

FINANCIAL REVIEW

(All the analysis below is based on the results of the Group for the year ended 31st March, 2004 and the year ended 31st March, 2003 for comparison purpose only)

For the year ended 31st March, 2004, the Group's turnover recorded approximately HK\$154.6 million, which remained constant when compared with last year. During the year under review, the Group's sales performance in overseas markets was weak. The export sales to the US market recorded a marked decrease of approximately 25%, while other major overseas markets such as Japan and Europe had also performed below expectation during the year under review. The Group's overall export sales were dropped by approximately 4% from approximately HK\$139 million to HK\$133 million. Despite the unfavorable performance in the overseas markets, on the favorable side, the Group achieved strong sales in the PRC market which had significantly offset the reduction in sales in the overseas markets.

As a result of the decrease of export sales, the Group had to suffer a high fixed overhead cost in Sze Cheik factory which is operated solely for export and Hong Kong market due to the production volume shrunk. During the fiscal year under review, the gross profit margin of the Group was reduced from approximately 35% to 33.6%. The thinning of gross profit margin had essentially resulted from the increase in the price of leather during the year under review.

Profit attributable to shareholders dropped by approximately 9.7% and recorded nearly HK\$31.6 million in 2004. The reduction in profit was mainly attributable to the decrease in gross profit margin as well as the increase in administrative and other operating expenses. The administrative and other operating expenses such as directors' remuneration, staff salaries and other listing compliance expenses were increased since the Group had listed on 12th March, 2003. Compared with last year, the expenses increased by 20% to approximately HK\$14.3 million. The Group believes that with a stringent budget control policy implemented, the cost of production and operation is expected to be minimized in the following years. The basic earnings per share was approximately 10.2 HK cents as compared to 14.23 HK cents recorded in 2003.

Geographical analysis

Geographically, Japan continued to contribute the largest portion of sales amongst the overseas markets, accounting for approximately 54% of the Group's total sales. The sales order from the Group's major retail store customers in Japan remained steady during the year under review. Fluctuating orders from small trading companies led to a mild drop of sales in Japan.

Sales in the US recorded an unsatisfactory result in the year ended 31st March, 2004. Compared with last year, sales in the US was decreased by approximately 25%. Both sales in the US and Europe markets were adversely affected by the outbreak of SARS in the first half of the year under review. Sales to Europe were recovered more quickly in the second half of the financial year and thus, the drop of sales had been narrow down to approximately 13.7%.

Sales in Hong Kong, which were declined by approximately 8%, suffered from a setback following the outbreak of SARS. The volume of sales order placed by the Group's major retail customers in Hong Kong after SARS was below the management's expectation. Sales of belts and wallets under the Group's owned brand — Stranger, contributed to the Group's turnover of approximately HK\$1 million.

During the year under review, the Group has devoted to expanding the sales in the PRC market. Sales in the PRC recorded an encouraging result for the year ended 31st March, 2004 amounting to approximately HK\$7.4 million, which accounting for approximately 4.8% of the Group's total turnover. The management considered that it marked a successful start for the Group's penetration into the PRC market. The Group anticipates the market share in the PRC will be further enlarged and make up a larger proportion of the Group's total turnover in the foreseeable future.

The Group's export sales to other countries such as Canada, Australia, Taiwan, the Philippines, Singapore and Malaysia etc. continued to grow. Sales to other countries for the year ended 31st March, 2004 surged 83% to approximately HK\$11.9 million. The growth was mainly attributable to the increased orders from the customers in Australia and Malaysia and new orders secured from a number of famous brand customers from Australia. Sales in Australia and Malaysia recorded approximately HK\$4.4 million and HK\$3.1 million respectively.

BUSINESS ANALYSIS

Market Expansion in the PRC

In March 2003, the Group has stepped into the PRC market with effective marketing strategies. Since the new market establishment, the Group has recorded a remarkable performance. Riding on the strong economic growth in the PRC, retailers, especially our major clients, exploit aggressive marketing strategies to capture more market share through their strong sales network. Currently, the sales orders received by the Group mainly came from the Group's existing customers, who had extensive sales networks accessing to numerous sales points in the major cities in the PRC. During the year under review, the Group successfully engaged a customer which is a renowned domestic fashion and accessories enterprise with significant market presence in the PRC. In line with the Group's market expansion strategies in the PRC, the Group participated in *The 15th Dalian International Garment Fair* in September 2003 in which our OEM and ODM products had been successfully presented to our prospective clients. In the long run, the Group will continue to participate in different trade fairs and exhibitions in order to expose our products to more potential customers and to ultimately increase the sales in this blooming market.

