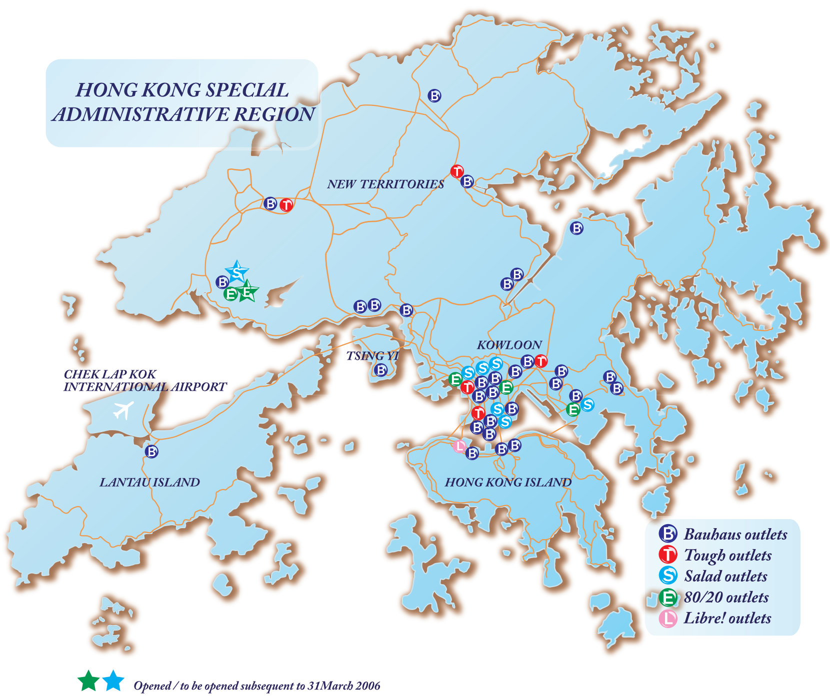
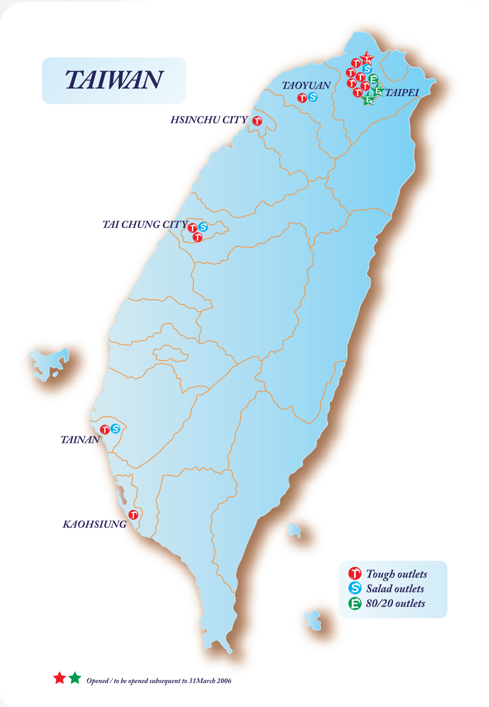
BUSINESS REVIEW

Retail Operation

The Group's core business is the sale of garments and accessories mainly through its retail operations in Hong Kong and Taiwan, which accounted for about 88.0% of the Group's total turnover and marked a strong growth by about 20.9% from last year. Sales from the retail operation reached about HK$383.6 million for the year ended 31 March 2006 (2005: HK$317.3 million). The healthy sales growth was mainly contributed by the Group's progressive expansion of its retail network according to the business plan as stated in the Prospectus. As at 31 March 2006, the Group ran 46 retail outlets in Hong Kong under the tradenames of "BAUHAUS", "TOUGH", "SALAD", "80/20" and "LIBRE!" and 17 retail outlets in Taiwan under the tradenames of "TOUGH", "SALAD" and "80/20", representing an increase of 16 outlets from 47 outlets as at 31 March 2005 to 63 outlets as at 31 March 2006.



