

## MANAGEMENT DISCUSSION AND ANALYSIS

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### Financial highlights

The Group is principally engaged in the design, manufacture and sale of a range of high-end men's and women's apparel and uniforms. For the six months ended 31 December 2005, the Group's turnover was approximately HK\$72,422,000 (2004: HK\$72,172,000) representing a slight increase of approximately 0.35%. During the period, the People's Republic of China (the "PRC") continued to be the Group's most important market, contributing approximately 90% of the Group's total turnover.

During the period, mainly because of the Group's effort in rectifying its operations and promulgating a nationwide sales network, the Group's profit margin has rebounded to a more healthy level of about 20.7%. Net profit for the period amounted to approximately HK\$2,453,000 (2004: net loss of HK\$23,259,000 as adjusted), representing earnings per share of HK0.08 cent (2004: loss per share of HK0.95 cent). In arriving at the net profit for the current period, sharing in profits of jointly controlled entities in the amount of HK\$1,463,000 has been included.

### Business and operational review

#### *The Garment Business*

During the period under review, the PRC economy remained on the growth while the garment retailing industry continue to strive. However, price competition from newly introduced competitors who open new shops in bustling areas were on the rise. Despite the fierce competition in the PRC apparel and uniform market, the Group made progress in its financial performance for the period.

Since 2005, to address the fierce competition of the garment business, the Group has rectified its operational management and intensified its marketing and promotional campaign, with an aim to promulgate a nationwide sales retail network and broaden the sales channel in the PRC. Through the expansion of sales network to the neighboring areas on a regional franchised agency basis, the Group has succeeded in setting up an increased number of sales outlets in provincial and municipal levels. Accompanying the implementation of effective risk and resource sharing with the franchisee agents, results were achieved during the period that enable the Group to concentrate on products with higher profit margin. Through the collaborative input from the participating regional franchisee agents, the Group has successfully built up its sales information database that enables analysis of sales trend with different regions and enhances rapid managerial responses to market development.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### Business and operational review (continued)

#### *The Garment Business (continued)*

The series of promotional initiatives launched by the Group during the period includes the appointment of renowned screen celebrity as the brand image ambassador and rolled out a series of television advertisements to increase customers' brand awareness. These promotional initiatives also attracted potential franchisee interested in participating in the Group's garment retail network. In addition, the Group has made appropriate accommodating measures and successfully seasoned the impact from the retirement of Mr. Ng Leung Tung, the Company's former deputy chairman and executive director, from direct participation in the Group's operational management as a result of his personal health concerns. These measures have proven to be successful in turning around the Group's operations. On the side of uniform merchandising, these business continued to account for certain proportion of the Group's business, and tended to respite after last year's adjustment in sales strategy and consolidation of merchandising team. However, the profit margin remained in a relatively low level owing to various market factors and heavy price bidding peculiar to this market segment. The Group sees its future direction in shifting from the uniform segment to more emphasis on products under the Group's own brand name. Overall, the Directors are pleased to report that signs of recovery are being observed for the Group's profit margin, which has returned to a more satisfactory level.

It is the Group's business objective to place primary emphasis to product quality and such aspiration has continued to win recognition for the Group's products. During the period, in order to keep abreast of latest fashion trends and production technologies, besides participating in large-scale garment production exhibitions, the Group also dispatched its production management team to overseas garment factories for experiential interchange. In December 2005, the Group made the landmark to be awarded the "Chinese Well-known Trademark" by the PRC State Administration for Industry & Commerce. The recognition of the prestigious status for the Group's "Good Fellow" branding shall further confer competitive advantages in the Group's development of its garment businesses in the forthcoming year. Nevertheless, the Group's management will not concede with its success and continue to make it the target for the upcoming year to enhance its production proficiency and facilities.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Investment in Nano-technology Business

