

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year under review, the Group recorded a turnover of approximately HK\$101,974,000 (2004: HK\$119,410,000), representing a decrease of approximately 15% as compared to the previous year. It was mainly due to the discontinuance of the marketing and compliance monitoring services and deceleration of the growth of the operation of apparel sourcing, quality assurance and social compliance monitoring services (hereinafter referred to as "Apparel Sourcing") during the year.

Net profit from ordinary activities decreased by 91% from approximately HK\$23,497,000 to HK\$2,160,000. This was due to closure of the operating of marketing and compliance monitoring service which contributed a high profit margin to the Group in previous year. Due to the pass away of Mr Garry Siu, the former chairman of the Group who was responsible for the marketing and compliance monitoring services, the Group has gradually faded out from this industry and concentrated on Apparel Sourcing and trading. In addition, more resources have been allocated to the operation of Apparel Sourcing which declined the gross profit margin and net profit margin of the Group during the year. Earnings per share for the year ended 31 March 2005 were HK0.68 cents (2004: HK7.34 cents).

In respect of the geographical analysis, Russia, South Korea, Panama, the United States of America ("USA"), the PRC, Macau and Hong Kong accounted for approximately 31%, 29%, 9%, 12%, 9%, 4% and 6% of the Group's turnover respectively (2004: 34%, 29%, 6%, 3%, 0%, 0% and 28% respectively). The Group has successfully developed the Macau market by commencing its apparel trading operation in Macau during the year. Turnover attributable from Hong Kong decreased significantly during the year by 22% as compared to last financial year. It is mainly due to the closure of marketing and compliance monitoring services during the year.

Divisional Operating Performance

The Group's operation are divided into four main operating divisions: (i) Apparel Sourcing, (ii) marketing and compliance monitoring services (iii) sales support services and (iv) apparel trading. Revenue derived from these divisions accounted for approximately 80%, 0%, 0% and 20% (2004: 75%, 22% 3% and 0%) of the Group's turnover respectively. The details on the review of each business operation are discussed below:

BUSINESS REVIEW

Apparel Sourcing

During the year, the Group has allocated significant resources in the operation of Apparel Sourcing. For the year ended 31 March 2005, the turnover and net profit for the Group's Apparel Sourcing was approximately HK\$81,984,000 (2004: HK\$89,523,000) and HK\$8,823,000 (2004: HK\$9,167,000). The decrease was due to the deceleration of the growth of the operation of Apparel Sourcing which faced fierce competition among the industry resulting from the rebound in economy across the region.

Geographically, the revenue generated from Apparel Sourcing, namely, Russia, South Korea, Panama and the USA remained stable. This was attributable to the established network of the Group in the industry of Apparel Sourcing.

Marketing and Compliance Monitoring Services

Due to the pass away of Mr Garry Siu, the former chairman of the Group, the operation of Marketing and Compliance Monitoring Service has been adversely affected and was discontinued during the year under review. No revenue was generated from the operation of marketing and compliance monitoring services and incurred a loss of HK\$2,985,000 during the year under review. (2004: the turnover and net profit were approximately HK\$26,266,000 and HK\$19,724,000 respectively).

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Sales Support Services

During the year under review, no turnover derived from the provision of sales support services (2004: HK\$3,621,000). The quota system for textile products export to USA ceased during the year. There was no barrier for textile trading/manufacturing companies to export to USA. As a result, the Group lost its unique features for provision of the sales support services. For the purpose of cost effectiveness, the Group scaled down the operation of sales support service to minimum level.

Apparel Trading

During the year under review, the Group has commenced the operation of apparel trading which included wholesales and retails of garment products. Turnover attributable to the operation of apparel trading amounted to approximately HK\$19,990,000 and net profit from ordinary activities amounted to approximately HK\$8,114,000. Currently, the Group has rented two shops in Hong Kong and Macau.

PROSPECT

The Group's apparel sourcing division faced intensive competition during the year. Although the results of this division remained fairly stable, the gross profit has been in a downward trend. In view of significant resources required for the provision of apparel sourcing services such as extra sales team and sourcing team, the Group aimed to merge its apparel sourcing division into its apparel trading division in the future to minimize and better use of the Group's resources.

