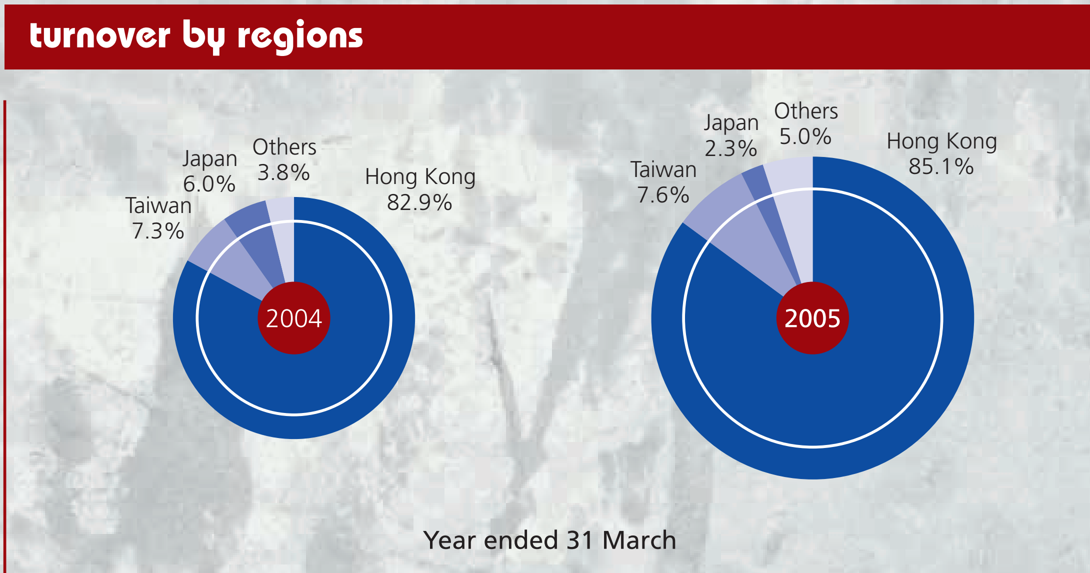
FINANCIAL REVIEW

Turnover

The turnover of the Group in the financial year ended 31 March 2005 amounted to HK$342.7 million (2003/04: HK$306.8 million). The Group achieved a double-digit growth in turnover of approximately 11.7% in the year, which was mainly attributable to increase in retail sales in Hong Kong driven by expansion of retail networks and continuous improvement in local spending sentiment. The following diagram sets out the turnover of the Group by geographical segments for the year ended 31 March 2004 and 2005:



Gross Profit

The Group recorded gross profit of approximately HK$220.0 million for the year ended 31 March 2005 (2003/04: HK$186.1 million). The gross margin for 2004/05 was about 64.2%, representing an increase of about 3.5% as compared to about 60.7% in 2003/04. The improvement in gross margin was mainly contributed by the rise in sales of products under the Group's own brandnames, which had a higher average margin than other external brand products.

Operating Expenses

The Group's operating expenses mainly consisted of selling and distribution costs and administrative expenses, which amounted to about HK$124.3 million (2003/04: HK$105.5 million) and about HK$39.5 million (2003/04: HK$27.7 million) respectively for the year ended 31 March 2005. The selling and distribution costs mainly include rent, rates and building management fee for retail outlets, salaries and staff benefits for sales staff as well as advertising and promotion expenses. Resulting from the increase in the number of sales staff and retail outlets, the selling and distribution costs in the year rose by about 17.8%. The Group's administrative expenses mainly comprise staff costs, depreciation charges and other general office expenses. The increase in administrative expenses was mainly caused by soaring staff costs.

Net Profit

The Group's net profit attributable to shareholders reached HK$47.1 million for the year ended 31 March 2005, representing an increase by about 14.0% from HK$41.3 million in the previous year. The net profit margin improved slightly from approximately 13.5% in 2003/04 to 13.7% in 2004/05. The growth in net profit was driven by the Group's expanding business as well as continuous improvement in average gross margin during the year.

CAPITAL STRUCTURE

As at 31 March 2005, the Group had net assets of approximately HK$143.4 million (2004: HK$135.1 million), comprising non-current assets of about HK$64.9 million (2004: HK$39.8 million), net current assets of about HK$80.0 million (2004: HK$97.6 million) and non-current liabilities of about HK$1.5 million (2004: HK$2.3 million).

