CHAIRMAN'S STATEMENT

Group Results

During the year ended 31st March, 2005 (the "Financial Year"), the Group has recorded a turnover of approximately HK$110.6 million, representing a decrease of 47% as compared to approximately HK$208.2 million recorded in last year. Gross profit margin achieved 28%, compared to 10% in last year. Profit attributable to shareholders amounted to HK$1.2 million compared to loss of HK$17.5 million last year.

Business Overview

Export Outerwear Business

For the financial year, Management has implemented the strategy of focusing on high margin customers that offered higher prices for quality products and services. Although the reduced customer base caused export sales to drop 51% from HK$205.4 million in 2003/04 to HK$100.8 million in 2004/05, the gross margin has significantly increased to 25% in this year, a big improvement of 15 percentage points from last year's 10%. With the establishment of a joint venture manufacturing facilities in Suzhou, PRC in February 2005, our strength in production capability and quality control would be much enhanced to attract more quality-demanding customers.

Licensee Business

Since 2002, the Group has been the exclusive licensee in manufacturing, marketing and distribution of HEAD® apparel in PRC, Hong Kong and Macau. At the end of the Financial Year, we have 20 shops (10 shops at 2004 year end) in prime locations of major cities in PRC, and 3 shops in Hong Kong. HEAD® is a world market leader in rackets and winter sports equipment, especially for tennis rackets and ski equipment.

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Starting from 1st January, 2005, the Group has also become the exclusive licensee of Diadora for production and sales of apparel, footwear and accessories in PRC, Hong Kong and Macau. Diadora is a well-known Italian brand in footwear and apparel, especially for soccer.

Establishment of Joint Venture Production Plant in PRC

In February 2005, the Group established a Joint Venture Company in Suzhou for the manufacture, export and sale of various types of garment and accessories. The total investment amount is RMB10,000,000 with the Group taking on 55% equity share, and the remaining 45% share by Chongqing Union-4 Garment Manufacturing Company Limited. The Joint Venture Company is a subsidiary of the Company as the Group controls the majority of the Board.

The formation of the Joint Venture Company will enable the Group to expand its operations and production capacity in the PRC in order to meet the customers' needs. The setting up of the factory in Suzhou will provide the Company with a reliable source of supply for the Group's growing licensee business in the PRC. Chongqing Union-4 has the expertise in running garment manufacturing operations in the PRC and will bring to the Joint Venture Company a team of well-trained skilful workers.

Financial Review

During the year under review, the Group has recorded a turnover of approximately HK$110.6 million as compared to HK$208.2 million last year, representing a decrease of approximately 47%. The turnover for the export business was approximately HK$100.8 million (2004: HK$205.4 million) while the turnover for the retail division was approximately HK$9.8 million (2004: HK$2.8 million). The decrease in turnover of the export division was a result of our strategy to align high-margin customers to our strength in producing premium quality product and services. The significant increase in turnover of retail division was mainly brought about by the HEAD® retail shop expansion in PRC.

In terms of gross profit margin, the export division recorded a gross margin of approximately 25% (2004: 10%) while the gross margin of the retail division was 59% (2004: 36%). The significant improvement of gross margin for export division was due to our switch to high-end customers. Increase of retail division gross margin was due to sourcing locally in the PRC rather than imported from overseas.

Due to the increased HEAD® retail outlets, and preparation for the expansion of the licensee business, the administrative expenses increased by 15% to approximately HK$39.6 million from last year of approximately HK$34.3 million, and distribution costs increased by 56% to approximately HK$12.3 million as compared to approximately HK$7.8 million in last year.

Prospects

The PRC economy is forecasted to continue growing at 7% to 8% (GDP growth) from 2004 to 2008. Entry to WTO would progressively improve the trading environment in the long term. The sports industry in PRC is particularly growing rapidly as the quality of life in the mainland is improving, and people are spending more time in sports for health and entertainment reasons. Good results of Chinese athletes in world competition and the 2008 Olympics are adding momentum to the growth. Many international sports organizations are including PRC as a place to hold their major competitions and events. Management has the vision that the Group can leverage the brand power of HEAD® and Diadora to capture the growth opportunities in the target segments of the PRC sports market, and that the brand business would be the engine of growth for the Group next year and for the long term.

One key international tennis tournament, the ATP Tour Master Cup, is to be held in Shanghai for a consecutive three years, starting November 2005. Although tennis is still a sport for the middle class in PRC, the sport is growing strongly and gaining popularity, especially after the winning of a 2004 Olympics Gold Medal in women's double.

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In addition to the apparel licensee, our Group has also been granted the exclusive distributorship of HEAD® rackets, accessories and winter sports equipment in PRC, Hong Kong and Macau with effective from 1st July, 2005. With the full range HEAD® products, and in leveraging the world leading position of HEAD® in tennis rackets, the Group expects to bring HEAD® to the next level of growth in the PRC market.

Soccer is one of the most popular sports in PRC. Diadora is an already well-known footwear brand in PRC in the soccer and lifestyle categories. The Group believes that by re-launching Diadora as an Italian brand with style, function and quality, there is a lot of opportunities for growth of Diadora in the PRC footwear and sportswear market.

