

MANAGEMENT DISCUSSION AND ANALYSIS

Financial highlights

For the financial period ended 31 December 2004, the Group recorded turnover of HK\$72.2 million, representing a 35% decrease from the same period in 2003. The decrease in turnover was mainly the result of increasingly fierce competition in the People's Republic of China (the "PRC") apparel and uniform market. The PRC market remained the most important market segment, accounting for over 80% (2003: 88%) of the Group's total sales. Along with the reduced sales, the Group's profit margin is also reduced to the level of 6.9% due to heavy pricing pressure and absorption of factory overhead over lesser units of production.

Selling and distribution expenses increased by approximately HK\$2.3 million pursuant to the Group's effort in promulgating an expanded sales network in major cities in the PRC and related promotional campaign, including television advertising. In addition, the increase in other operating expenses for the period represents mainly provision made for recovery of debtors of HK\$6.5 million, contributing to the overall loss.

During the period, the Group's high-tech nano-technology investment in Zhongke Nanotech Engineering Center Co., Ltd. ("Zhongke Nanotech") has undergone a period of consolidation whereby several major proposed contracts are still in negotiation and have not proceeded to the stage where revenue can be recognized. As compared with the preceding period of high growth, the Group's sharing in profits from Zhongke Nanotech for the period amounted to approximately HK\$0.8 million.

As a result mainly of the above factors, the Group recorded a net loss of HK\$23.2 million for the period (2003: net profit of HK\$31.9 million), representing a loss per share of HK0.95 cents per share.

Business and operational review

The Garment Business

The Group's core business continued to be focused on the design, manufacture and sale of a range of high-end men's and women's apparel and uniforms. The period covered by this interim report witnessed an adjustment to management of the Group's PRC operation. This involved the the promulgation of a more extensive sales network in the PRC on a provincial agency basis, as discussed below; and also the resignation of the Company's former deputy chairman and executive director, Mr. Ng Leung Tung, for the reason of personal health concerns, and his cessation of direct participation in operational matters. A re-designation was made of Mr. Ng Leung Tung as non-executive director of the Company. Prior to his re-designation, Mr. Ng Leung Tung was responsible for the overall management of the Group's factory operation in Putian City, the PRC, and oversaw the sales and production in the PRC market. The Group has appointed alternative official to attend to the previously applicable duties of Mr. Ng Leung Tung to enhance smooth transition. The directors take this opportunity to wish Mr. Ng Leung Tung early recovery.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business and operational review (continued)

The Garment Business (continued)

During the period, the Group's turnover decreased by 35% from the previous period mainly because of the increasingly fierce competition in the PRC apparel market from local competitors and the introduction of more foreign brands into the PRC market. The intensified competition has imparted considerable pricing pressure on the Company. On the side of uniform merchandising, during the period the PRC Government initiated the internet bidding of contracts by qualified manufacturers which has increased the pricing exposure and hence competitions in respect of this market segment. In order to maintain its market competitiveness, the Group has adjusted downward the selling prices of its products. The reduction in product pricing and the absorption of factory overhead over fewer units of production have together contributed to the pronounced reduction in the Group's gross profit margin. On the other hand, the adjustment to the Group's management in the PRC has contributed to a temporary disruption in recovery of debtors and increased provision for doubtful debts has been made during the period, contributing to the Group's overall operating loss.

In the order of turning around and streamlining the Group's garment business, efforts and resources are deployed in promulgating sales network in major cities in the PRC on a provincial agency basis. Sales agent and intermediary of suitable background are being solicited for setting up sales outlets in these cities. The successful implementation of these business plans will enable the Group to take advantage of the regional managerial expertise; while through de-centralization yet maintaining the required resources to be deployed by the Group at a manageable level. More sales outlets have already been established in various provinces such as Beijing, Shandong and Shanxi. In complementing these pursuits; and to attract suitable candidates as sales agency, the Group has committed itself to strengthening its corporate identity and brand awareness; and also sponsoring the sales agency in terms of necessary provisioning required in establishing the sales outlets. In addition, the Group worked on the introduction of new fashionable style product lines to complement its men's suites and uniform products. The Group's effort in bolstering its sales and marketing initiatives includes the appointment of renowned screen celebrity as spokesperson for the Group's products and rolled out a series of television commercials and exhibitions to enhance its market share in the PRC. These efforts account for the increase of HK\$2.3 million in selling and distribution expenses for the period in comparison with the corresponding period in last year. While the Group's efforts rendered in these directions shall necessitate a higher level of expenditure outlay over the foreseeable future, they are rendered with anticipation that benefits will be reaped over the longer run through the achievement of a more robust sales foundation.

