

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

Although there was a decrease in the sales volume and selling price of the garment products to our U.S. customers, the Group has, for the 2006 interim period, secured 82% of the Group's sales turnover for the corresponding period in 2005. Despite the Group's gross profit margin has decreased from 16% for the 2005 interim period to 13.6% for the 2006 interim period, the Group has, for the current interim period, still maintained 70% of its total gross profit for the corresponding period in 2005. In the absence of unforeseeable circumstances, the Group anticipates its sales turnover and gross profit for the second half year would improve and the Group's results for the whole year would be similar to those in the previous year.

In spite of the decrease in the Group's sales turnover and gross profit, the Group succeeded in lowering its administration expenses as a result of the management's efforts on cost rationalization. As a result, the administration expenses have decreased 26% as compared with the corresponding period in 2005. In addition, the demand for the Group's garment products from its US customers remains stable and the Group is presently maintaining 5 months' worth of back orders.

The Group's net profit for the period decreased 25% from HK\$8.3 million in 2005 to HK\$6.3 million in 2006 while the basic earnings per share decreased from 4.97 cents in 2005 to 3.74 cents in 2006.

### Financial position and liquidity

The Group's financial position remained strong during the period, allowing the Group to rely principally on its internal resources to fund its operation and investment activities. The gearing ratio of the Group, which is expressed as a percentage of total borrowings to shareholder's funds, remains at 0% for the last six months. As at September 30, 2006, the Company pledged HK\$8.8 million in bank deposit to secure a banking facility granted to the Company. The Company has contingent liabilities of HK\$20 million in the form of a corporate guarantee provided to secure general banking facilities for a subsidiary. The Group's exposure to foreign currency risk is insignificant because the majority of its income and expenses are U.S. Dollar based.

## Employees

The Group maintains 16 employees, whose salaries are reviewed and adjusted annually based on performance and experience. Other employee benefits include mandatory provident fund and educational subsidies which are offered to promote staff development. There is a share option scheme in place designed to award employees for their performance at the discretion of the directors. There was no share option granted to any employee during the period.

## Future plan and prospects

The Group remains optimistic about the prospect of its core business. The bilateral agreement on imports of Chinese clothing and textiles between the PRC and US has strengthened the confidence of US importers to place orders. Therefore, we expect our garment business will go up steadily in future. In order to meet the potential growth of sales, we are planning to expand our production capacities in the coming years.

Due to many uncertainties, we decided to suspend our health supplement product, Zidane Inulin Tablet, indefinitely. However, we are still interested in health supplement products for Mainland China market. We are now in discussion with a Canadian supplier for multivitamins products to be manufactured in Beijing, China.

The Group is also looking forward to other suitable investment opportunities in healthcare-related businesses in the PRC. As people nowadays are becoming more and more concerned about their health and well being, the Group is considering and evaluating an investment in a privately owned hospital in the PRC.

By Order of the Board  
**Kong Ho Pak**  
*Chairman*

Hong Kong, December 6, 2006