during the year. 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\$0.7 million (2003: HK\$1.1 million) for the year ended March 31, 2004. These expenditure were mainly used in retail network improvement. There were no material capital commitments at March 31, 2004 (2003: Nil).

## Pledge of assets and contingent liabilities

At March 31, 2004, the Group pledged leasehold land and buildings and investment properties in Hong Kong with an aggregate net book value of HK\$8 million (2003: HK\$8 million) and HK\$4 million (2003: HK\$16 million) respectively. At March 31, 2004, the Group had no significant contingent liabilities (2003: Nil).

## Investment in properties

The Group's investment properties were valued at HK\$3.9 (2003: HK\$16 million) at March 31, 2004 by FPD Savills (Hong Kong) Limited on an open market, existing use basis.

Properties owned in Hong Kong: Revaluation surplus of approximately HK\$1.2 million (2003: deficit HK\$4.9 million), which was not credited to investment property revaluation reserve (2003: deficit HK\$0.9 million) and the remaining balance HK\$1.2 million (2003: HK\$4.0 million) was credited/charged to income statement.

Properties leased in Hong Kong: the Group leases 12 (2003: 16) retail outlets from independent third parties with a total floor area of 27,172 sq.ft. (2003: 34,751 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	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	122,257	150,981	—	—	—	—	122,257	150,981
Other revenue	72	206	1,448	7	1,059	871	2,579	1,084
<b>Total</b>	<b>122,329</b>	<b>151,187</b>	<b>1,448</b>	<b>7</b>	<b>1,059</b>	<b>871</b>	<b>124,836</b>	<b>152,065</b>
Segment results	(7,492)	(22,136)	665	(5,392)	(1,021)	(696)	(7,848)	(28,224)
Interest income							1	11
(Loss)/from operation							(7,847)	(28,213)
Finance costs							(575)	(1,019)
Loss before taxation							(8,422)	(29,232)
Taxation							(70)	293
<b>Net loss for the year</b>							<b>(8,492)</b>	<b>(28,939)</b>

Fashion apparel is the major segment of the Group. This segment incurred a loss of HK\$7.5 million (2003: HK\$22.1 million). This improvement is mainly due to the recovery of economic environment in Hong Kong. The profit of HK\$0.7 million (2003: Loss HK\$5.4 million) in the segment of Property investment mainly came from the revaluation surplus and the profit on disposal 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, 2004, the Group had employed approximately 168 (2003: 203) full-time employees in Hong Kong and approximately 348 (2003: 377) full-time employees in the PRC. The total number of full-time employees of the Group is 516 (2003: 580). 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 suffering a greater exchange risk as in the forthcoming year, certain amount of the Group's raw materials are sourced from European countries. The Group had no foreign exchange rate hedging arrangement during the year.