

management discussion and analysis

BUSINESS REVIEW

Our Group is principally engaged in the design, manufacture, wholesale as well as retail sales of apparel, bags and sacs and accessories under our own brands of "TOUGH", "SALAD" and "80/20" and retail sales of apparel of certain popular third-party brands including Levi's, Miss Sixty, Energie, Killah, Fornarina, Religion and G-star. Apart from retail outlet operation in Hong Kong and Taiwan, the Group is actively expanding its business to other parts of the world. Products under our own brandname "TOUGH" are now distributed in markets including PRC, Japan, Thailand, Singapore/Indonesia, Malaysia/Brunei, United States of America ("US")/Canada/Mexico, Italy/Switzerland, United Kingdom/Ireland, the Netherlands/Belgium/Luxembourg and the Middle East.

Retail Operation

The Group operates and manages its own retail networks in Hong Kong and Taiwan. As at 31 March 2005, the Group operated 36 retail stores and one retail counter in Hong Kong under the name of "BAUHAUS", "TOUGH", "SALAD" and "LIBRE!". In Taiwan, the Group operated 10 retail counters in various department stores under the name of "TOUGH". Retail operation is continually the core business of the Group. During the year ended 31 March 2005, the sales from retail operation in Hong Kong and Taiwan amounted to approximately HK\$317.3 million (2003/04: HK\$276.5 million), which accounted for over 90% of Group's turnover.

Franchise Business

Apart from retail operation mentioned above, the Group has appointed independent franchisees for the operation of franchised stores. As at 31 March 2005, the Group entered into franchise agreements with independent franchisees to operate eight franchised stores in

PRC and Macau. Under the franchise agreements, the franchisees have the right to sell the products supplied by the Group at a particular store and at a retail price as stated in the relevant franchise agreement. The franchisees are not allowed to sell goods other than those supplied by the Group in the store unless with written consent from the Group. During the year ended 31 March 2005, the revenue generated from franchised stores amounted to approximately HK\$7.7 million (2003/04: HK\$6.2 million), representing an increase of about 24.2%. Subsequent to 31 March 2005 up to the date of this report, the Group entered franchise agreements with independent third parties to open seven more franchised "TOUGH" specialty stores in Shenzhen, Shishi, Changsha, Wenzhou, Hangzhou, Suzhou and Shenyang respectively.



● Operated as at 31 March 2005

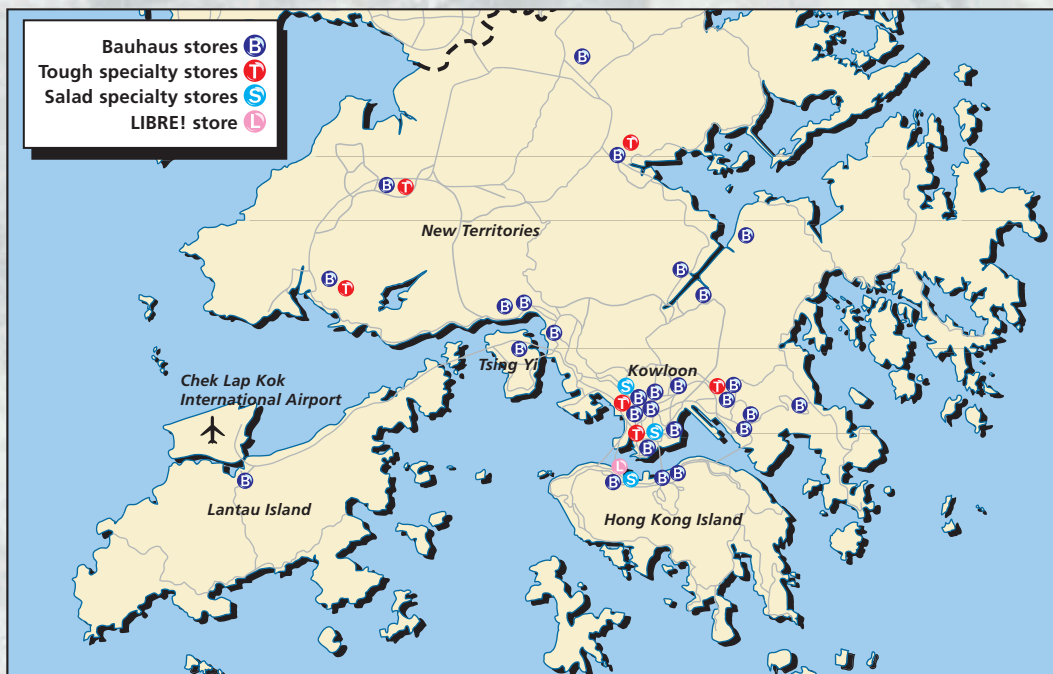
★ Entered into franchise agreements subsequent to 31 March 2005

CHINA

Retail Networks

The table and diagram below set out a summary of the Group's retail networks and its geographical distribution in Hong Kong and Taiwan as at 31 March 2005:

Hong Kong



Retail Outlets	As at 31 march	
	2005	2004
BAUHAUS retail store	26	25
BAUHAUS retail counter	1	1
TOUGH specialty store	6	5
SALAD specialty store	3	1
LIBRE! specialty store	1	—
	37	32
Aggregate floor area (in Sq. feet)	53,150	43,866

Taiwan



TOUGH Outlets	As at 31 march	
	2005	2004
No. of outlets	10	11
Aggregate floor area (in Sq. feet)	6,184	7,251

management discussion and analysis



Wholesale Operation

During the year under review, revenue derived from wholesale operation amounted to approximately HK\$17.7 million (2003/04: HK\$24.1 million). As at 31 March 2005, the Group appointed nine (2003/04: nine) overseas distributors, which are located in Japan, Thailand, Singapore/Indonesia, Malaysia/Brunei, US/Canada/Mexico, Italy/Switzerland, United Kingdom/Ireland, the Netherlands/Belgium/Luxembourg and the Middle East. The distributors have exclusive right to promote and sell "TOUGH" products in the relevant geographical areas. Terms of the distribution agreements range from 3 to 10 years. Japan is the largest overseas market in term of revenue during the year ended 31 March 2004 and 2005. The Group's turnover attributable to the Japan market amounted to about HK\$7.9 million (2003/04: HK\$18.4 million) in 2004/05, representing a drop by about 57.1%.

Marketing and Promotion

During the year ended 31 March 2005, the Group strengthened marketing efforts both locally and internationally to promote the Group's brand image and publicity.

The advertising and promotion expenses increased from around HK\$2.1 million in 2003/04 to around HK\$3.3 million in 2004/05. Apart from regular update on shop decoration and promotional events for VIP members, the Group participated in an international fashion trade show, "Bread and Butter", held in Germany in January 2005. Denim items under the "TOUGH" brandname were displayed in the trade show. Customers attending the exhibition were mainly from European countries. Moreover, in March 2005, the Group organised a fashion parade themed "GUILTY" at Causeway Bay, Hong Kong. A number of famous artists was invited for the fashion parade. In April 2005, our Group sold the one-millionth pair of jeans at store. To commemorate this exciting occasion, we held the "One Millionth Jeans Party" and invited Ms. Michele Reis as our guest of honour to present an award to the lucky owner. The Directors consider that these marketing campaigns have enhanced image of the Group and increase its publicity both in local media and international fashion platform.