Following the continuing rebound of the Hong Kong economy which strengthens consumer sentiment and relaxation of travel policy of PRC citizens to Hong Kong and Macau, the directors of the Company anticipate that retail business will be booming with outstanding growth. To reap these development opportunities, the Group commenced operation of apparel trading in its leased outlets in Hong Kong and Macau. In addition, in view of the grand opening of the Disneyland in Hong Kong and existing attraction in gambles in Macau which is expected to boost more tourist business in Hong Kong and Macau, the Group has planned to open more outlets in Hong Kong and Macau for retail of garment products. The directors of the Company believe that the commencement of the operation of apparel trading will diversify not only the business of the Group, but also revenue source.

The Group will continue to explore and identify investment opportunities so as to enhance shareholders' value by organic growth.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year. (2004: HK\$Nil).

The directors considered to retain additional cash for apparel trading development in view of long term benefits of the shareholders of the Group.

CAPITAL STRUCTURE

It is the intention of the Group to maintain a strong and stable financial position to ensure an efficient capital structure over time. As at 31 March 2005, the Group had total assets of approximately HK\$99,573,000 (2004: HK\$99,170,000), comprising non-current assets of approximately HK\$64,184,000 (2004: HK\$66,612,000) and current assets of approximately HK\$35,389,000 (2004: HK\$32,558,000).

Total debts remained at a low level of approximately HK\$14,450,000 (2004: HK\$9,228,000), comprising mainly the interests bearing bank borrowing related to a mortgage loan of HK\$6,200,000 (2004: HK\$6,358,000) in respect of a land and building. The directors of the Company considered that the Group has sufficient cash flow to settle all the debts when they fall due.

At 31 March 2005, the shareholders' equity was HK\$82,861,000 (2004: HK\$80,702,000), representing an increase of 2.7%.

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The current ratio deteriorated from last year's 10.99 to 4.24 and the quick ratio also declined from last year's 10.81 to 2.89 this year. Due to the fact that the Group remained low level of debts, the directors of the Company considered that the Group has sufficient cash flow to settle all the debts when they fall due.

The debt to equity ratio remained stable at 0.17 while it was 0.11 last year. The ratio was calculated by dividing the total liabilities of HK\$14,450,000 (2004: HK\$9,228,000) by the total shareholders' equity of HK\$82,861,000 (2004: HK\$80,702,000).

The gearing ratio expressed as a percentage of total bank borrowings to total shareholders' equity was 7.5% for the year ended 31 March 2005. (2004: 7.8%)

All the ratio analysis showing the Group remained a healthy and stable financial position. Thus, at this stage, with continuing healthy cash flows, there is no immediate requirements for debt finance.

LIQUIDITY AND FINANCIAL RESOURCES

It is the intention to manage its cash and bank balances and maintains a high level of liquidity to ensure that the Group is well placed to take advantage of growth opportunities for the business. Cash and bank balances of the Group as at 31 March 2005 were approximately HK\$4,246,000 (2004: HK\$9,168,000), representing a decrease of 54% compared to previous year. The decrease is mainly due to the fact that additional cash has been used for development of apparel trading business during the year. Except for a long term mortgage loan of HK\$6,200,000 (2004: HK\$6,358,000), the management considered that the Group maintained a healthy liquidity position.

BORROWINGS AND BANKING FACILITIES

The Group generally financed its operations with internally generated cash flows, except for one mortgage loan amounted to HK\$6,200,000 (2004: HK\$6,358,000) for the purpose of facilitating a land and building. The mortgage loan is not at fixed interest rates. Except for this, no banking facility has been obtained by the Group.

The Group serviced its debts primarily through cash generated by operations. The Group does not have any bank overdraft for the year under review.

CONTINGENT LIABILITIES

The Group did not have any capital commitments and the details of contingent liabilities are set out in note 32 to the financial statement.

FOREIGN EXCHANGE EXPOSURE

As at 31 March 2005, substantially all of the monetary assets of the Group was comprised of cash and bank balances, which denominated in Hong Kong dollars and Renminbi, hence exchange risk of the Group is minimal. In addition, the Group did not have any foreign currency investments which has been hedged by currency borrowings and other hedging instruments.

PLEDGE AND CHARGE OF GROUP ASSETS

As at 31 March 2005, a property with net book value of HK\$9,289,000 is pledged to secure a mortgage loan. (2004: HK\$9,436,000)

HUMAN RESOURCES

As at 31 March 2005, the Group employed 22 full time employees. The Group's emolument policies are formulated on the performance of individual employee and will be reviewed regularly every year. The Group also participates in a defined contribution retirement benefits scheme for its qualified employees. Since 22 October 2002, the Group established a share option scheme for its employees and other eligible participants with a view to provide an incentive to or as a reward for their contribution to the Group. No option has been granted up to the date of this report.