Continuity of Brand Building — Stranger

During the year under review, the Group applied various marketing and promotional strategies in order to sustain and promote the Group's own brand name — *Stranger*. Through our sole retail agent — Bauhaus, a well-known young fashion apparel retailer in Hong Kong, *Stranger* was firstly introduced into the market in November 2002 with the introductory leather products — wallets and belts. Leveraging on Bauhaus's extensive sales network, *Stranger* will further introduce new products such as backpacks and handbags to the Hong Kong market in July 2004. In the future, not limited to leather products, the Group will diversify *Stranger's* product into fashion clothing and accessories, including jeans, T-shirts and fashionable watches so as to deepen *Stranger's* market penetration. The other important breakthrough of the Group is the first *Stranger's store* in Hong Kong will be opened in Langham Place in October 2004. Located in the heart of the Mongkok District, Langham Place will become the most prestigious 5-star shopping and business complex in Kowloon. The first *Stranger Store* in Langham Place will not only sell *Stranger's* products but will incorporate various trendy and popular brands introduced from Japan and Europe which will bring customers a refreshing touch to the brand.

Geographically, the Group has extended the sales network to Singapore through an exclusive retail distributor and placing *Stranger* products in its retail chain stores in July 2004. The retail business establishment in Singapore will be essentially regarded as a stepping stone for the further retail business extension of the Group in the PRC, Japan, Korea, Taiwan, Malaysia and other Asia regions in the coming future.

Widen Product Range and Product Diversification

Aiming to conquer the leading position in the international leather accessories design and manufacturing industry, the Group committed to providing customers with a wide range of leather products. During the year under review, number of sale orders on wallets and other small leather goods placed from different customers was more than last year but the volume of order was comparatively lower. Despite the revenue contribution on small leather goods was not as good as last year, the Group was widely recognized its strong product development ability. Backing up by a team of experienced and innovative design and product development professionals, the Group has developed a variety range of leather products, including wallets, belts, backpacks, and handbags to the Group's OEM and ODM customers so as to increase market penetration and to broaden the market share.

Strategic Alliance and Vertical Integration Plans

The Group intends to become an integrated manufacturer of leather accessories by vertical expansion so as to include the raw material supply of the production process business. In August 2003, the Group signed a Memorandum of Understanding ("MOU") with a Hong Kong leather processing company whose production facilities are located in Dongguan, the PRC. Pursuant to the MOU, the Group proposes to form a joint venture company ("JV") with that leather processing

company. As of the date of annual results announcement, the plan was on hold due to the renewal of environmental license for the Dongguan production facilities that granted by the local authority was uncertain. For this reason, the agreement has not been compromised by both parties. Experiencing the cost increase in leather, the Group believed that vertical integration would be one of the best solutions to control the production cost efficiently. In future, the Group will continue to seek for other possible partners and strategic alliances in order to enhance competitive strengths, to enlarge product mix and to cater the customers' needs in this ever-changing fashion industry.

Use of Proceeds

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on the Listing Date, after deduction of related issuance expenses, amounted to approximately HK\$29.3 million. The use of the proceeds since its Listing Date and up to 31st March, 2004 was as follows:

- as to approximately HK\$469,000 for further development of the Group's production facilities in Dongguan;
- as to approximately HK\$350,000 for strengthening the Group's production development capability and to diversify the Group's product categories;
- as to approximately HK\$280,000 for promotion of activities and further development of the Group's brand recognition; and
- as to approximately HK\$5 million as general working capital of the Group.

As at 31st March, 2004, the balance of the proceeds of approximately HK\$23.2 million was placed on short-term deposits with licensed banks in Hong Kong.

Liquidity, Financial Resources and Capital Structure

As at 31st March, 2004, the Group's cash and bank deposits were approximately HK\$67 million (2003: HK\$54.3 million).

As at 31st March, 2004, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8 million were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$113 million as at 31st March, 2004 (2003: HK\$87.8 million) and total current liabilities of approximately HK\$13.8 million (2003: HK\$8.7 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 8.2 times as at 31st March, 2004 (2003: 10.1 times).

Supported by its strong financial position, the Group had not raised any bank loan during the year.

The Group recorded an increase in shareholders' funds from approximately HK\$86.3 million as at 31st March, 2003 to approximately HK\$105.7 million at 31st March, 2004. The increase was mainly attributable to the proceeds from exercise of share options of the Company and operating profit generated during the year.

Treasury Policy

The Group generally finances its operation with internally generated resources.

Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars.

Transactions of the Group are mainly denominated either in Hong Kong dollars, Renminbi or United States dollars such that the Group does not have significant exposure to foreign exchange fluctuation.

Though the Group does not engage in any hedging contract, the Group's exposure in foreign exchange risk is minimal.

Charges on Assets

The Group did not have any assets pledged for general facilities granted by banks.

Material Acquisitions/Disposal

The Group had no material acquisition/disposals for the year ended 31st March, 2004.

Employee Information

As at 31st March, 2004, the Group had 29 full time employees in Hong Kong and 56 in the PRC. The Group remunerated its employee mainly based on their individual performance. Apart from basic salaries, discretionary bonus, contribution to the statutory retirement scheme, the Group adopted a share option scheme whereby certain employees of the Group may be granted options to subscribe for shares of the Company.

Contingent Liabilities

At the balance sheet date, the Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31st March, 2004 amounted to approximately HK\$1 million (2003: Nil).