Management Discussion and Analysis

1. Business Overview

The Group is a vertically integrated and large scale garment manufacturer, exporter and retailer based in Mainland China whose businesses principally comprise the following two distinctive, yet related, parts: (i) the provision of vertically integrated garment manufacturing solutions for middle to high-end fashion apparel, primarily for women, using predominantly silk or silk-blended fabric, on an OEM basis for international fashion brands, chain retailers and department stores primarily in the United States and increasingly in Europe; and (ii) manufacturing and retailing of branded fashion apparel, primarily for women, in Mainland China. The Group sold over 16.5 million pieces of apparel for the financial year ended 31 December 2005 with a total turnover of approximately HK$1,894.8 million.

The Group is headquartered in Hong Kong with production facilities in Zhejiang, Jiangsu and Shenzhen, and with offices in Hong Kong, Hangzhou, Shenzhen, Shanghai, Paris and New York to support its sourcing, manufacturing and distribution activities, maintain close liaison with major customers and to keep abreast of the latest market information and international fashion trends.

The Group's primary manufacturing facilities are situated at the China Ting Industrial Complex in Hangzhou, which is the centre of China's silk industry. The Group also operates other manufacturing facilities in different cities in Mainland China, such as Shenzhen, Haiyan in Zhejiang province and Sihong in Jiangsu province, the PRC.

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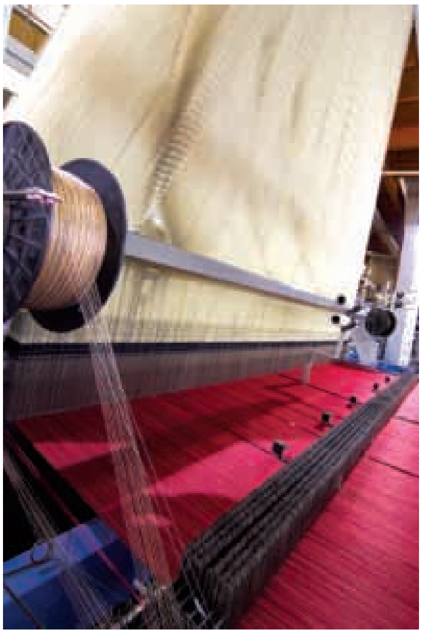
1.1 OEM business



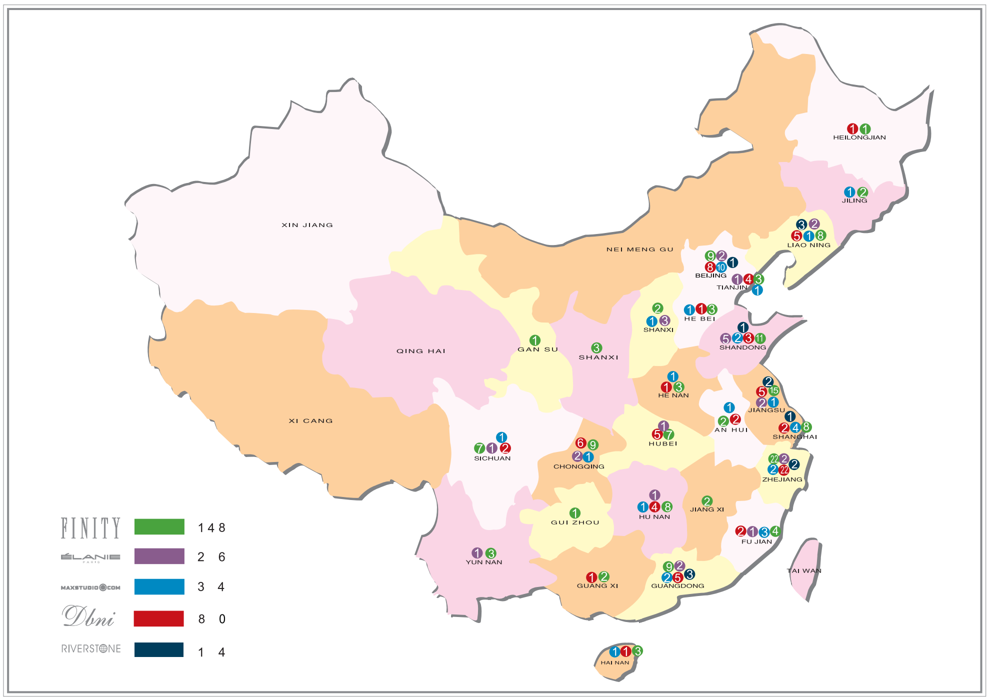
Through vertical integration of the core production activities, the Group continued to benefit from economies of scale, control the production costs and enhance the quality of its products, so as to deliver quality products to customers and shorten the leak time for production. The Group provides a range of garment manufacturing solutions for middle to high-end fashion apparel, primarily for women, using predominantly silk or silk-blended fabric, for international fashion brands, chain retailers and department stores primarily in the United States. During the financial year, the Group invested in Zhejiang Huayue Silk Products Company Limited and made further investment in Jiangsu Fuze Textile Company Limited, both of which further secured the supply of silk fabric for the production of the Group.

