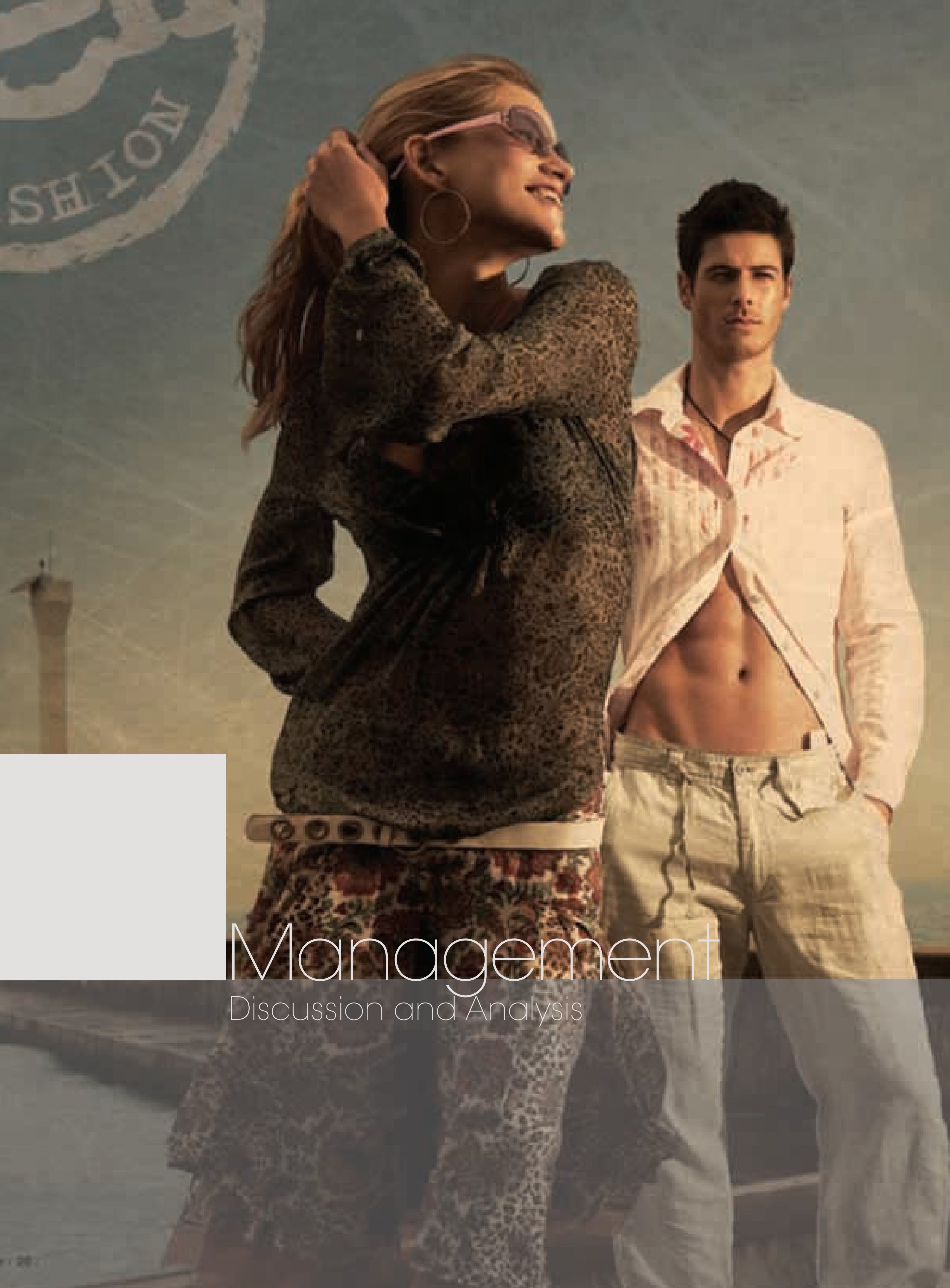

Management

Discussion and Analysis


RIVERSTONE

(1) BUSINESS REVIEW

The Group is a vertically integrated and large scale garment manufacturer, exporter and retailer based in China. 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. As at 31 December 2006, members of the Group operated 20 factories, principally situated at the China Ting Industrial Complex, engaging in fabric weaving and manufacturing of garment for OEM and of apparels for retail business in China.

The Group has an extensive sales network comprising concessions, free-standing stores directly operated by the Group and retail shops operated by franchisees through franchise agreements, spanning over 26 provinces and centrally governed municipalities. All retail shops were operated under the four in-house brands of "FINITY", "DBNI", "ELANIE" and "RIVERSTONE", and two licensed brands of "MAX STUDIO" and "BURLINGTON HOUSE".

(2) FINANCIAL REVIEW

Turnover

The Group's turnover continues to be derived from the two core businesses: OEM and retail sales in China. For the financial year 2006 ("**FY 2006**"), the Group's turnover rose from approximately HK$1,894.8 million for the financial year 2005 ("**FY 2005**") to approximately HK$1,920.1 million. The increase in turnover was principally attributable to the increase in retail sales in China.

For FY 2006, OEM sales was approximately HK$1,723.4 million, representing an increase of approximately 0.1% and accounted for approximately 89.8% of the Group's turnover. Except for the sales of silk and silk-blended apparel, all other apparels sales recorded a double-digit increase over FY 2005.