Although the Group has increasingly diversified into new business ventures over the past years, the garment business remained an important source of stable revenue and funding source for the Group's new business venturing. The Group will continue to dedicate efforts and resources to maintaining the garment business as an important foundation of the Group's business and look forward to a re-bounce in future business.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Investment in Joint Venture Nano-technology Business

The Group's high-tech investment in Zhongke Nanotech maintained a profitable operation during the period and recorded share of profit in the amount of approximately HK\$0.8 million during the period. Owing to the nature of the Nanotech business, the business contracts entered are mainly in respect of technology transfer to established conglomerate. The period covered by this annual report witnessed Zhongke Nanotech undergoing a period of consolidation whereby several major proposed contracts are still in negotiation and have not proceeded to the stage where revenue can be recognized. With the very strong technical foundation from association with the top-notch Chinese Academy of Science as well as self-owned patents, the Group looks forward to growth in financial performance of Zhongke Nanotech in the future.

Presently, the first phase of construction of Zhongke Nanotech's second industrialization plant in Suzhou province is drawing close to completion, with large-scaled production of Nano high elastic plastic already commenced. As an important construction material, the technical performance of Nano high elastic plastic produced by Zhongke Nanotech has exceeded international standard in terms of important measures of elasticity, durability and anti-inflammability, etc., and has versatile applications throughout various sectors. The second industrial product to be launched by the Suzhou plant will be the Nano metallic paint and pigment that will have very wide applications as surface coating in various industries by virtue of its superior anti-oxidation and self-cleansing properties. The construction of the superstructure of the relevant sections of the plant has been substantially completed and installation works are underway for the erection of the required production machinery. It is anticipated that large-scaled industrial production of this new product will be commenced in the near future and enable revenue contribution.

Investment in Hi-Tech business of Software Compression

The Group's investment in software compression technologies has showed continual advancement over the years. The "Smartcompresz" series of information technology compression products launched by the Group's investment vehicle, Global Network Corporation, has been scientifically proven to exhibit superior electronic data compression efficiency far exceeding other similar products in the international market. During the period, Global Network performed contract for the development of data compression system for the Shanghai operation of the prestigious Bank of Communications, which served to establish the company's reputation in the PRC banking sector. Other important parties contracting with Global Network for system development include the China Mobile group of companies, General Office of the State Council of the PRC, and the General Administration of Quality Supervision, Inspection and Quarantine of the PRC. In addition, negotiation is underway with other prestigious entities including the Ministry of Public Security Bureau and China Meteorological Administration in the PRC for data compression system development. The PRC Bureau of Information Technology Industrialization has recommended the PRC State Ministry to incorporate Smartcompresz technology as the standard of China office software fundamental technology and the standard of computer information compression technology. At the same time, indication has been received from the PRC Government of granting funding support to further technology development of Smartcompresz technology. The Government's rapport would help propel the Group's development and industrialization of the Smartcompresz technology. The Group found the positive development of Global Network highly encouraging.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Prospects

The directors believe that competition in the PRC's apparel market for the ensuing year will continue to be severe. The Group will review its marketing strategy periodically and escalate its marketing efforts as warranted. Recently, the Group appointed a new internationally renowned celebrity as spokesperson for the Group's product in the larger area of the PRC. As mentioned before, the Group's active expansion of its reach in the PRC market through the establishment of more outlets in various provinces has already proceeded to important cities such as Beijing, Shandong and Shanxi.

To complement the highly competitive apparel market, the directors believe that diversification of business into new arenas will be in the best interests of the shareholders. With proceeds of HK\$ 95 million raised in January 2005 through top-up subscription of new shares, the Group is in a strong cash position to take advantage of investment opportunities that are identified as favorable.

Dividend

The Board does not recommend the payment of an interim dividend in respect of the current period.

Liquidity and financial resources

The Group maintains a healthy financial position. The Group's net current assets amounted to over HK\$250 million for both of the reporting end dates; and the current ratio maintained a very high of over 10 times. As at 31 December 2004, the Group's interest-bearing bank borrowings were approximately HK\$2 million. The Group's bank borrowing facilities are secured by certain of the Group's leasehold land and buildings in Hong Kong; pledged bank deposits of approximately HK\$23 million; and corporate guarantees given by the Company. As at 31 December 2004, the Group's cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, amounted to over HK\$128 million. The Group was not exposed to any substantial risk in foreign exchange fluctuations.

As at 31 December 2004, the Group's gearing ratio, which was calculated on the basis of bank borrowings to net asset value, was less than 1% (30 June 2004: 1%).