As at 31 December 2005, members of the Group operated 14 factories, principally situated at the China Ting Industrial Complex, in Hangzhou, engaging in fabric weaving and manufacturing of a varieties of silk and silk-blended fabric garment for OEM business.

Silk garment manufactured by the Group in Mainland China was subject to limited trade restriction, and Mainland China and U.S. had reached an agreement on import of textile to the U.S. in November 2005. Looking ahead, we anticipate that there will not be any material trade restriction on silk garment imported to the U.S. or other European countries. On this basis, we consider that the OEM business of the Group, principally of silk and silk-blended fabric garment, will continue to grow and to be an important part of the business of the Group.

1.2 Retail business

The economy of Mainland China is experiencing a strong growth. The continuous improvement in the living standards and the increase in consumption accelerate the domestic retail market in Mainland China. This is particularly the case for fashion apparel items. The Directors anticipate that the Group's retail business will continue to benefit from this economic development.



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As at 31 December 2005, the Group's retail business had a sales network of 302 retail outlets comprising 147 concessions and 3 free-standing stores directly operated by the Group and 152 retail outlets operated by franchisees through franchise agreements, spanning over 26 provinces and centrally governed municipalities.

All retail outlets were operated under the four in-house brands of "*FINITY*", "*DBNI*", "*ÉLANIE*" and "*RIVERSTONE*", and one licensed brand of "*MAX STUDIO*". The Group suspected the retail business of "*SPRINGFIELD*" in October 2005. Each brand name has its own distinct theme, sells at varying retail prices and targets different customer groups. The Directors believe that the Group's retail apparel brands have well covered the mid to up-market segments.

As at 31 December 2005, the Group had three production factories in Hangzhou and one production factory in Shenzhen for retail apparels. During the past three years, the Group recorded a turnover compound annual growth rate ("**CAGR**") of approximately 21.6% and reached a new high of HK$172.7 million for the financial year 2005.

For the coming years, the Group will focus on the enhancement of its retail brands and will further strengthen and promote the existing brand image and may develop new brands to capture the growing retail markets. The Group will also continue to expand the retail network in order to booster the overall performance of the retail business of the Group. The Group plans to open 63 retail outlets during 2006 and by the end of 2006, the estimated number of retail outlets is expected to be 365.

2. Financial Review

2.1 Turnover

For the financial year 2005, the Group recorded a turnover of approximately HK$1,894.8 million, representing a growth of approximately HK$493.3 million or approximately 35.2% over the financial year 2004. The increase was mainly due to an increase of approximately HK$477.6 million in the turnover from OEM sales of garment, which was driven primarily by the increase in the purchase orders from key OEM customers in the United States. The sales to five major customers increased by approximately 64.9% as compared to the financial year 2004. The increase in turnover also included an increase of approximately HK$15.7 million or approximately 10.1% from the retail sales in Mainland China of branded fashion apparel. The increase in retail sales reflected increasing sales at the Group's existing retail outlets and also additional turnover from the new retail outlets. The Directors believe that the increase in the average annual household income in urban cities in Mainland China will continue to support the growth of the retail business.

The Group's turnover continues to derive from the two core businesses: OEM and retail. OEM sales still represented a majority of the Group's total turnover. For the financial year 2005, the OEM sales was approximately HK$1,722.1 million, representing an increase of approximately 38.4%, accounted for approximately 90.9% of the Group's turnover, whereas the retail sales was approximately HK$172.7 million, representing an increase of approximately 10.1%, accounted for approximately 9.1% of the Group's turnover.