During the period, the Group's high-tech nano-technology investment in Zhongke Nanotech Engineering Center Co. Ltd. ("Zhongke Nanotech"), following a period of operational consolidation and industrialization efforts over the last year, including the construction of factory, posted a profit sharing of approximately HK\$1,463,000 (2004: HK\$786,000) to the Group for the current period. The profit for the period were derived mainly from the sale of Nano metallic paint; Nano interior and exterior paint; and Nano paste as successfully commercialized by Zhongke Nanotech's second industrialization plant in Suzhou. The wide applications of these new Nano materials include surface coating in various industries by virtue of its superior anti-oxidation and self-cleansing properties. The second phase of Zhongke's Yougfeng plant in Beijing, measuring 22,000 sq. meters, is expected be handed over by October 2006 for serving as scientific research and testing center. The Directors are encouraged with Zhongke Nanotech's progress during the period under review in successfully developing a more stabilized revenue platform of industrial products.

### Proposed investment in the Ecological Forestry Business

The Directors have seen encouraging results from the efforts rendered in streamlining the Group's operations and signs of returning profitability. However, the fierce competition from both local and foreign competitors and the heavy pricing pressure on the garment business will continue to impose challenges to the Group's business. In order to complement the highly competitive apparel market, the Directors consider the diversification of business into new areas of high-growth potential will be in the best interest of the Shareholders.

The Directors have identified the ecological forestry business as a unique opportunity with highly favorable long-term prospect. On 26 October 2005, the Company entered into a sale and purchase agreement pursuant to which the Company agreed to acquire an effective 70% equity shareholding interest in a Sino-foreign joint venture company principally engaged in the business of tree plantation and management, and the manufacture and distribution of forestry products. The Sino-foreign JV has obtained a registered patent application filing for technologies in accelerated plant growth and operates by making use of the modified tree specie *Broussonetia Papyriferalvent* in its plantation process that brings about benefits of soil quality improvement and various other favorable forestry attributes. The due diligence work performed by the Directors indicated that the strong demand for supply of quality raw materials to the paper making industry will bring about highly favorable marketable opportunities, as indicated by the underlying profit guarantee of an aggregate net profit after tax of the Sino-foreign JV of no less than HK\$200 million for the two ensuing years ending 31 December 2006 and 2007.

The proposed investment is subject to; among other things; the approval of the Company's shareholders in general meeting and information on this new proposed investment will be distributed to the Company's shareholders in due course.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Prospects

The Board sees the Group as heading on the right track with its operational mode of business diversification. Meanwhile, the Group's garment business will continue to provide it with a stable revenue platform. Leveraging on its own branding and backed by the substantial input in promotions and advertisements over the last year; and the expanded regional franchise sales network, the Directors look forward to the upcoming year as a year of turnaround for the Group's core garment retailing business. As further complemented by the Group's proposed diversification into the ecological forestry business, the Board is confident that the Group is geared for high growth momentum and expects a bright future for the Group.

### Dividend

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

### Liquidity and financial resources and Capital Structure

The Group maintains a strong financial position. The Group's net current assets amounted to over HK\$300 million as at the reporting end dates; and the current ratio maintained a very high of over 18 times. As at 31 December 2005, the Group did not have any interest-bearing borrowings. The Group however has banking facilities available for meeting its short term financing needs from time to time. As at 31 December 2005, the Group's cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, amounted to over HK\$183 million. The Group was not exposed to any substantial risk in foreign exchange fluctuations.

The Group generally finances its operation with internally generated resources. As at 31 December 2005, the capital structure of the Group consisted solely of ordinary shares in issue. The Group has not incurred any borrowings and accordingly its gearing ratio, which was calculated on the basis of bank borrowings to net asset value, was nil. (30 June 2005: 1%).

### Charge on the Group's assets

As at 31 December 2005, the Group's available banking facilities were secured by pledged bank deposits of HK\$10,984,000 and corporate guarantees given by the Company.

### Contingent liabilities

At 31 December 2005, the Company and Group does not have contingent liabilities of material amounts.

### Employees

At 31 December 2005, the Group employed approximately 680 employees in its factory premise 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, participation in 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.