ACQUISITION

On 1 February 2005, Firstcity Pacific Limited ("Firstcity"), a company now comprising the Group, acquired 51% of the voting shares of Kai Yip Manufactory Limited ("Kai Yip") for a cash consideration of HK$4.2 million based on the attributable net asset value of Kai Yip and its subsidiary.

The remaining 49% equity interest therein previously owned by the minority shareholder was also injected into Firstcity on 30 March 2005 through a series of transactions which resulted eventually in the issue of shares of the Company. The fair value of the shares so issued amounted to HK$3.9 million which approximated to the attributable net asset value of Kai Yip at the respective date of acquisition.

No goodwill or excess of the Group's interests in the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of the acquisitions arose from the acquisitions since the considerations paid for both acquisitions approximated to the net asset values taken up on respective dates.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations through a combination of shareholders equity, internally generated cash flows and bank borrowings. As at 31 March 2005, the Group had cash and cash equivalents of approximately HK$30.4 million (2004: HK$50.7 million) and total interest-bearing bank borrowings of approximately HK$7.3 million (2004: HK$3.0 million), of which approximately HK$6.3 million are repayable within one year and the remaining HK$1.0 million are repayable beyond one year. Such borrowings are secured, bear interest at rates ranging from a rate of 0.5% below to 1.0% below the best lending rate per annum offered by the bank in Hong Kong. As at 31 March 2005, the Group had aggregate banking facilities of approximately HK$15.4 million comprising interest-bearing bank overdraft and borrowings, utility guarantees and import and export facilities, among which HK$1.1 million was unutilised at the balance sheet date. All banking facilities and bank borrowings are denominated in Hong Kong dollars.

Subsequent to year end date, the Company's shares were listed on The Stock Exchange of Hong Kong on 12 May 2005 and the Company received proceeds from issuance of new shares through initial public offering, after netting related issuance expenses, amounted to approximately HK$112.4 million.

For the year ended 31 March 2005, the Group's net cash inflow generated from operating activities dropped from about HK$33.1 million in 2003/04 to about HK$29.4 million in 2004/05 and the net cash position dropped from about HK$46.7 million in 2004 to about HK$26.0 million in 2005, which were mainly attributable to the increase in inventory level and capital investment in retail network as a result of increase in number of shops and for expansion of retail and distribution network in overseas and dividend paid to shareholders.

The Group's gearing ratio as at 31 March 2005, representing a percentage of total interest-bearing borrowings and finance lease payable to total assets, amounted to about 3.8% (2004: 1.9%).

CAPITAL COMMITMENT

As at 31 March 2005, the Group had outstanding forward foreign currency exchange contract to buy Euro amounting to approximately HK$3.0 million (2004: Nil) for settlement of trade payables in Euro. The Company had no other capital commitment.

SECURITY

As at 31 March 2005, the Group's bank borrowings were secured by mortgages over the Group's leasehold land and buildings with aggregate carrying value of approximately HK$10.7 million (2004: HK$10.9 million).

CONTINGENT LIABILITIES

As at 31 March 2005, the Group had contingent liabilities in respect of bank guarantees given in lieu of utility and rental deposits amounting to approximately HK$3.5 million (2004: HK$2.4 million).

EMPLOYMENT, REMUNERATION POLICIES AND TRAINING

Including the Directors, the Group had a total of 842 employees and the total staff costs (including directors' emoluments) amounted to about HK$57.8 million (2004: HK$39.7 million). To attract and retain staff with good performance, the Group provides competitive remuneration package including performance bonus, mandatory provident fund, insurance and medical coverage as well as entitlements to the share option to be granted under share option scheme to its employees based on their performance, experience and prevailing market rate. Remuneration packages are reviewed on a regular basis. Regarding staff development, the Group provides regular in-house training to retail staff and subsidises external training programme.

FOREIGN EXCHANGE RISK MANAGEMENT

The majority of the Group's sales and purchases during the year was settled in Hong Kong dollars. The Group is exposed to minimal foreign currency exchange risk and the Directors do not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems to the Group. However, the Group will monitor its foreign exchange position and, when necessary, will hedge its foreign exchange exposure arising from contractual commitments to purchase apparel from overseas suppliers by way of forward foreign currency exchange contracts.