

FINANCIAL REVIEW

For the year ended 31 March 2005, the Group recorded a turnover of approximately HK\$111.0 million, representing a decrease of approximately 35.1% as compared to the corresponding period last year. Gross profit was approximately HK\$32.2 million, representing a decrease of approximately 46.0%. For the summer season of 2004, 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 34.8% to 29.0%. Nevertheless, the management believes customers will notice the improved quality of the LeRoi brand products and will recognise the good value for the money spent, hence boosting growth of the Group in the long run.

The Group suffered a loss attributable to shareholders for the year ended 31 March 2005 of approximately HK\$3.6 million, a decrease of approximately 120.1% as compared to last year. The Group's performance for the year was mainly affected by the increased cost of production and the decrease in number of franchisees.

OPERATIONAL AND BUSINESS REVIEW

During the year under review, certain franchisees deferred their plans in opening new stores or discontinued operation upon their contracts expiring, harming the performance of the Group when compared to the corresponding year. The number of LeRoi franchisees decreased from 92 to 69, across 6 provinces and 27 cities. In view of the decrease, much effort has been and will continue to be put in to attract new franchisees.

The Group continued to adopt the "Cutting clothes but not price" and "Unit price throughout the country" strategies. And the Group continued to launch new collections of trendy and contemporary fashion items which attracted wide customer support.

In order to facilitate the Group's business expansion in the PRC, the Group has established a new subsidiary in Shenzhen. The principal activities of the new subsidiary are the design, production, sales and marketing of fashion apparel.

As for the new businesses the Group has been developing, the Group has commenced marketing its female lingerie series in Hong Kong during the first quarter of 2005.

FUTURE PLANS AND PROSPECTS

Looking forward, the Group will continue its effort to increase the number of franchisees. And for some locations, the Group is also considering open its own directly managed stores. Both of such measures are aimed at improving the over-all performance of the Group.

In addition, the Group intends to place more emphasis on its marketing and promotional functions in order to enhance the LeRoi brand. Subsequent to the financial year under review, the Group has engaged "Baby Q", an upcoming pop group of female singers in the PRC, to act as the LeRoi image girls.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION

It is expected that with the Shenzhen subsidiary in full operation, this will lessen the degree of reliance of the Group on the two principal subcontractors as the source of supply during the year.

The Group has launched its female lingerie series in the first quarter of 2005. The Group expects that this diversification will bring new income sources and increase the Group's profitability in the long run. The business will be closely monitored to see if it is bringing the expected results.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, the Group had net current assets of HK\$69,927,000 (2004: HK\$71,980,000). As at 31 March 2005, the Group had cash and bank deposits of HK\$16,593,000 (2004: HK\$36,970,000). The Group did not raise any bank borrowing during the year and its gearing ratio was nil as at 31 March 2005 (2004: Nil), based on the interest-bearing debts to total assets.

For the year ended 31 March 2005, 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 2005, the Group was free from any mortgage charge on the Group's assets.

EMPLOYEE BENEFITS

As at 31 March 2005, the Group had 29 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 Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") was adopted. As at 31 March 2005, no share options have been granted under the share option scheme.

CONTINGENT LIABILITIES

As at 31 March 2005, the Group 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, 27 February 2004 and will remain suspended pending the publication of an announcement to clarify the newspaper articles in relation to allegations in respect of suspected share price manipulation and share placement. The Company has engaged a legal advisor for the preparation of a clarification announcement and application to the Stock Exchange for the resumption of trading.