Application of Share Issue Proceeds

Subsequent to the balance sheet date on 13 January 2005, the Company raised share issue proceeds, net of related expenses, of approximately HK\$95 million from the issue of 489,000,000 new shares in the Company under a top-up placing and subscription arrangement. The resulting net proceeds will be used for general working capital of the Group and/or any future possible acquisition, which is yet to be identified. At the present stage, the share issue proceeds has been retained as general working capital of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Employees

At 31 December 2004, the Group employed approximately 700 employees in our factory premises and approximately 17 staff in Hong Kong. In addition to competitive package offered to the employees, other benefits for eligible candidates include contributions to mandatory provident fund, share option scheme, group medical and accident insurance. On-going training sessions were also conducted to enhance the competitiveness of the Group's human assets.

DISCLOSURE OF ADDITIONAL INFORMATION

Directors' and chief executive's interests in shares or short positions in shares and underlying shares

At 31 December 2004, the interests or short positions of the Directors or chief executive of the Company or their respective associates in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO were as follows:

	Personal interest	Family interests	Corporate interests	Total interests	Total interests as % of the issued share capital	Interests in underlying shares (share options)	Total interests (including underlying shares) as % of issued interests capital
Mr. Ng Leung Ho	60,946,000	-	960,000,000 (Note 1)	1,020,946,000	41.67%	7,200,000 (Note 2)	41.97%

Notes:

- These shares were held by Golden Prince Group Limited, a company incorporated in the British Virgin Islands. The entire issued share capital of Golden Prince Group Limited is directly wholly owned by Mr. Ng Leung Ho.
- The share options, exercisable at HK\$0.10 per share, were granted pursuant to the old share option scheme previously adopted by the Company. They are exercisable from 1 May 1999 to 24 October 2008.

DISCLOSURE OF ADDITIONAL INFORMATION (CONTINUED)

Directors' and chief executive's interests in shares or short positions in shares and underlying shares (continued)

Subsequent to 31 December 2004, further grant of share options were made to the Directors. Taking into account these grant of share options, the top-up placing and subscription of 489,000,000 new shares in the Company and other share capital movements completed subsequent to 31 December 2004, the interests or short positions of the Directors or chief executive of the Company or their respective associates in shares, underlying shares and debentures of the Company or its associated corporations at the date of this report are as follows:

	Personal interest	Family interests	Corporate interests	Total interests	Total interests as % of the issued share capital	Interests in underlying shares (share options)	Total interests (including underlying shares) as % of issued interests capital
Mr. Ng Leung Ho	60,946,000	-	960,000,000	1,020,946,000	34.49%	27,200,000	35.41%
Ms. Lee Ming Hin	-	-	-	-	0%	20,000,000	0.67%
Mr. Wang Weining	-	-	-	-	0%	20,000,000	0.67%
Mr. Hu Xiaoming	-	-	-	-	0%	20,000,000	0.67%
Mr. Ng Leung Tung	-	-	-	-	0%	20,000,000	0.67%

Save as disclosed above, none of the Directors and chief executive of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under section 352 of the SFO or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Directors' rights to acquire shares or debentures

Apart from as disclosed under the heading "Share options" in note 13 to the unaudited condensed consolidated interim financial statements, at no time during the period was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangement to enable the Directors of the Company or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DISCLOSURE OF ADDITIONAL INFORMATION (CONTINUED)

Model code for securities transactions by directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules in respect of securities dealing by directors. The Company has made specific enquiry to all directors of the Company in respect of securities dealing by the directors and is not aware of any non-compliance with the Model Code.

Substantial shareholders

At 31 December 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the Company had been notified of the following substantial shareholder's interests or short positions, being 5% or more of the Company's issued share capital:

Name	Capacity	Number of shares	Percentage of holding
Mr. Ng Leung Ho	Beneficial owner	1,028,146,000 (Note 1)	41.97%
Golden Prince Group Limited	Beneficial owner	960,000,000 (Note 2)	39.18%

Notes:

1. The corporate and personal interests of Mr. Ng Leung Ho in 1,028,146,000 shares comprise corporate interest in 960,000,00 shares held through Golden Prince Group Limited and personal interest in 68,146,000 shares, comprising 60,946,000 shares and 7,200,000 underlying shares in respect of shares options granted by the Company to him.
2. The entire issued share capital in Golden Prince Group Limited is beneficially owned by Mr. Ng Leung Ho, whose interests in shares of the Company are disclosed in the section headed "Directors' and chief executive's interests in shares or short position in shares and underlying shares".

Save as disclosed above, at 31 December 2004, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interest and short positions, being 5% or more of the Company's issued share capital.

The changes subsequent to 31 December 2004 in respect of the percentage holding of Mr. Ng Leung Ho in the Company's issued share capital are set out in the above section "Directors' and chief executive's interests in shares or short positions in shares and underlying shares".