Financial and Business Review

For the year under review, the overall turnover recorded an encouraging improvement. Apart from the downturn of the trading of tanned leather, the Group's other principle activities showed good sales improvement and out-weighted the impact of the trading of tanned leather. Major improvements were sales to Hong Kong and the PRC, Germany and the USA. During the Hong Kong International Fur and Fashion Fairs held in February 2004, we were able to solicit new customers from Japan and Korea. As a result, sales to these two countries were improved. These five countries are major buyers in the world for the products we are providing.

With the dedication of the management and our staff, we were able to control our production and operating costs, workforce and improved workmanship, the Group's profit for the year was then improved.

Outlook

The above mentioned five countries are world leaders in fashion industry. They are politically stable, sound monetary policy, good foreign reserve as well as improving economy. Since their demand for our products increased during FY2005, we believed that there are further opportunities for us over these countries. PRC, being a huge and important market, its economy is flourishing; the Group will adopt appropriate marketing strategy to promote garments under our own brand name there. Apart from this, we have started to perform sub-contracting works for customers over there. We will allocate more resources to this activity. We believe the resources assigned to the PRC will generate positive return to the Group.

With the well recognition by our existing customers, such as Jones Apparel Group from the USA, they have referred new customers to us. We appreciate for their invaluable support to us. With their efforts in referring new opportunities to us, we shall be able to broaden our customer base as well as improving our overall sales worldwide.

The management and the staff are well positioned for the coming year and will try our very best to generate better returns to the Group.

Employees, Training and Remuneration Policy

As at 31 March 2005, the Group employed 501 full time employees, of which, 480 were in the PRC and 21 in Hong Kong. The Group continues to maintain and upgrade the capabilities of its workforce by providing them with training.

The Group fully recognises the importance of its employees who contribute significantly to its success. The Group's employee remuneration packages are in line with industry norms, which are subject to annual review. Discretionary bonuses are awarded to employees based on both individual and the Group's overall performances each year. Other staff 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.

Liquidity and Financial Resources

The Group continues to finance its operations, capital expenditure and business development from internal cash flows and banking facilities provided by its bankers. The Group currently has aggregate composite banking facilities of approximately HK$67,970,000. All outstanding bank borrowings were for purpose of trade finance and working capital and are short term in nature.

As at 31 March 2005, the Group's net current assets is approximately HK$92,121,000 (2004: HK$85,563,000). Total cash and bank balances and pledged bank deposits increased from HK$28,486,000 to HK$34,334,000; whereas, secured bank overdrafts increased substantially from HK$166,000 to HK$13,669,000. The net cash and bank balances decreased by HK$7,655,000 over the year. Anticipating increases in market demand for the Group's product as well as raw material price in the coming year, the Group has started to stock up raw materials prior to the year end. Therefore, inventories increased from HK$51,025,000 to HK$68,211,000 as well as reducing the overall cash and bank balances. Trade and bills receivables increased by approximately 14% to become HK$11,487,000; whereas, trade payables increased by approximately 99% to become HK$3,197,000, mainly due to seasonality of sales and purchases.

The Group's gearing ratio at the year-end is 0.18 (2004: 0.06), which was calculated based on total liabilities of HK$22,581,000 (2004: HK$6,869,000) and shareholders' funds of HK$128,659,000 (2004: HK$115,155,000). 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.

For the year ended 31 March 2005, the Group was not subjected to any significant exposure to foreign exchange rates risk as majority 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. Hence, no related financial hedging instrument was employed.

Payment terms with customers are mainly on letter of credits, cash on delivery and on credit terms. In order to minimise 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:

	Planned Amount	**Amount utilised up to 20 July 2005**
	HK$'000	HK$'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
	51,600	48,448

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