Export Outerwear Business

2004/05 was a year of consolidation for the Export business based on our strategy to select those high-end customers with better profit margin. The Group would continue this strategy by increasing sales from the existing high end customers, to expand the customer base in this category, and to increase our product line beyond outerwear. With our core strength in manufacturing high-end apparels, and with our newly established joint-venture production facilities, the Group is well-positioned and has the needed resources to achieve this objective.

Licensee Business

In March 2005, our Group participated with HEAD® and Diadora in the International Sports Expo (the "ISPO") held in Shanghai. The Group used this occasion to promote the new image of HEAD® and Diadora and to introduce the Group to the channel distributors. During the ISPO, the Group had received much publicity and received many enquires showing their interests in dealing the HEAD® and Diadora products in different cities all over the PRC. Our retail strategy for the brand business is to work with channel partners to open franchised shops in order to achieve fast expansion, but without having the Group to invest in the shop fixed assets and operating costs. The Group would focus its resources in product sourcing, design, marketing and promotion, brand-building and channel management.

Subsequent sales meeting for HEAD® and Diadora had been held in April and June 2005 respectively in Shanghai, in which we invited key channel partners all over PRC to watch our product lines, and to place orders for the fall/winter season. The sales meetings were well-received by the channel, with over 20 Diadora distributors placing orders for about RMB13 million (at wholesale value including VAT), and over 50 HEAD® distributors placing orders for about RMB16 million (at wholesale value including VAT). Management expects that the second sales meetings in September/October 2005 would bring more customers and bigger sales amount.

Costs Management

With the establishment of the manufacturing Joint Venture Company, management expects that production costs would be better managed and controlled which would benefit both the export and licensee apparel business. On the other hand, as the HEAD® and Diadora licensee businesses are growing and gaining economy of scale, the Group can leverage and share its existing infrastructure and back-end support resources among the various lines of business without incurring too much incremental fixed costs. Management has also implemented tight cost saving measures as one of the key drivers of profitability for the coming year.

Liquidity and Financial Resources

The Group generally finances its operations with its own working capital, trade facilities and revolving bank loans provided by its principal bankers in Hong Kong. Total net cash flow used in operation amounted to approximately HK$18.6 million for the year ended 31st March, 2005.

The Group's net borrowings representing bank loans, overdrafts, obligations under finance leases and an interest-free director's loan amounted to approximately HK$37,237,000 (2004: HK$19,166,000). Of the total amounts of bank loans, overdrafts and obligations under finance leases outstanding as at the year end, 73% (2004: 83%) are repayable within the next year, 6% (2004: 11%) are repayable within the second year with the remaining balance repayable in the third to fifth year, inclusive. The Group's bank loans and overdrafts are subject to floating interest rates while obligations under finance leases are at fixed interest rates.

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The ratio of current assets to current liabilities of the Group was 0.7 at 31st March, 2005 compared to 1.5 at 31st March, 2004. The Group's gearing ratio at 31st March, 2005 was 0.7 (2004: 0.5) which is calculated based on the Group's total liabilities of approximately HK$45,938,000 (2004: HK$26,162,000) and the shareholders' funds of approximately HK$64,443,000 (2004: HK$50,575,000). As at 31st March, 2005, the Group's cash and bank balances amounted to approximately HK$10,328,000 compared to approximately HK$24,977,000 at 31st March, 2004. The cash and bank balances together with available banking facilities can provide adequate liquidity and capital resources for the ongoing operating requirements. A rights issue (one rights share for every five existing shares) in May 2005 that raised net proceeds of about HK$7.2 million had been partly used to finance the investment in the Joint Venture Company in Suzhou, and partly used to invest in the new licensee business.

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As the Group's earnings and borrowings are primarily denominated in United States dollars, Hong Kong dollars and Renminbi, it has no significant exposure to foreign exchange rate fluctuations.

Charge of Assets

As at 31st March, 2005, the investment properties and leasehold land and buildings in Hong Kong and PRC held by the Group with an aggregate carrying value of HK$75,618,000 (2004: HK$28,781,000) were pledged as first legal charge for the Group's banking facilities.

Employees

As of 31st March, 2005, the Group had a total of approximately 240 employees. This compared to 165 employees as of 31st March, 2004. The increase in the number of employees was due to the expansion of HEAD®'s licensee business. Staff costs including directors' remuneration totalled approximately HK$22.2 million and HK$20.5 million for the year ended 31st March, 2005 and 2004, respectively.

The Group remunerates its employees primarily based on industry practices, including contributory provident funds, insurance and medical benefits. The Group has also adopted a discretionary bonus programme for management and staff with awards determined annually based upon the performance of the Group and individual employees. Moreover, the Group is considering to adopt a new share option scheme of the Company for the purpose of providing incentives or rewards to the eligible participants for their contributions to the Group.

Appreciation

On behalf of the Board, I would like to thank our business partners and shareholders for their continued support and to express my appreciation to all managers and staff for their dedication.

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Wong Tek Sun, Takson
Chairman

Hong Kong, 25th July, 2005