Hong Kong Retail Outlets		As at 31 March 2006	As at 31 March 2005
BAUHAUS	retail store/counter	**30**	27
TOUGH	specialty store	**5**	6
SALAD	specialty store/counter	**6**	3
80/20	specialty store	**4**	–
LIBRE!	specialty store	**1**	1
		46	37
Aggregate floor area (in Sq. feet)		**66,223**	53,150



Wholesale Operation

The Group has been actively exploring different overseas markets during the year under review. In July 2005 and January 2006, the Group participated in various international fashion trade shows in Barcelona, Spain and Berlin, Germany. Enhanced brand awareness and image in overseas markets and the Group's expanding global distribution network saw that turnover from the Group's wholesale operation surged by about 96.0% to reach about HK$34.7 million during the year under review (2005: HK$17.7 million). As at 31 March 2006, the Group sold goods to over 20 countries spanning from Southeast Asia, the Middle East, Europe to the US. Japan continues to be the Group's largest overseas market in term of revenue. Turnover attributable to the Japan market amounted to about HK$11.1 million during the year ended 31 March 2006 (2005: HK$7.9 million), representing a notable 40.5% surge when compared with the previous year.

Taiwan Retail Outlets		**As at 31 March 2006**	As at 31 March 2005
TOUGH	retail counter	**12**	10
SALAD	retail counter	**4**	–
80/20	retail counter	**1**	–
		17	10
Aggregate floor area (in Sq. feet)		**9,677**	6,184

Franchise Business

The Group's franchise business expanded substantially and achieved encouraging results during the year under review. With a fast growing franchise network, the business segment recorded an explosive growth of about 129.9% in turnover amounting to about HK$17.7 million (2005: HK$7.7 million) and improved gross margin during the year ended 31 March 2006. As at 31 March 2006, the Group had agreements with independent franchisees to operate 18 (2005: 8) franchised outlets in the PRC and Macau.

FINANCIAL REVIEW

Turnover

The Group achieved about 27.2% growth in its turnover during the year under review. Its sales reached about HK$436.0 million (2005: HK$342.7 million), which mainly resulted from the global expansion of retail and distribution networks.

Gross Profit

During the year under review, the Group recorded gross profit of about HK$277.3 million (2005: HK$220.0 million), representing an increase of about 26.0%. The Group conducted bargain sales twice during the year to clear aged stocks and that caused gross margin to decline slightly from about 64.2% in 2005 to about 63.6% in 2006. The gross margin of regular retail sales, however, remained stable and that of wholesale and franchise businesses actually improved.

