

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

For the year ended 31 March 2006, the Group recorded a turnover of approximately HK\$48,428,000 (2005: HK\$101,974,000) representing a decrease of approximately 53% as compared to the previous year. It was mainly due to the deceleration of the growth of the Group's apparel sourcing service during the year.

The Group recorded a net loss of approximately HK\$79,610,000 for the year ended 31 March 2006 while it was a profit of approximately HK\$2,160,000 for the year ended 31 March 2005. The major reasons for the loss incurred during the year was mainly due to (i) the change in the Group's accounting policies which an aggregate impairment loss of approximately HK\$54,888,000 were recognised for the year ended 31 March 2006; (ii) a provision of tax liabilities of approximately HK\$19,918,000 has been provided in respect of the potential tax liabilities imposed on a subsidiary of the Group for non-taxable claim of non-Hong Kong sourced income for the years of assessments of 1998/1999 to 2003/2004 and (iii) the provision of obsolete stock of approximately HK\$6,689,000 during the current year. Without accounting for the above one-off non cash impairments, provision for tax liabilities and provision for slow moving stock, the operating loss for the year was only approximately HK\$5.6 million.

The operating loss for the current year is mainly due to the decrease in gross profit margin and increase in operating costs as compared to last year. The Group's gross profit margin was approximately 20% for the current year while it was approximately 28% in last year. The decrease in gross profit margin was mainly due to the fierce competition in price which the Group required to mark down its selling price in order to maintain the market shares of the apparel sourcing services.

In respect of the geographical analysis, Russia, South Korea, Panama, USA, the PRC, Macau and Hong Kong accounted for approximately 2%, 3%, 2%, 3%, 18%, 44% and 27% respectively (2005: 31%, 29%, 9%, 12%, 9%, 4% and 6% respectively). Following on the disposal of a subsidiary during the year, the Group's geographical market will be concentrated on both Hong Kong and Macau in the foreseeable future.

### *Divisional Operating Performance*

The Group's principal activities are engaged in (i) apparel source services, (ii) apparel trading services and (iii) sales support services. Turnover derived from these three operations are accounted from approximately 9%, 91% and 0% (2005: 80%, 20% and 0%) of the Group's total turnover respectively. The details on the review of each business operation are discussed below:

#### Apparel Sourcing

For the year ended 31 March 2006, turnover of the Group's apparel sourcing operation was approximately HK\$4,524,000, representing a decrease of approximately 94% as compared to the last financial year. The Group also recorded a loss of approximately HK\$3,252,000 (2005: profit of HK\$8,823,000) in respect of the Group's apparel sourcing operation for the current year. The Group recorded a loss in results of this segment is mainly due to the increase in price competition in the market which leads to the decrease in profit margin for the current year. The segment turnover and results of this operation were in 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 has scaled down this operation by disposed of a subsidiary of the Group which engaged in the apparel sourcing operation in the second half of the year in order to avoid further loss incurred from this operation.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### *Divisional Operating Performance (Continued)*

##### Sales Support Services

For the year ended 31 March 2006, no turnover derived from the provision of sales support services (2005: Nil). With the fact that the quota system for textile products export to the US ceased in last year and the Group lost its unique features for the sales support services. Therefore, the sales support services operation remain inactive during the year.

##### Apparel Trading

Apparel trading operation of the Group comprise of wholesales and retails of garment products in both Hong Kong and Macau. For the year ended 31 March 2006, turnover derived from the apparel trading operation was approximately HK\$43,904,000, representing an increase of approximately 120% as compared to the previous year. However, the Group recorded a loss from this segment of approximately HK\$14,236,000, while it was a profit of approximately HK\$7,734,000 in last year. The significant decrease in the results of apparel trading operation is mainly due to increase in operating costs during the year and the impairment loss recognised for obsolete inventories and trade receivables of approximately HK\$6.7 million and HK\$4.7 million respectively.

