



MANAGEMENT DISCUSSION AND ANALYSIS

Financial and Business Review

With weak US dollars over the year, the Group's sales to customers in the USA, Korea and Japan were affected. The sales to these 3 markets for the year accounted for less than HK\$3 millions (2003: HK\$15 millions). The strong EURO dollars helped the Group make up most of the shortfall. Sales to major customers in Europe, such as Germany and Spain, recorded good improvement over the year. Sales to these 2 markets for the year was approximately HK\$25 millions (2003: HK\$15 millions). Overall sales was dropped slightly against last year. The decrease in sales of leather garments and trading of fur pelts has outweighed the growth of sales in the fur garments and trimming as well as fabric garments.

As the Group has been successful in controlling its production and operating costs, its workforce and improved productivity, the Group was able to generate a profitable year.

Outlook

In order to remain competitive, the Group will have to deliver good quality and valuable products to its customers. Therefore, the Group will continue to exercise appropriate measures to improve its quality, productivity as well as monitoring its overall costs. More on-the-job trainings will be provided to the workforce as well as the supporting staff.

On the other hand, the marketing and design staff are continuously launching marketing plans and new designs to attract new customers from various part of the world. Our marketing strategies and new designs seem to be on the right direction. Our new designs as well as the workmanship seem to be well accepted by our customers.

The Group believes that the PRC economy is flourishing and will grow further. Therefore, the Group will seek for appropriate business partners running retail outlets operations there in order to expand the Group's business in the PRC. More resources will be allocated for the PRC market.

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

Therefore the management believes, under normal circumstances, that the year ahead shall be better than previous years.

Employees, Training and Remuneration Policy

As at 31 March 2004, the Group employed 483 full time employees, of which, 463 were in the PRC and 20 in Hong Kong. The Group continues to follow a prudent approach towards the size of the workforce.

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 is 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 continues to finance operations from internal cash flows and banking facilities provided by its bankers. The Group currently has aggregate composite banking facilities of approximately HK\$57,600,000. All outstanding bank borrowings are for purpose of trade-finance and working capital and are short term in nature.

As at 31 March 2004, the Group's net current assets is approximately HK\$85,563,000 (2003: HK\$80,354,000). Total cash and bank balances and pledged bank deposits decreased from HK\$30,318,000 to HK\$28,486,000; whereas, bank loan, bank overdrafts and trust receipt loans also decreased from HK\$8,685,000 to HK\$166,000. The net cash and bank balances increased by HK\$3,415,000 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\$48,471,000 to HK\$51,025,000. Trade and bills receivables decreased by approximately 28% to become HK\$10,047,000; whereas, trade and bills payables also decreased by approximately 48% to become HK\$1,608,000, mainly due to seasonality of sales.

The Group's gearing ratio at the year-end is 0.06 (2003: 0.15), which was calculated based on total liabilities of HK\$6,869,000 (2003: HK\$17,078,000) and shareholders' funds of HK\$115,155,000 (2003: HK\$111,867,000). With low gearing ratio and sound financial position, the management believes that the Group is well placed to avail itself to future expansion.

Financial Risk Management

It is our policy not to engage in speculative activities.

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 linking the Hong Kong dollar to the US dollar remains in effect.

Payment terms with customers are mainly on letters of credit, 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 applications of the net proceeds from the new issue, as revised in 2001, have been applied as follows:

	Revised Planned Amount HK\$'000	Amount utilized up to 22 July 2004 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	3,848
– for additional working capital for the Group	31,600	31,600
	<u>51,600</u>	<u>48,448</u>

The balance of the proceeds of approximately HK\$3,152,000 had been placed on fixed deposits with a bank.