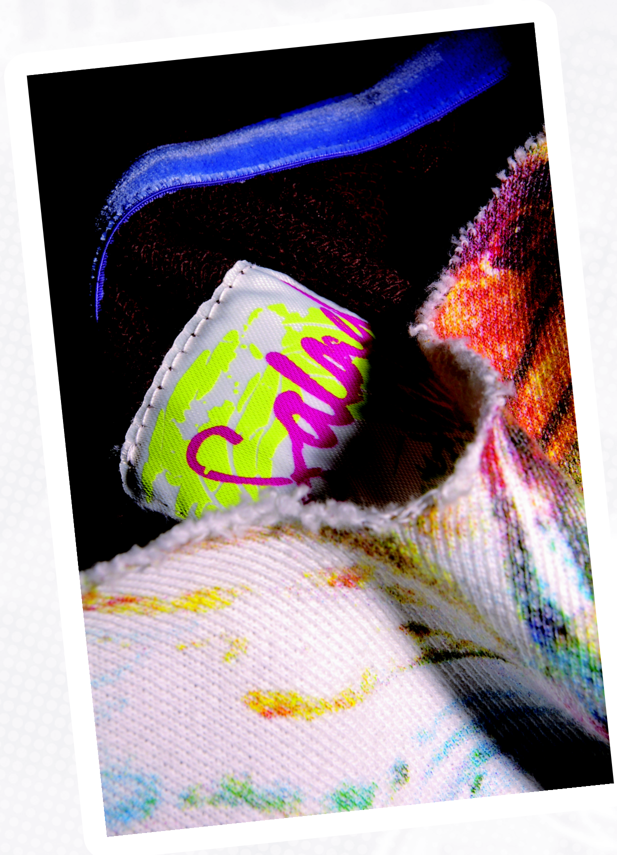
Operating Expenses

The Group's operating expenses soared by about 33.7% to about HK$220.4 million during the year ended 31 March 2006 (2005: HK$164.9 million).

During the year under review, the Group devoted significant efforts to brand building and strengthening both its local and international retail and distribution networks which significantly improved its top line.

Expansion of the retail and distribution networks, however, also led to an increase in rental expenses by about 25.5% to about HK$80.8 million during the year under review (2005: HK$64.4 million). In addition, the recovering local economy has also pushed up the rental cost in general. To secure growth in net profits, the Group has been prudent in increasing outlets and targets to control rental cost comparably at below 20% of the sales. During the year ended 31 March 2006, the Group succeeded in keeping rental cost increment in line with sales growth at comparably 18.5% (2005: 18.8%).

Depreciation increased from about HK$4.9 million in 2005 to about HK$10.9 million in 2006, which was mainly due to the expanded retail networks in Hong Kong and Taiwan.



Increased marketing efforts and active participation in international fashion trade shows caused about 87.3% rise in advertising and promotion expenses to approximately HK$7.3 million during the year under review (2005: HK$3.9 million).

Staff costs also soared by about 42.7% to about HK$82.5 million during the year ended 31 March 2006 (2005: HK$57.8 million) as the Group increased its investment in human resources. To fuel long-term healthy growth of its business, the Group must establish a competitive sales force and continually enhance the expertise of its management teams.

The Group has endeavored to develop a business in high-end fashion. However, the operating result of the business was not satisfactory. An impairment loss amounting to about HK$0.9 million was recorded during the year under review. Since the carrying value of the new business only accounted for about 1% of the Group's turnover and total assets, the loss had no significant impact on the Group's overall operating results. The Group will continue to closely monitor the performance of the business.

Net Profit

The Group's net profit attributable to shareholders for the year ended 31 March 2006 grew stably by 8.1% when compared with the previous year and reached about HK$50.9 million (2005: HK$47.1 million). The net profit margin dropped from about 13.7% in 2005 to about 11.7% in 2006. Although the sales growth did not push up net profit significantly as operating expenses also increased, the Directors believe the investment made in establishing and expanding sales channels will bear fruits in the future and drive sustainable growth of the Group's turnover and net profit.

CAPITAL STRUCTURE

As at 31 March 2006, the Group had net assets of approximately HK$291.0 million (31 March 2005: HK$143.4 million), comprising non-current assets of about HK$75.0 million (31 March 2005 (restated): HK$64.8 million), net current assets of about HK$216.8 million (31 March 2005 (restated): HK$80.1 million) and non-current liabilities of about HK$0.8 million (31 March 2005: HK$1.5 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2006, the Group had cash and cash equivalents of approximately HK$139.7 million (31 March 2005: HK$30.4 million) and total interest-bearing bank borrowings of approximately HK$3.5 million (31 March 2005: HK$7.3 million). All the borrowings for the year are repayable within one year and are charged at floating interest rates. As at 31 March 2006, the Group had aggregate banking facilities of approximately HK$14.3 million (31 March 2005: HK$15.4 million) comprising interest-bearing bank overdraft and borrowings, utility guarantees and import and export facilities, of which HK$4.8 million was unutilised as at the balance sheet date.