### PROSPECT

Following on the continuing rebound of the Hong Kong economy which strengthens consumer sentiment and relaxation of travel policy of the PRC citizens to Hong Kong, the directors of the Company anticipate that retails business will be booming with outstanding growth. On the other hand, Macau become a main focus in recent year, its existing attraction in gambles is expected to boost more tourist business in Macau. In order to reap these development opportunities, the Group intended to allocate more resources in its apparel trading operation in the future. In addition, 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 ended 31 March 2006 (2005: Nil).

### 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 2006, the Group had total assets of approximately HK\$41,424,000 (2005: HK\$99,573,000), comprising non-current assets of approximately HK\$20,555,000 (2005: HK\$64,184,000) and current assets of approximately HK\$20,869,000 (2005: HK\$35,389,000).

As at 31 March 2006, total debts of the Group amounted to approximately HK\$38,173,000, representing an increase of 164% as compared to previous year of approximately HK\$14,450,000. The significant increase is mainly due to a provision of tax liabilities of approximately HK\$19,918,000 recognised during the year. Except for the provision of tax liabilities, total debts remained fairly stable as compared to previous year. The total debts as at 31 March 2006 mainly comprise of interests bearing bank borrowing related to a mortgage loan of approximately HK\$5,950,000 (2005: HK\$6,200,000) in respect of a leasehold land and building.

As at 31 March 2006, the shareholders' equity was approximately HK\$3,251,000 (2005: HK\$82,861,000), representing a decrease of approximately 94%. The current ratio deteriorated from last year's 4.25 to 0.65 and the quick ratio also declined from last year's 2.9 to 0.37 this year. The decrease in quick ratio is mainly due to the provision of tax liabilities, except for this, the Group remained fairly low level of debts, the directors of the considered that the Group has sufficient cash flow to settle all the debts when they fall due.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### CAPITAL STRUCTURE *(Continued)*

The debt to equity ratio was 11.7 while it was 0.17 in last year. The ratio was calculated by dividing the total liabilities of HK\$38,173,000 (2005: HK\$14,450,000) by the total shareholders' equity of HK\$3,251,000 (2005: HK\$82,861,000).

The gearing ratio expressed as a percentage of total bank borrowings to total shareholders' equity was 183% for the year ended 31 March 2006 while it was 7.5% in last year.

### 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 2006 were approximately HK\$2,488,000 (2005: HK\$4,246,000), representing a decrease of 41% compared to previous year. Except for the long term mortgage loan of HK\$5,950,000 (2005: HK\$6,200,000) and the provision of tax liabilities of approximately HK\$19,918,000, 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. As at 31 March 2006, interest bearing bank borrowing represents a mortgage loan amounted to approximately HK\$5,950,000 (2005: HK\$6,200,000) for the purpose of facilitating a leasehold land and building. The mortgage loan is not at fixed interest rates. Except for this, no banking facility has been obtained by the Group during the year ended 31 March 2006.

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

### CONTINGENT LIABILITIES

Apart from the Tax Obligations imposed by the Hong Kong Inland Revenue Department against to the Group of approximately HK\$19,918,000 as disclosed in note 37 to the financial statements, the Group does not have any material contingent liabilities as at 31 March 2006.

### SUBSEQUENT EVENTS

On 2 June 2006, the Group entered into a sales and purchases agreement with an independent third party for the disposal of the entire interest in Fair Good Limited, Elite Team Inc. and Easy Billion International Enterprises Limited for a cash consideration of approximately HK\$120,000.

### FOREIGN EXCHANGE EXPOSURE

As at 31 March 2006, 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 2006, the Group's leasehold land and buildings with carrying amounts HK\$4,606,000 and HK\$4,612,000 respectively were pledged to secure a mortgage loan (2005: HK\$4,650,000 and HK\$6,241,000).

### HUMAN RESOURCES

As at 31 March 2006, the Group employed 28 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. As at the date of this report, no option has been granted.