1. BUSINESS REVIEW

Original Equipment Manufacturing ("OEM") Business

The Group experienced a period of unprecedented increase in the raw silk prices with a record high of approximately RMB330,000 for each tonne. Despite this, the Group have taken all necessary measures to control the production costs and to fully utilize the benefits of the scale of operations, vertically and horizontally. We are pleased seeing that the gross profit margin during the period did not decrease substantially, as compared with the same period in 2005. This demonstrated our strong capability, throughout the period since its establishment, to maximize the profit with good return of investment to the Shareholders. We also made use of the period under review to explore new and quality customers and to strengthen the relationship with the existing customers, so as to pave the foundation for our future business development.

Retail Business

The Group continued to record steady sales growth in the retail business. During the period under review, the Group rationalized some underperformed stores, strengthened the brand image and further expanded the sales network to respond to the keen competition in retail market in China. As at 30 June 2006, the Group's total number of retail outlets reached 317, representing an increase of 15 when compared with 302 as at 31 December 2005. The 317 retail outlets comprised 167 concessions and four free-standing stores directly operated by the Group and 146 retail outlets operated by franchisees, spanning over 26 provinces and municipalities in China.

Home Textile OEM Business

An increase of approximately 480.6% in the OEM sales of home textile products, achieving HK$38.9 million, for the period under review, was mainly driven by the strong demand for home textile fabric and accessories, such as pillow cases, bed sheets and duvet covers, from the United States. With the success of the home textile OEM business, we aim to expand further into the retail business of home textile products in China. The first home textile retail store under the "BURLINGTON HOUSE" brand was opened in July this year and we plan to open 5 additional home textile retail stores by the end of 2006. Going forward, the sales and the profit contribution from home textile OEM and retail businesses will continue to grow and are expected to form an important part of the business of the Group.

2. FINANCIAL REVIEW

During the period under review, the Group's revenue amounted to approximately HK$922.8 million, representing a decrease of approximately 9.7% when compared with approximately HK$1,021.5 million for the same period in the last year. The gross profit margin for the period under review was approximately 37.5%, which is 3.3% lower than 40.8% for the same period in the last year. The net profit attributable to the equity holders of the Company was approximately HK$220.7 million, representing a decrease of approximately 8.2% when compared with approximately HK$240.3 for the same period in the last year. Earnings per Share were 10.69 HK cents, representing 5.43 HK cents lower than 16.12 HK cents for the same period in the last year.

OEM Business

During the period under review, the OEM sales (including home textile OEM sales) recorded a decline from approximately HK$939.0 million for the same period in the last year to approximately HK$835.0 million for the period under review. A majority of the OEM sales was derived from the sales of silk and silk-blended apparel even though its sales decreased to approximately HK$431.4 million (the same period of 2005: HK$613.3 million). The OEM sales analysis by product is as follows:

	January to June 2006		January to June 2005	
	HK$ million	**%**	HK$ million	%
Silk and silk-blended apparel	**431.4**	**51.7**	613.3	65.3
Linen and linen-blended apparel	**219.5**	**26.3**	113.8	12.1
Other apparel	**145.2**	**17.4**	205.2	21.9
Home textile products	**38.9**	**4.6**	6.7	0.7
Total	**835.0**	**100.0**	939.0	100.0

In terms of geographical distribution, sales to the United States amounted to approximately HK$721.8 million (the same period of 2005: HK$847.4 million), which accounted for approximately 86.4% (the same period of 2005: 90.2%) of the OEM sales. Sales to Europe and other markets were approximately HK$34.7 million (the same period of 2005: HK$45.8 million) and approximately HK$78.5 million (the same period of 2005: HK$45.8 million), respectively.

Management Discussion and Analysis

Retail Business

The increase in the retail revenue was driven by the expansion of our retail network and the improvement in same store sales performance. The retail revenue surged period-on-period by approximately 6.4% to approximately HK$87.8 million for the period under review. Sales under the "Finity" brand name continued to contribute a majority of the retail revenue, which accounted for approximately 46.2% of total retail revenue. Sales of "Elanie" and "Maxstudio" surged to approximately HK$11.6 million (the same period of 2005: HK$8.9 million) and approximately HK$15.1 million (the same period of 2005: HK$10.9 million), respectively. The retail revenue analysis by brand name is as follows:

	January to June 2006		January to June 2005	
	HK$ million	**%**	HK$ million	%
In-house brands				
Finity	**40.6**	**46.2**	42.1	51.0
Dbni	**15.3**	**17.5**	16.6	20.1
Elanie	**11.6**	**13.2**	8.9	10.8
Riverstone (Note a)	**5.2**	**5.9**	—	—
Licensed brands				
Maxstudio	**15.1**	**17.2**	10.9	13.2
Springfield (Note b)	**—**	**—**	4.0	4.9
Total	**87.8**	**100.0**	82.5	100.0

Notes

(a) The retail business of "Riverstone" commenced in October 2005.

(b) The Group terminated the retail business of "Springfield" in October 2005.