The Group's gearing ratio as at 31 March 2006, representing a percentage of total interest-bearing borrowings to total assets, amounted to about 1.1% (31 March 2005: 3.8%).

CASH FLOWS

For the year ended 31 March 2006, net cash inflow from operating activities was about HK$30.2 million (2005 (restated): HK$28.2 million). Net cash outflow from investing activities dropped from HK$27.6 million in 2005 to HK$15.2 million in 2006, which was mainly due to acquisition of certain premises for use as office and warehouse in the previous year in addition to retail network expansion. Net cash inflow from financing activities and overall cash level increased significantly during the year under review mainly because the Group received gross proceeds of approximately HK$130.8 million from its initial public offering of new shares. Other major cash outflows from financing activities included interim and special interim dividends paid in aggregate of HK$15.8 million and repayment of bank and trust receipt loans amounted to HK$15.6 million.

SECURITY

As at 31 March 2006, the Group's bank borrowings were secured by certain of its leasehold buildings and prepaid land lease payment with aggregate carrying value of approximately HK$6.9 million (31 March 2005: HK$7.0 million) and HK$3.6 million (31 March 2005: HK$3.7 million), respectively.

CAPITAL COMMITMENT

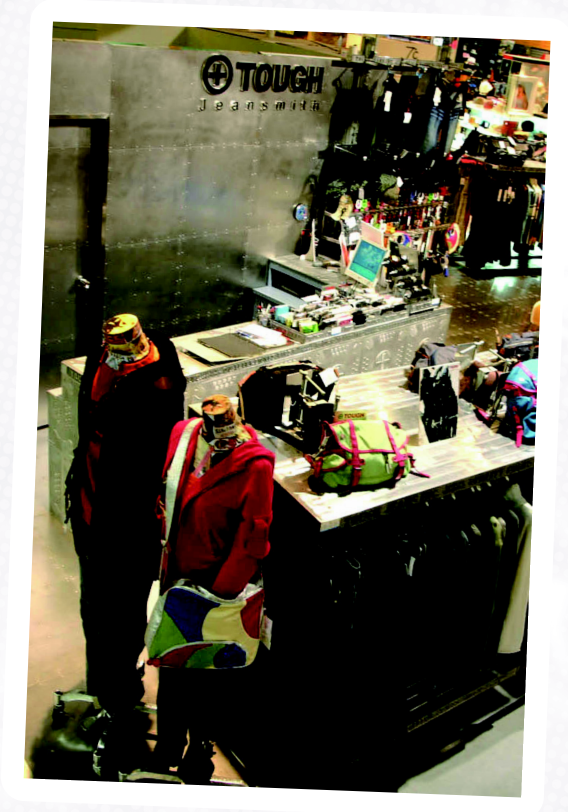
As at 31 March 2006, neither the Group, nor the Company had any significant capital commitments.

CONTINGENT LIABILITIES

As at 31 March 2006, the Group had contingent liabilities in respect of bank guarantees given in lieu of utility and rental deposits amounting to approximately HK$3.2 million (31 March 2005: HK$3.5 million). The Company had no contingent liabilities as at the balance sheet date (2005: Nil).

HUMAN RESOURCES

Including all Directors, the Group had a total of 1,136 employees as at 31 March 2006 (31 March 2005: 842). To attract and retain high performance staff, the Group provides competitive remuneration packages including performance bonuses, mandatory provident fund, insurance and medical coverage as well as entitlements to share options to be granted under a share option scheme based on employees' 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 subsidies for external training programme.



FOREIGN EXCHANGE AND FINANCIAL RISK MANAGEMENT

The Group's sales and purchases during the year were mostly denominated in Hong Kong dollar, US dollar, Renminbi and New Taiwan dollar. The Group is exposed to minimal foreign currency exchange risk and does not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems. 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.

Further discussion on financial risk management is included in the "Financial Risk Management Objectives and Policies" section of note 31 to the Financial Statements.