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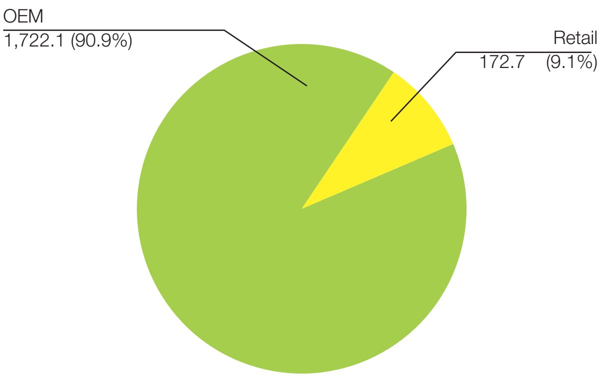
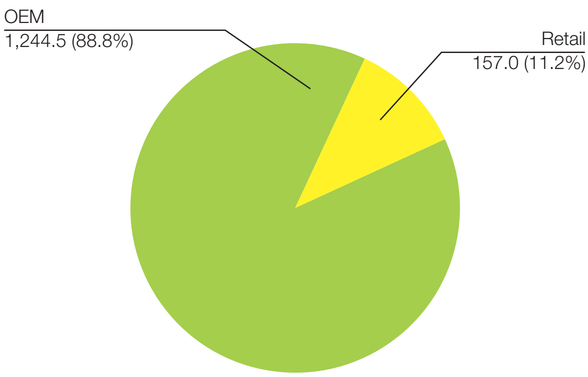
TURNOVER BY BUSINESS SEGMENT — OEM AND RETAIL

(HK$ million)



2005

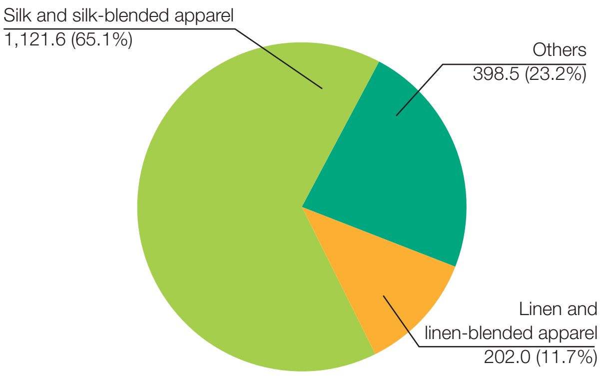


2004

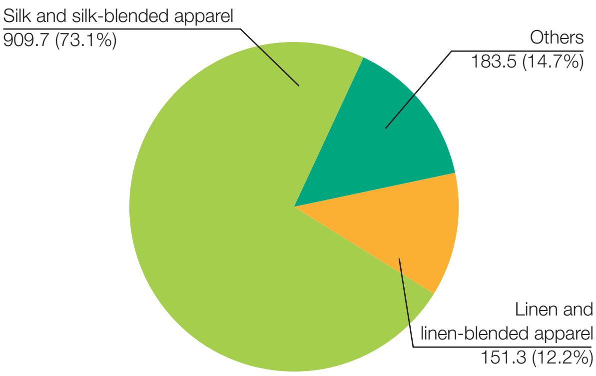
For OEM business, sales of silk and silk-blended apparel, linen and linen-blended apparel, and other apparel recorded an increase of approximately 23.3%, 33.5% and 117.2% over the financial year 2004. A substantial part of the OEM turnover continued to be derived from the sale of silk and silk-blended apparel, which accounted for approximately 65.1% of the total OEM turnover.

OEM TURNOVER BY PRODUCT

(HK$ million)



2005



2004

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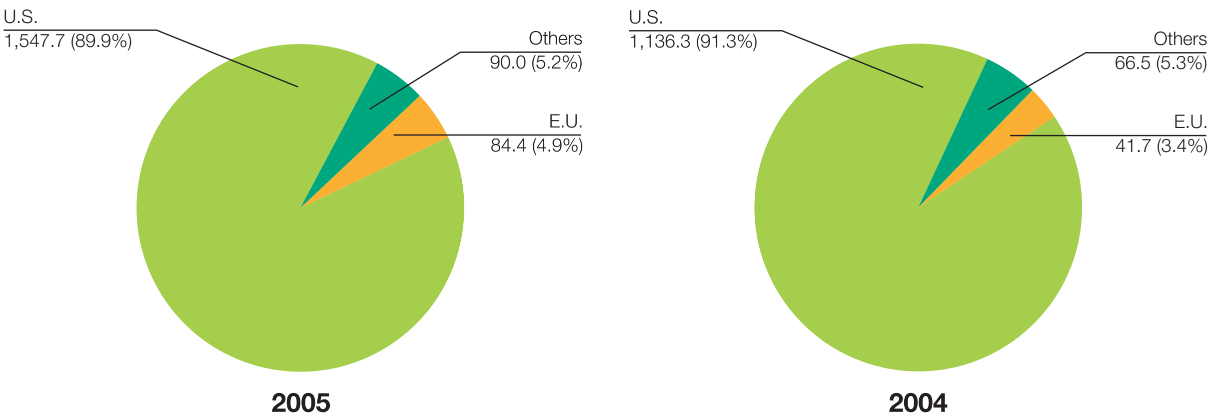
United States continued to be the largest market for the OEM business, accounted for approximately 89.9% of total OEM turnover.

