

# CEO's Statement

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The Group's total turnover amounted to HK\$287 million in year 2006, representing an increase of 11% over the corresponding year of 2005. Contribution to turnover from China amounted to HK\$126 million. Without taking into account the turnover of CSLR acquired during the year, the brand "Theme" attained a turnover growth of 13%. As China economy continues to develop with an average annual growth rate of around 9% and foreign corporations from various industries enter China after its admission into WTO, we witness a rapid growth in the working class population in the country. They pay special attention to clothing quality and design, so there is enormous demand for apparel retailing business. For the continuous improvement we have made over the years, our brands can cater for the need of the China market in terms of design and accessories. We are confident that our business turnover and profit will increase over times. In Taiwan, although turnover decreased slightly in 2006 compared with 2005, the business recorded a loss of approximately HK\$7 million in contrast to previous year's profit of HK\$4.5 million. It had a major impact to our overall profit. We had to sell products of our shops at a deeper discount in Taiwan due to its social instability and the significant decline in sales margin. We have successively shut down loss making shops and adopted appropriate measures to reduce cost, so as to cut down our loss in Taiwan. The brand CSLR acquired during the year contributed to stable performance and we are going to expand our business with this solid foundation.

The Group entered into a joint venture agreement with Stefanel S.p.A. to jointly explore Stefanel brand retail business in Mainland China on 26 March 2007. Beginning as a knitting factory, Stefanel Group was established by Mr. Carlo Stefanel in 1959. His successor, Mr. Giuseppe Stefanel, the current Chairman and CEO of the Stefanel Group launched its self-owned brand in 70's of last century and opened the first shop in Italy. The brand name was soon widely-known in Europe and Stefanel Group was listed in Milan's Stock Exchange in 1987. It has now over 700 shops covering more than 40 countries. The products of Stefanel brand are trendy, dainty and without a trace of pomposity, reflecting an easy living and quality lifestyle. Its lady apparel is designed especially for executive women in the 20-35 age group and suits their needs in both professional life and leisure living. "We have just one goal: makes products available to our customers that meet their needs, by emphasising quality and innovation", Mr. Giuseppe Stefanel said. We are glad to partner with Stefanel to develop it to be a well-known brand in China. The first two shops are going to be opened in Beijing in August

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and we will actively seek opportunities to open more shops in China. We also intend to identify experienced agents as our franchisees in due course. We have great expectation on the brand and will endeavour to promote its development and hope it will strengthen and expand our self-owned brands retail sales network.

The Group reached an agreement with Mango Punto Fa, S.L., Spain, recently to distribute products of Mango brand in 14 China cities. The first shop will be opened in July. Mango is a very famous brand in Europe and we are grateful to award its distribution right and expect it can provide profit contribution to the Group in the near future.

榮暉中心 situated at G/F & 1/F of 深南路杭鋼富春商務大廈, Shenzhen, was officially opened on 2 April. It has several display rooms for our self-owned brands and the distribution brands. The center will serve as the headquarter of the Group to facilitate the centralized management of human resources, communication between all business divisions and for the future development of the Group. Hence, the operation is more efficient and more effective services are offered to our clients.

Looking forward, the Group will focus on the development in China. Apart from opening more new self-owned shops in major cities, franchise business will be another business focus. Currently, the number of Theme franchise shops is 69 and we target to increase to 120 in 2007. While the number of CSLR franchise shops is 48 and we intend to increase the shops to 75 in 2007. It is our goal to establish an extensive shop network throughout China for Theme and CSLR.

I would like to express my sincere appreciation to all staff for their dedication and gratitude to every segments for their support. With the new business strategy, we are fully confident in the Group's future and will use our best endeavors to improve the results of the Group.

## Hui Yip Wing

*Vice Chairman and CEO*

Hong Kong, 11 April 2007



"We have just one goal: makes products available to our customers that meet their needs, by emphasising quality and innovation."

**Mr. Giuseppe Stefanel**  
*Chairman & CEO*  
Stefanel Group