

# Management Discussion and Analysis of Results of Operation

## FINANCIAL REVIEW

For the year ended 31 March 2006, the Group recorded a turnover of approximately HK\$79 million, representing a decrease of approximately 29.0% as compared to the corresponding period last year. Gross profit was approximately HK\$20 million, representing a decrease of approximately 37.0%. There was also a slight decrease in profit margin from 29.0% to 25.7%.

The Group's loss attributable to shareholders for the year ended 31 March 2006 was approximately HK\$39 million. The Group's loss for the year was due to the decrease in number of franchisees and drop in average sales per franchisee. Moreover, the Group has provide for impairment of trade receivables of approximately HK\$11 million and obsolete inventories of approximately HK\$21 million.

The Company has entered into a Subscription Agreement on 27 January 2006 (announcement in respect of the details of the Subscription Agreement was published on 24 April 2006) pursuant to which the Company had agreed to issue and the Subscriber had agreed to subscribe for Convertible Notes to a maximum aggregate consideration of HK\$10,000,000. Long Stop Date for the completion of the Subscription Agreement has extended to 31 August 2006.

The Company was advised that on 27 January 2006, the Subscriber and Taco Holdings Limited ("Taco") (controlling shareholder of the Company) has entered into a Share Purchase Agreement pursuant to which the Subscriber had conditionally agreed to purchase from Taco the Company's Shares for a total consideration of HK\$37,500,000. Upon completion of the Share Purchase Agreement, the Subscriber will be interested in approximately 25.32% of the issued capital of the Company. A sum of HK\$18,750,000 in the form of a shareholder's loan would be provided to the Company by Taco upon completion of the Share Purchase Agreement. The shareholder's loan will be used as general working capital and future business development. Long Stop Date for the completion of the Share Purchase Agreement has also extended to 31 August 2006.

## OPERATION AND BUSINESS REVIEW

During the year under review, there were 27 franchisees joined in. On the other hand, there were 38 franchisees dropped out. As a result, the total number of franchisees decreased from 69 to 58, across 7 provinces and 29 cities.

The Group continued to launch new collections of trendy and contemporary fashion items. However, feedbacks from franchisees were that the Group's products received only lukewarm responses from retail customers. As a result, comparatively lesser orders were being placed by franchisees.

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Through the Group's new subsidiary in Shenzhen, 9 counters in department stores in PRC were being established. The Group has been targeting locations that will widen the distribution network in the PRC.

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. While much effort has been put in marketing and various promotion activities, the contribution from this new line of business remain insignificant.

## FUTURE PLANS AND PROSPECTS

Looking forward, the Group needs to retain its current distribution network. To this effect, the Group has set up a joint venture company in Shenzhen. The Group holds 60% of the share capital of the joint venture while the remaining 40% is held by a PRC company. The joint venture company will take up the Group's franchising business as well as operating its own directly managed shops. The Group is expecting this arrangement will enhance the management of our franchising business and help to maintain the current distribution network. With this new arrangement in place, the Group is considering ceasing its operation in Macau since dealings with franchisees and suppliers is being conducted in Shenzhen.

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Feedback from franchisees was that some of the Group's product lines might not have met the taste of its retail customers. The Group will review its product lines and make necessary adjustments to its design strategy.

The female lingerie series has not brought about the expected results during the year under review. Having considered the cost and benefit of using the Group's resources, the Group adjust its investment strategy in this business by adopting a more conservative approach.

If completed, the Subscription Agreement the Company has entered into on 27 January 2006, will provide immediate funding HK\$3,000,000 to the Company as general working capital and for future investment or development of the principal businesses of the Group. The completion of the Share Purchase Agreement will provide an additional HK\$18,750,000 shareholder's loan to the Company as general working capital and future business development.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2006, the Group had net current assets of approximately HK\$32,939,000 (31 March 2005: approximately HK\$69,927,000). As at 31 March 2006, the Group had cash and bank deposits of approximately HK\$4,606,000 (31 March 2005: approximately HK\$16,593,000). The Group did not raise any bank borrowing during the year and its gearing ratio was nil as at 31 March 2006 (31 March 2005: Nil), based on the interest-bearing debts to total assets.

For the year ended 31 March 2006, 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 2006, the Group was free from any mortgage charge on the Group's assets.

## EMPLOYEE BENEFITS

As at 31 March 2006, the Group had 108 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 of 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 issued by The Stock Exchange of Hong Kong Limited was adopted. As at 31 March 2006, no share options have been granted under the share option scheme.

## CONTINGENT LIABILITIES

At the balance sheet date, 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, 27 February 2004 and remain suspended pending the publication of announcement(s) to clarify the newspaper articles in relation to the allegation in respect of share placement.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.