

Management Discussion and Analysis

Liquidity and financial resources

As at March 31, 2005, net current assets and current ratio of the Group were approximately HK\$29.5 million (2004: HK\$16.2 million) and 3.2 (2004: 2.2), respectively. The current assets mainly comprised inventories of approximately HK\$19.3 million (2004: HK\$17.3 million), accounts receivable of approximately HK\$2.0 million (2004: HK\$2.3 million) and cash and bank balances of approximately HK\$14.1 million (2004: HK\$2.6 million). The Group had total assets of approximately HK\$63.3 million (2004: HK\$54.6 million), current liabilities of approximately HK\$13.3 million (2004: HK\$13.2 million), non-current liabilities of approximately HK\$0.3 million (2004: HK\$5.6 million) and shareholders' equity of approximately HK\$49.8 million (2004: HK\$35.8 million).

The overall gearing ratio decreased from 18% in previous year to 9% in this year with total borrowings of approximately HK\$4.7 million (2004: HK\$6.6 million) and net worth of approximately HK\$49.8 million (2004: HK\$35.8 million) as at March 31, 2005. 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\$7.4 million for the year (2004: outflow HK\$2.3 million) and repaid aggregated bank and other loans of HK\$4.3 million. (2004: HK\$10 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, 2005, the total outstanding short-term borrowings stood at approximately HK\$4.5 million (2004: HK\$1.1 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\$3.1 million (2004: HK\$0.7 million) for the year ended March 31, 2005. These expenditure were mainly used in retail network improvement. There were no material capital commitments at March 31, 2005 (2004: Nil).

Pledge of assets and contingent liabilities

At March 31, 2005, the Group pledged leasehold land and buildings and investment properties in Hong Kong with an aggregate net book value of approximately HK\$5.2 million (2004: HK\$7.7 million) and Nil (2004: HK\$3.9 million) respectively. At March 31, 2005, the Group had no significant contingent liabilities (2004: Nil).

Investment in properties

The Group's investment properties were valued at approximately HK\$5.2 million (2004: HK\$3.9 million) at March 31, 2005 by FPD Savills (Hong Kong) Limited on an open market, existing use basis. After the valuation and at March 31, 2005, the investment properties were re-classified as leasehold land and buildings. This valuation gave rise to a revaluation surplus of approximately HK\$1.3 million (2004: HK\$1.2 million) which has been credited to income statement.

Properties leased in Hong Kong: the Group leases 13 (2004: 12) retail outlets from independent third parties with a total floor area of 24,901 sq.ft. (2004: 27,172 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		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment revenue:						
Sales to external customers	126,404	122,257	—	—	126,404	122,257
Other income	3,631	72	—	1,448	3,631	1,520
Total	130,035	122,329	—	1,448	130,035	123,777
Segment results	13,798	(7,492)	—	665	13,798	(6,827)
Interest income and unallocated income					1,895	1,060
Unallocated expenses					(1,246)	(2,080)
Profit/(loss) from operation					14,447	(7,847)
Finance costs					(265)	(575)
Profit/(loss) before taxation					14,182	(8,422)
Taxation					(235)	(70)
Net profit/(loss) for the year					13,947	(8,492)

Fashion apparel is the major segment of the Group. This segment incurred a profit of approximately HK\$13.8 million (2004: loss of HK\$7.5 million). This improvement is mainly due to the recovery of economic environment in Hong Kong.

There is no operation (2004: profit approximately HK\$0.7 million) in the segment of Property investment in this year.

Employees and remuneration policies

As of March 31, 2005, the Group had employed approximately 161 (2004: 168) full-time employees in Hong Kong and approximately 367 (2004: 348) full-time employees in the PRC. The total number of full-time employees of the Group is 528 (2004: 516). 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.