

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

Turnover for this period amounted to approximately HK\$72,799,000, representing a decrease of approximately 7% as compared to that of last period. Net profit attributable to shareholders amounted to approximately HK\$7,847,000, representing an increase of approximately 5% as compared with that of last period.

Business Review

The turnover decreased in the first-half year which is mainly due to the decrease in the sales of Company's fur product. The turnover of fur product for the period was approximately HK\$44,347,000, a decrease of 15% compared to the corresponding period in last year. This is mainly due to the market vision that the fur raw material price will drop during auctions in September, as experienced last year. Therefore, customers have delayed their orders to us. The sales of leather product also decreased by about HK\$1,000,000. The sales of fabric garments have increased by approximately HK\$4,000,000 during the period as compared to the corresponding period in last year. As a result, the overall turnover dropped. However, we were able to control our cost and bad debt situation over the period and have achieved a better half-year results compared to the corresponding period in last year.

Outlook

Subsequent to the first-half year end, orders from our customers improved as compared to the corresponding period in last year. We believe that the overall turnover for the whole financial year should not be too pessimistic. The Company will keep on exploring new markets for our products. With the recognition of PRC customers in our sub-contracting work, we believe that we can generate better turnover and results from this activity. In order to maintain a steady supply of high quality fur raw material at low cost, the Company is setting up a mink farm which will begin operation in the upcoming year. The mink farm can supply for our own needs as well as for sales to customers. This should help to improve our overall margin in the future barring unforeseen unfavourable circumstances.

In view of the increasingly intense competition in recent year, the Group will use its best endeavours to enhance its competitiveness, cost control, and respond promptly to the market situation.

Employees, Training and Remuneration Policy

As at 30 September 2005, the Group employed around 510 (at 30 September 2004: approximately 510) employees in both Hong Kong and the PRC. The Group fully recognizes the importance of its employees who contribute significantly to its success. The Group's employee remuneration packages are based on prevailing market conditions and industry norms, which are subject to annual review. Discretionary bonuses are awarded to employees based on both individual and the Group's overall performance. 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 market conditions. The Group continues to maintain and upgrade the capabilities of its workforce by providing them training.

Capital Expenditure

During the period under review, the Group has incorporated a wholly owned foreign enterprise in the PRC for the purpose of setting up a mink farm. The authorised share capital is HK\$8,000,000, out of which, HK\$5,000,000 has been paid as of today. Other than this, there is no material capital expenditure for business development. Save as disclosed above, there is no other plan for any material investments or production 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 providing by its bankers. The Group currently has aggregate composite banking facilities of approximately HK\$67,385,000. All outstanding bank borrowings were for purpose of trade finance and working capital and are short term in nature.

As at 30 September 2005, the Group's net current assets is approximately HK\$99,439,000 (as at 31 March 2005: HK\$92,121,000). Total cash and bank balances and pledged bank deposits decreased from HK\$34,334,000 to HK\$33,689,000; whereas, secured bank overdrafts also decreased from HK\$13,669,000 to HK\$9,417,000. The net cash and bank balances increased by HK\$3,607,000 over the period. Inventories increased from HK\$68,211,000 to HK\$71,345,000. Trade and bills receivables increased by approximately 51% to become HK\$17,359,000; whereas, trade payables also increased by approximately 180% to become HK\$8,942,000, mainly due to seasonality of sales and purchases.

The Group's gearing ratio at the period end is 0.18 (as at 31 March 2005: 0.18), which was calculated based on the total liabilities of HK\$24,615,000 (as at 31 March 2005: HK\$22,581,000) and shareholders' funds of HK\$133,197,000 (as at 31 March 2005: HK\$128,659,000).

Financial Risk Management

It is our policy not to engage in speculative activities.

The Group's business activities were principally denominated in HK dollars, US dollars and Renminbi. The Board considered the fluctuation among these currencies as minimal and should not expose the Group to excessive currency fluctuation risk.