

# Management Discussion and Analysis of Results of Operation

## FINANCIAL REVIEW

For the year ended 31 March 2004, the Group recorded a turnover of approximately HK\$171.1 million, representing a slight increase of 5% from HK\$162.9 million recorded in the previous year. The Group enhanced the quality of its products by using better quality textile. The increased cost however was not transferred onto the customers hence resulting in a decrease in profit margin from 42% last year to 34% this year. Nevertheless, the management believes customers will notice the higher in quality of the LeRoi brand products and will recognize the good value made for the money spent, hence boosting the growth of the Group in the long run.

The Group's profit for the year was also being affected by the potential franchisees deferring their business plans resulting in keen competition in the domestic fashion market and the impacts of the macroeconomic control measures introduced by the PRC government. The number of franchisees of the Group decreased in the year under review and hence affected the profit. At the same time, in order to ease the operation of franchisees amidst the Severe Acute Respiratory Syndrome ("SARS") outbreak, the Group had offered to them a one-time subsidy. The profit attributable to shareholder was HK\$18.1 million for the year under review against last year's HK\$36.0 million.

## DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 March 2004. The retained earnings will be used for future business development.

## OPERATIONAL AND BUSINESS REVIEW

During the year, the SARS outbreak greatly affected the retail industry, certain franchisees deferred their plan in opening new stores or discontinued operation upon their contracts expired, harming the performance of the Group when compared with the previous year.

During the year under review, the Group continued to adopt the "Cutting clothes but not price" and "Unit price throughout the country" strategies. Its franchisees were all located in prime retail areas, which were easy to access and have high consumer traffic. Also, they were managed by outsourced professional operation units which provided them with market analysis, training, ordering and market development services, to ensure all franchisees share the same uniform image, thereby strengthening the position of "LeRoi" among customers.

After the SARS outbreak, the Group upgraded its promotional efforts, including participating in exhibitions and distributing gifts to VIP customers, so as to stimulate buying sentiment and consumption.

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### OPERATIONAL AND BUSINESS REVIEW (Continued)

During the year under review, the Group launched an accessory series to match the “LeRoi” style. The series attracted wide customer support. The Group also developed the new brand “ajourè” to target mainly the fashion market for female aged 16 to 25. Catering for the contemporary tastes of younger women, “ajourè” brand products had started contributing to the Group’s revenue. “ajourè” brand products are available also at dedicated corners in some of the “LeRoi” shops, giving the brands synergistic advantage while allowing the Group to enlarge its customer base.

### FUTURE PLANS AND PROSPECTS

As the economy gradually recovers, the Group has sped up consolidating its existing distribution network. Meanwhile, the number of franchisees is rising, which is not only helping to strengthen the Group’s distribution network, but is also facilitating the expansion of the Group’s business into markets of central and northern China.

During the year under review, the Group has acquired 50% equity interest of a property holding company. The property held situated in Wuhan City, Hubei province, the PRC. The Group is planning to use part of the property as its own retail outlets and exhibition center. The Group expects the project can further enhance its sales and distribution network in central China and future income.

Furthermore, seeing the huge potential of the consumer market in the PRC, the Group has been developing new businesses that can enjoy synergy with its core business. With the support of its strong sales network and extensive customer base, the Group plans to launch its beauty products for women early next year. In addition, the Group has also signed an agreement with a Korean brand to develop female lingerie series, and related products which are expected to be launched in 2005. The Group believes that product diversification will not only enhance its penetration into different market segments, but will also expand its income sources and increase its profitability.

Looking forward, the Group believes the economy of PRC will continue to grow steadily. Building on its solid foundation and market share, the Group will prudently pursue development opportunities in the PRC to boost its growth momentum.

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### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2004, the Group had net current assets of HK\$72.0 million (2003: HK\$76.9 million). The Group generally finances its operations with internally generated resources and maintains a strong financial position. As at 31 March 2004, the Group had cash and bank deposits of HK\$37.0 million (2003: HK\$44.9 million). The Group did not raise any bank borrowing during the year and its gearing ratio was nil as at 31 March 2004 (2003: Nil), based on the interest-bearing debts to total assets.

For the year ended 31 March 2004, the Group was not subject to any significant exposure to foreign exchange rates risk. Hence, no financial instrument for hedging was employed. As at 31 March 2004, the Group was free from any mortgage charge on the Group's assets.

### EMPLOYEE BENEFITS

As at 31 March 2004, the Group had 30 employees. The employees are remunerated based on their work performance, work and professional experiences and the prevailing industry practice. The Group operates a Mandatory Provident Fund Scheme (the "Scheme") under the Mandatory Provident Fund Scheme Ordinance for those employees who are eligible to participate in the Scheme.

### SHARE OPTION SCHEME

On 8 October 2002, a share option scheme which is in compliance with amended Chapter 17 of the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules") was adopted. As at 31 March 2004, no share options have been granted under the share option scheme.

### CONTINGENT LIABILITIES

As at 31 March 2004, the Group and the Company did not have any significant contingent liabilities.

### SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company was suspended with effect from 9:30 a.m. on Friday, 27th February 2004 and will remain suspended pending the publication of announcement(s) to clarify the newspaper articles in relation to the allegation in respect of suspected share price manipulation and share placement.