In terms of the retail revenue analysis by sales channel, sales from concessions amounted to approximately HK$63.4 million (the same period of 2005: HK$62.2 million), accounting for approximately 72.2% of the total retail revenue (the same period of 2005: 75.4%). Sales from free-standing stores and franchisees amounted to approximately HK$3.7 million (the same period of 2005: HK$2.5 million) and approximately HK$20.7 million (the same period of 2005: HK$17.8 million), respectively.

Operations

The Group was affected by the increase in the market prices of raw silk during the period under view. Because of the changing market conditions, the rising price of the principal raw materials and the appreciation of the value of RMB against the US dollar, we enhanced our knowledge on the latest market information through scientific and system study, so as to obtain the most accurate business information, for the purpose of monitoring and controlling the costs of our principal raw materials and steamlining the production process. The purpose of all these arrangements is to strengthen the integration of our production process and monitor the level of production cost, through the increasing use of advanced production facilities and reducing the reliance of labour. All of these have resulted in an overall decrease in the production cost. As a result, the gross profit margin of the OEM business decreased slightly from approximately 38.9% for the same period in 2005 to approximately 34.8% for the period under review. The gross profit margin of the retail business increased from approximately 61.8% for the same period in 2005 to approximately 63.2% for the period under review.

During the period under review, the Group disposed of an investment property in May 2006 and recorded a net gain of HK$9.4 million, which has been included in the other income.

We managed to maintain effective cost control and to improve operating efficiency. As a result, the selling, marketing and distribution costs and the administrative expenses, as percentages of turnover for the period under review, were only 6.0% (the same period 2005: 4.4%) and 7.0% (the same period 2005: 8.2%), respectively.

The net profit margin (net profit attributable to equity holders as a percentage of turnover) for the period under review was approximately 23.9% which is 0.4% higher than 23.5% in the same period last year.

3. LIQUIDITY AND FINANCIAL RESOURCES

The Group is in sound financial position. Net cash inflow from operations during the period under review amounted to approximately HK$245.6 million (the same period 2005: HK$320.0 million). As at 30 June 2006, the cash and cash equivalent was approximately HK$777.9 million, representing an increase of HK$107.9 million when compared with approximately HK$670.0 million as at 31 December 2005. The increase was primarily due to the net proceeds of approximately HK$146.9 million raised from the over allotment arrangement in connection with the listing of the Company's Shares, the net cash inflow from operations of approximately HK$245.6 million, the net repayment of bank loan of HK$60.0 million, the acquisition of fixed assets of approximately HK$28.7 million, the dividend paid to equity holders of HK$95.0 million and increase in fixed deposit of HK$125.3 million.

As at 30 June 2006, the Group had bank borrowings of approximately HK$3.7 million (31 December 2005: HK$63.8 million) which was repayable within one year. The debt to equity ratio (total borrowings as a percentage of total equity) was approximately 0.2% (31 December 2005: 4.4%).

4. TREASURY POLICY AND EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The sales of the Group are mainly denominated in US dollars and Renminbi and the purchase of raw materials is mainly made in Renminbi, US dollars and Hong Kong dollars. As at 30 June 2006, all cash and cash equivalents, and bank borrowings were mainly denominated in US dollars, Renminbi and Hong Kong dollars. Hence, the Group has no significant exposure to foreign exchange risk.

5. CAPITAL EXPENDITURE

During the period under review, the Group invested approximately HK$28.7 million on acquisition of property, plant and machinery being part of the net proceeds from the initial public offering of the Shares. The Group also used approximately HK$4.6 million for the expansion of new retail stores in China.

6. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2006.

7. HUMAN RESOURCES

As at 30 June 2006, the Group employed approximately 11,000 employees in China, Hong Kong, the United States and France.

The Group recognizes the importance of good relationship with its employees. The Group has established an incentive bonus scheme for its employees, in which the benefits are based on the performance of the Group and the individual employee, and will be reviewed regularly every year. The Directors believe that a competitive remuneration scheme, a safe and comfortable workplace and appropriate career development opportunities are incentives for employees to excel in their areas of responsibilities.

8. PROSPECTS

We have already received increasing number of silk and silk-blended apparel orders for the second half of 2006 since the raw silk price has returned to approximately RMB230,000 per tonne in May 2006, which reflected the good harvest result in March and April 2006. In view of the production capacity, a new production plant (with an estimated annual production capacity of approximately two million pieces) adjacent to the China Ting Industrial Complex will commence its production in the second half of 2006. The Directors are optimistic about the OEM business in the second half of this year.

Management Discussion and Analysis

In a medium-term prospect, the Group will expand its production capacity by constructing new factories and acquiring advanced plant and machinery to catch up the business opportunity arising from the elimination of all textile-specific safeguard measures against China's export under the WTO from 1 January 2009.

Given a consistent economic growth and modest inflation in China, the Directors are positive on our retail business in China. The Group will continue to strengthen the existing brands in China through a number of initiatives including the opening of flagship stores, the stepping up stores opening in the first and second tier cities, the renovation of retail outlets, the expansion of in-house design teams and the participation in fashion shows and other promotional events. We expect that the number of retail stores will reach approximately 345 by the end of September 2006.

On the other hand, the Group will cautiously seek business opportunities to co-operate with international fashion brands, with the support of existing sale networks, to further expand the retail business in China.

Based on the interim results and the current assessments, we are optimistic on the Group's performance in the second half of this year.