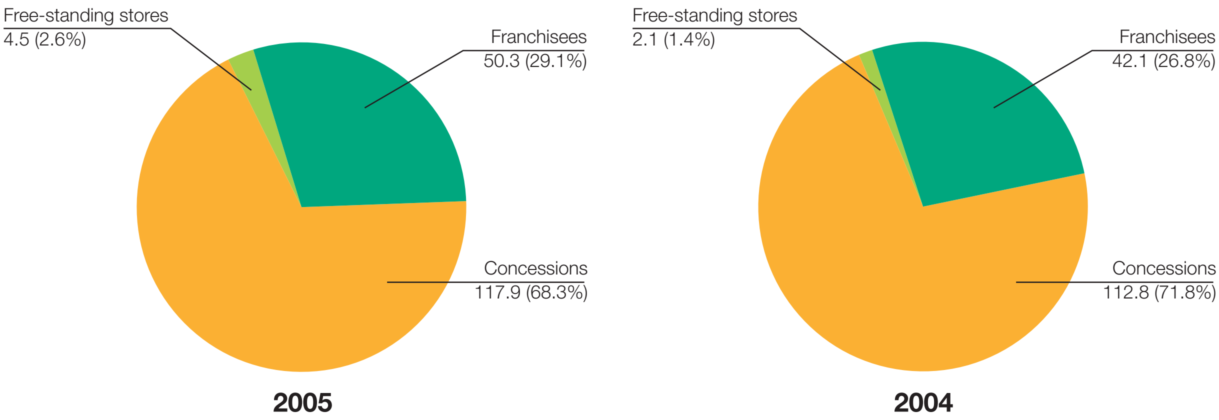
OEM TURNOVER BY REGION

(HK$ million)

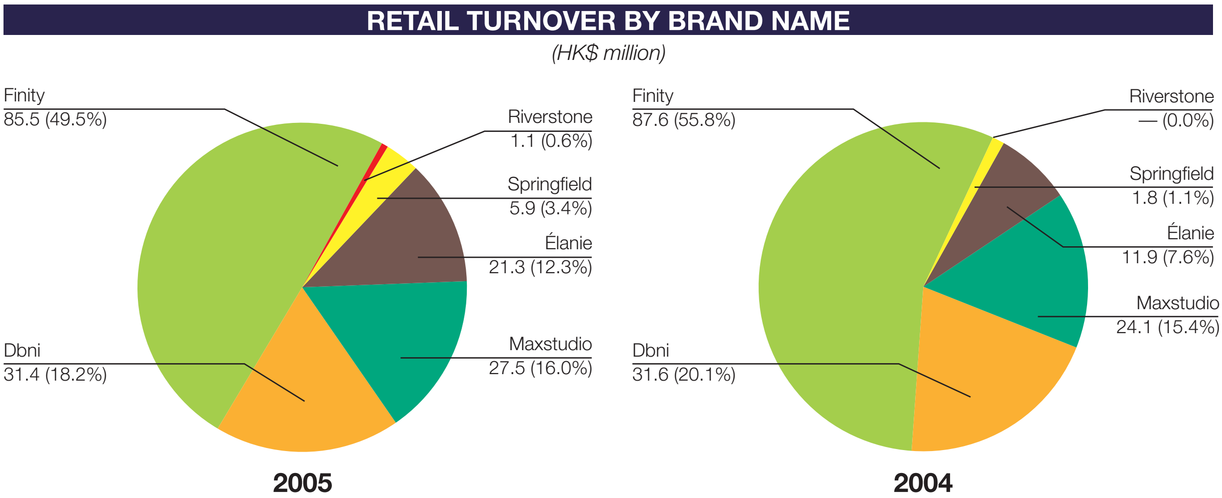


RETAIL TURNOVER BY SALE CHANNELS

(HK$ million)



Management Discussion and Analysis



2.2 Gross Profit

The Group's gross profit for the financial year 2005 was approximately HK$692.7 million, representing an increase of approximately HK$259.0 million, as compared to approximately HK$433.7 million recorded in financial year 2004. Gross profit margin also improved from approximately 30.9% for the financial year 2004 to approximately 36.6% for the financial year 2005. The improvement in the gross profit margin was mainly due to a further enhancement in the economies of scale of the operation of the Group from the vertically integrated production facilities.

