frequently asked questions and answers

1. **Market rental has been rising recently. How is it affecting the Group's business? Will it affect the Group's retail network expansion plan in Hong Kong?**
Rental has always been a significant part of our operating cost. For the year ended 31 March 2005, the Group's total expense on rental was around HK$64.4 million, accounting for approximately 19% of turnover. The Group was able to maintain it at the stable level of below 20% since a lot of the Group's retail stores are located in large shopping malls. And to maintain a quality mix of retail tenants, sizeable shopping malls tend to offer turnover rent arrangements. Targeting high-spending young shoppers, over 70% of the Group's self-operated retail stores, under the names "BAUHAUS", "TOUGH" and "SALAD" are located in shopping malls. The effect of rental increase on our retail business is thus within acceptable levels.

The Group plans to open more than 10 retail stores under the Group's in-house brandnames in financial year 2006, targeting the potential niche market of mid-high-end shoppers. We adopt a prudent rental policy which aim is to enable us to maintain our rental expenditure below 20% of our annual turnover. As long as the market rent does not suddenly surge, we believe our market expansion plan will not be significantly affected.

2. **What goals have the Group set for its in-house label business? How much does the Group expect its in-house labels to contribute to its overall turnover?**

Raising the Group's in-house brands to international level has always been one of The Group' major business goals. The Group currently has three in-house labels, namely "TOUGH", "SALAD", and "80/20", which make up about over 70% of its turnover. For the next financial year, the Group targets to open two "BAUHAUS" stores, two "TOUGH" speciality stores, five "SALAD" speciality stores and one "80/20" speciality store in Hong Kong. Apart from expanding its retail network to capture a larger market share locally, the Group also targets to penetrate the international market, principally riding on the "TOUGH" brand. The Group plans to further expand its wholesales operations, especially in Japan and Europe. In Japan, the Group has been strategically repositioning its products in the upper end market to boost brand reputation for future developments. In Europe, on the other hand, the Group has been actively participating in various fashion trade shows to market its in-house labels, most of which have been very well received by the European markets.

3. **Please comment on the outlook of the local retail industry. How is the Group going to maintain business growth in the long run?**

The relaxing of travel restrictions on mainlanders by the PRC Government and the impending opening of Disneyland Hong Kong are bringing more tourists to Hong Kong. These developments plus the gradual recovery of the Hong Kong economy has revived local consumption sentiment. Since the Group's in-house labels and retail stores target primarily shoppers with high consumption power, the Group is optimistic that its business will continue to grow.

During the past year, the Group invested substantially in strengthening its business foundation. Excluding these major investments, operating growth was similar to that of the previous year's. These investments included expansion of the workforce, adding front line staff and recruiting designers for its new in-house brand "80/20" and opening new retail stores. The Group's sales and distribution network was extended, both locally and internationally, incurring extra rental and traveling expenditures. It is believed that these investments will contribute to the Group's business growth and net profit margin improvement in the years ahead.

4. **How is the Group going to grasp the vast opportunities in the PRC market?**

The Group' strategy for the PRC market is to achieve gradual business expansion through its franchise model. Given the vast opportunities in the PRC market, and understanding the importance of a well-recognised brand to a successful retail business, the Group has cautiously controlled the

operation of its PRC franchise stores. Stringent quality and pricing controls are in place to avoid brand infringement. Sales and inventory systems have also been installed, allowing the management to monitor hence better manage all franchised stores, their staff, as well as sales and inventory levels. Co-operations have been very successful so far with a 24% increase in retail sales recorded during the year.

The Group signed seven additional franchisee agreements after year end, and plans to open another three franchise stores in the PRC next financial year. For the PRC market, the Group adheres to a prudent investment strategy, which protects the Group from being over-exposed to risks in this relatively young market.

5. **What is the Group's dividend policy?**
The Group's long-term dividend policy, as mentioned in the Listing Prospectus, will be not less that 30% of its annual net profit. Dividends were not declared for the year ended 31 March 2005 since the reorganisation of the Group was completed after year end. In recognition of shareholders' support, however, the Directors have proposed the payment of a special interim dividend of HK2 cents per share for the year ending 31 March 2006 in addition to the annual dividend to be paid for the coming year. The special interim dividend will be paid on or around 23 September 2005. The management is committed to achieving sustainable business growth and bringing long-term values to the Group's shareholders.