

OPERATION AND BUSINESS REVIEW

During the Period under review, the Group experienced a slight decrease in number of franchisees when compared to the corresponding period last year. The number of LeRoi franchisees decreased from 69 to 64, across 7 provinces and 30 cities. The Group's 2 authorised distributors remained in place. However, in order to complement the Group's franchise business and in line with the Group's plan to start its own directly managed sales network, 6 counters have been set up in different department stores across the country up to 30 September 2005. The aim is to improve the over-all performance of the Group. These counters are managed by the Group's subsidiary in Shenzhen.

Since the Group have to stock up some raw material for its production and finished goods for its counters, the inventory level was increased by approximately HK\$3 million accordingly.

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 wider customer support.

As for the new business the Group has been developing, the Group has commenced marketing its female lingerie series in Hong Kong. More promotion effort is needed to gain brand recognition. Currently, the products are selling at selected department stores in Hong Kong.

FUTURE PLANS AND PROSPECTS

Looking forward, the Group will increase its own directly managed retail outlets. As a matter of fact, the Group has added 4 counters after 30 September 2005 (i.e. total 10 counters up to 30 November 2005). At the same time, continuous effort will be put in to maintain the existing franchisees.

Sales have been improved since the launch of the Group's female lingerie series in 2005. Results of this new income source are yet to be satisfactory. As mentioned before, more promotion effort is needed to gain brand recognition. The Group will evaluate the performance this new income source by the end of the financial year to see if it is bringing the expected results.