MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

Revenue for this period amounted to approximately HK$70,959,000, representing a decrease of approximately 3% as compared to that of last period. Profit for the period attributable to ordinary equity holders of the parent amounted to approximately HK$7,393,000 representing a decrease of approximately 6% as compared with that of last period.

Business Review

The decrease in revenue was mainly due to fur products, particularly garments and trimmings which were decreased by approximately 50% as compared with that of the last corresponding period. The leather garments revenue has also decreased by approximately 15% as compared with that of last corresponding period. Despite of the approximately 50% increase in revenue of the fabric garments, the overall revenue of the Group was down by about 3% as compared with the last corresponding period. With our effort in controlling the material costs and production overheads, we were able to improve the overall gross profit for the period. The overall profit for the period was slightly lower than that of last corresponding period mainly due to the reduction in other income and gains and the increases in selling and administrative expenses.

Outlook

With the post period-end revenue and orders in hand, the management is still optimistic on its overall revenue for the full year. With keen and fierce market competition in the garment business, more efforts will be made in the design and marketing of our own brand name in order to improve the revenue in this product. With the continuous efforts in cost control and improving productivity, the Group should be able to maintain its profit margin. Barring unforeseen unfavourable circumstances, the full year performance should not be too far off than that of the last financial year.

As mentioned in the 2006 Annual Report, a mink farm has been set up. About 10,000 breeder minks were imported from Denmark and the mortality rate since arrival to today was relatively low. Therefore, the mink farm operation shall be able to generate positive return by the end of financial year ending 31 March 2008 as planned.

Employees and Remuneration Policy

As at 30 September 2006, the Group employed around 540 (at 30 September 2005: approximately 510) employees in both Hong Kong and the PRC. The Group fully recognises the importance of its employees who contribute significantly to its success. The Group's remuneration policies are based primarily on the prevailing market situation and the performance of individual employee, which are subject to annual review. Discretionary bonuses are awarded to employees based both on individual and Group performances. Other 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 period under review, the capital expenditure was mainly the setup costs related to the mink farm operation and its increased authorised and issued share capital. Other than this, there is no other material capital expenditure for business development. Saved as disclosed, there is no plan for any other material investments or capital assets to be acquired.

Liquidity and Financial Resources

The Group continues to finance operations from internal cash flows and banking facilities providing by its bankers. The Group currently has aggregate composite banking facilities of approximately HK$74,050,000. All outstanding bank borrowings were for purpose of trade-finance and working capital and are short term in nature.

As at 30 September 2006, the Group's net current assets is approximately HK$92,742,000 (as at 31 March 2006: HK$93,225,000). Total cash and bank balances and pledged bank deposits decreased from HK$36,762,000 to HK$36,240,000; whereas, secured bank borrowings also decreased from HK$13,758,000 to HK$12,402,000. The net cash and bank balances increased by HK$834,000 over the period. Inventories increased from HK$73,119,000 to HK$74,516,000. Trade and bills receivables increased by approximately 40% to become HK$18,314,000; whereas, trade and bills payables also increased by approximately 79% to become HK$19,623,000, mainly due to seasonality of sales and purchases.

The Group's gearing ratio at the period-end is 0.30 (as at 31 March 2006: 0.24), which was calculated based on the total liabilities of HK$39,032,000 (as at 31 March 2006: HK$31,253,000) and total equity of HK$131,212,000 (as at 31 March 2006: HK$128,604,000). 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.

The Group's major transactions are primarily denominated in Hong Kong dollars, United States dollars ("US$") and Renminbi ("RMB"). Foreign exchange exposure of the Group is considered minimal as the exchange rate of RMB and US$ against Hong Kong dollars were relatively stable during the period. No financial instrument have been used for hedging purposes.

Payment terms with customers are mainly on letter of credits, cash on delivery and on credit terms. In order to minimize the credit risk associated with trade debtors, the Group is very cautious in granting credits. Credit terms granted vary among individual customers.