The gross profit margin of the OEM business and the retail business improved from approximately 27.9% for the financial year 2004 to approximately 34.5% for the financial year 2005, and from approximately 55.0% for the financial year 2004 to approximately 57.4% for the financial year 2005, respectively.

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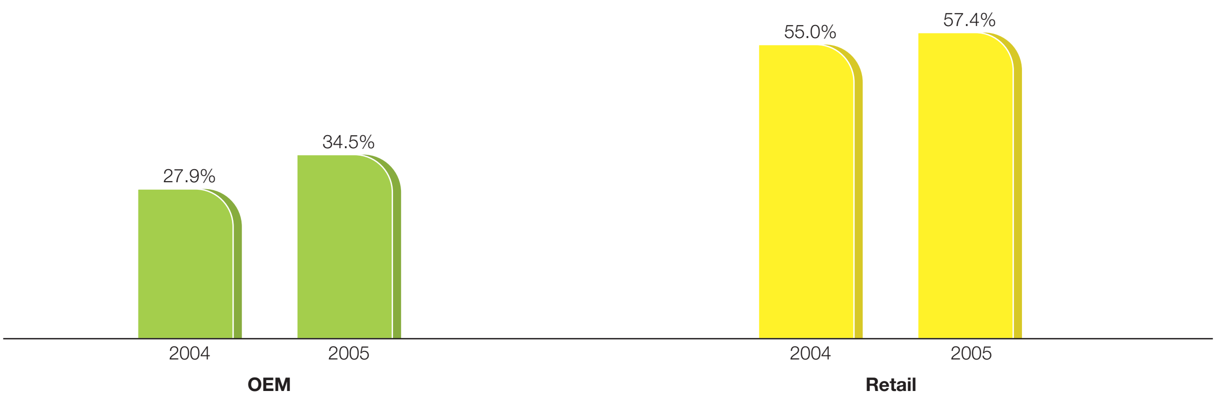
GROSS PROFIT MARGIN BY BUSINESS SEGMENT — OEM AND RETAIL

(GP %)



2.3 Other gains

Other gains decreased from approximately HK$26.6 million for the financial year 2004 to approximately HK$21.9 million for the financial year 2005. The decrease was mainly represented by a decrease of approximately HK$8.1 million in the excess of fair value of net assets of subsidiaries over the cost of acquisition.

2.4 Operating expenses

The marketing and distribution expenses in the financial year was approximately HK$102.7 million as compared with the financial year 2004 of approximately HK$108.8 million. The decrease was largely due to the decrease in quota expenses of approximately HK$12.1 million, resulted from the elimination of quota in the financial year. The selling and distribution expenses mainly included amortisation of retail shops decoration cost, advertising, staff cost for sales staff, transportation and office utilities.

The administrative expenses in the financial year was approximately HK$160.1 million, representing an increase of approximately 39.3%, as compared to approximately HK$114.9 million in the financial year 2004. The general and administrative expenses mainly consisted of salaries and benefits for administrative staff, rental charges, depreciation and office utilities. The increase was primarily due to the increase in salaries and benefits as a result of new hires for the Group's expansion and the increase in stock provision of approximately HK$15.7 million.

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2.5 Operating Profit

The operating profit of the OEM business reached approximately HK$432.6 million, representing an increase of approximately 147.1% over the financial year 2004. This increase was consistent with the increase in gross profit. The operating profit of the retail business was approximately HK$14.3 million, representing a decrease of approximately 65.5% as compared with the financial year 2004 of approximately HK$41.5 million. The decrease was mainly due to the operating loss of approximately HK$3.1 million for operating *SPRINGFIELD* business and the increase in stock provision of approximately HK$15.7 million.

The operating profits of these two businesses and the unallocated gain of approximately HK$15.9 million turned in a consolidated operating profit of HK$462.7 million, as compared to the operating profit of approximately HK$243.2 million in the financial year 2004.

2.6 Income Tax Expenses

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the financial year 2005. The applicable enterprise income tax rate for the PRC subsidiaries was between 15% and 33%.

The Group's effective tax rate was 15.7% in 2005 as compared to 12.4% in the financial year 2004.

2.7 Net Profit Attributable to Shareholders

The net profit attributable to shareholders increased by approximately HK$188.2 million, or approximately 97.6% from approximately HK$192.8 million in the financial year 2004 to approximately HK$381.0 million in the financial year.

2.8 Liquidity and Financial Resources

During the financial year, the Group mainly financed its operation through a combination of shareholders equity and internally generated cash flow. The net cash inflow from operating activities increased by approximately HK$279.3 million, from approximately HK$128.5 million in the financial year 2004 to approximately HK$407.8 million in the financial year 2005. The increase was mainly due to the increase in operating profit and a shorter accounts receivable collection day. The net cash generated from financing activities increased by approximately HK$521.8 million, to approximately HK$539.6 million in 2005. The increase was primarily resulted from the proceeds of approximately HK$1,012.5 million raised from the initial public offering of the Shares completed in December 2005, the net repayment of bank borrowings of approximately HK$152.3 million, the dividend paid to equity holders of HK$256.3 million and the payment of share issuance cost of approximately HK$59.7 million.

As at 31 December 2005, the Group was in a net cash position and had net cash and cash equivalent of approximately HK$906.9 million.

The key financial ratios improved throughout the financial year 2005. The accounts receivable turnover was reduced by 3 days to 40 days and the stock turnover on sales was 39 days, representing a reduction of 4 days over the previous financial year. The current ratio improved from 1.2 times in financial year 2004 to 3.7 times in financial year 2005.

3. Capital Commitment and Contingent liabilities

The Group had no contingent liabilities or off balance sheet obligations as at 31 December 2005.

As at 31 December 2005, the Group had capital expenditure of HK$10.5 million (2004: Nil) in respect of property, plant and machinery, contracted for but not yet incurred.

4. Subsequent Events

(a) On 4 January 2006, the Company issued 75,000,000 Shares at the offer price of HK$2.025 per Share under an over-allotment option as part of the initial public offering of the Shares and raised gross proceeds of approximately HK$151.9 million.

(b) In February 2006, the Group signed an agreement with Chunan Bureau to acquire the land use right for a piece of industrial land located in Qiandaohu to construct a new apparel production base with an estimated annual production capacity of approximately six million pieces of apparel. The construction of this production base commenced in March 2006, and we expect the first stage and the final stage of the production to be completed in the first half of 2007 and the second half of 2008, respectively. The total estimated investment cost of this project is approximately HK$234.0 million.

5. Human Resources

As at 31 December 2005, the Group had approximately 10,950 full-time employees in Mainland China, Hong Kong, France and United States. The staff costs for the financial year 2005 was HK$217.3 million, representing an increase of approximately 25.3% over the financial year 2004.

The Group has established an incentive bonus scheme for its employees, in which the benefits are determined based on the performance of the Group and individual employees. The Directors believe that a competitive remuneration scheme, a safe and comfortable workplace, and career development opportunities are incentives for employees to excel in their areas of responsibilities.

6. Outlook

Global economy is improving and Mainland China and the United States had reached an agreement of textile safeguard in November 2005. Looking ahead, a more favorable operating environment is expected.

As the international garment retailers/brand owners will increasingly seek to reduce the number of manufacturers with whom they do business and consolidate their sources of supply after the abolition of the global quota system, the Group will be benefited of such consolidation.

The Group will continue to expand its existing silk and silk-blended OEM business and simultaneously, with the widen customer base, long-term business relationship and skillful manufacturing operation provide the Group with an opportunity to expand into non-silk garment OEM business. The Group has strategically timed its expansion into non-silk garment OEM business with the expiry of the textile-specific safeguards, which may be imposed by other WTO members against textile exports from Mainland China towards the end of 2008.

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The Group's retail business has grown quickly in recent years and the Group plans to open about 63 new retail outlets in the financial year 2006. The Group will focus on the existing five brands for which it also manufactures the apparel, which may provide a higher profit margin. At the same time, the Group will improve store performance and implement cost control scheme to enhance retail's profit margin. In the short run, retail outlets operated by the Group are likely to be focusing on concessions but over time the Group intends to open more free-standing stores, including flagship specialty stores in major PRC cities.

In respect of the above, the Group has started to enter into a new era of rapid business growth.