The OEM sales analysis by product is as follows:

	FY 2006		FY 2005		
	HK$ million	**%**	HK$ million	%	% Change
Silk and silk-blended apparel	**889.2**	**51.6**	1,121.6	65.1	(20.7)
Linen and linen blended apparel	**312.4**	**18.1**	202.0	11.7	54.7
Others	**440.0**	**25.6**	373.5	21.7	17.8
Home textile fabric and accessories	**81.8**	**4.7**	25.0	1.5	227.2
Total OEM sales	**1,723.4**	**100.0**	1,722.1	100.0	0.1

OEM sales to the United States, the core market for the Group's OEM business, recorded a decline of approximately 4.6%, to approximately HK$1,476.5 million for FY 2006. However, OEM sales to European Union and other countries grew by approximately 41.6% to approximately HK$246.9 million.

It was an encouraging year for the Group's retail sales. For FY 2006, retail sales surged by approximately 13.8% over FY 2005 to approximately HK$196.6 million. The increase in retail sales was driven by the expansion of retail network and the improvement in store sales performance.

In branded fashion segment, sales under the brand name "FINITY" grew by approximately 10.2% to approximately HK$94.2 million, accounting for approximately 47.9% of the Group's retail sales. Sales under the brand names "ELANIE" and "MAX STUDIO", represented approximately 13.8% and approximately 19.1% of the Group's retail sales, delivered sales growth of approximately 27.2% and approximately 36.7% respectively.

The retail sales analysis by brand name is as follows:

	FY 2006		FY 2005		
	HK$ million	**%**	HK$ million	%	% Change
In-house brands					
Finity	**94.2**	**47.9**	85.5	49.5	10.2
Dbni	**27.0**	**13.7**	31.4	18.2	(14.0)
Elanie	**27.1**	**13.8**	21.3	12.3	27.2
Riverstone (Note a)	**10.3**	**5.2**	1.1	0.6	836.4
Licensed brands					
Max Studio	**37.6**	**19.1**	27.5	15.9	36.7
Springfield (Note b)	**–**	**–**	5.9	3.5	N/A
Burlington House (Note a)	**0.4**	**0.3**	–	–	N/A
Total retail sales	**196.6**	**100.0**	172.7	100.0	13.8

Note a) The retail business of "Riverstone" and "Burlington House" commenced in October 2005 and July 2006, respectively.

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

Sales from concessions, free-standing stores and franchisees recorded growth between 12.9% and 44.4% in FY 2006. Sales from concessions amounted to approximately HK$133.3 million (FY 2005: HK$117.9 million), accounting for approximately 67.8% of the total retail sales. Sales from free-standing stores amounted to approximately HK$6.5 million (FY 2005: HK$4.5 million), accounting for approximately 3.3% of the total retail sales. Sales from franchisees amounted to approximately HK$56.8million (FY 2005: HK$50.3 million), accounting for approximately 28.9% of the total retail sales.

Gross Profit

The Group's gross profit amounted to HK$670.3 million, representing a decrease of about 3.2%; and gross profit margin dropped slightly from 36.6% to 34.9%.

The gross profit margin of OEM business decreased from 34.5% to 31.8%, which was due to the diversification to non-silk garment business, the high raw silk price and the continuing appreciation of the value of RMB against the US dollar.

The gross profit margin of retail business increased from 57.4% to 62.0%. The increase was mainly driven by the production efficiency while the average unit selling price of apparel remained stable during FY 2006.

Other income and other gains

The other income increased from approximately HK$664,000 for FY 2005 to approximately HK$732,000 for FY 2006. The increase was mainly represented the increase in rental income.

During the year, the Group disposed of a residential property and recorded a net gain of approximately HK$9.4 million, which was included in other gain.

Operating expenses

The selling, marketing and distribution costs rose to approximately HK$118.0 million, representing an increase of approximately 14.9% over FY 2005. The selling, marketing and distribution costs mainly included amortisation of retail shops decoration cost, advertising, staff cost for sales staff, transportation and office utilities. The increase was primarily due to the increase in salaries and transportation costs as a result of the Group's expansion in 2006.

The total amount of administrative expenses was approximately HK$153.0 million, representing a decrease of approximately HK$7.1 million or 4.4%, as compared to approximately HK$160.1 million in FY 2005. The decrease was mainly due to a decrease in stock provision of approximately HK$17.1 million and an increase in rental expenses of approximately HK$9.1 million. The increase in rental expenses in 2006 represented rental expenses paid to Zhejiang China Ting Group Company Limited ("**Zhejiang China Ting**"). Zhejiang China Ting became a subsidiary of the Group on 23 October 2006.

Operating profit

As a result of the factors discussed above, the Group's operating profit margin decrease slightly from approximately 23.9% in FY 2005 to approximately 22.0% in FY 2006. The Group's OEM segment recorded an operating profit margin of approximately 21.4%, representing a decrease of approximately 3.1 percentage points over 24.5% last year. The operating profit margin of the Group's retail segment increased from approximately 8.2% in FY 2005 to approximately 19.8% in FY 2006.

Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for FY 2006 (FY 2005: 17.5%). The applicable enterprise income tax rate for the PRC subsidiaries was between 15% and 33%.

The Group's effective tax rate decreased from 15.7% of profit before tax in FY 2005 to 11.7% of profit before tax in FY 2006. The decrease in effective tax rate was mainly due to the increase in non taxable income by approximately HK$28.8 million represented by the increase in the gain on disposal of property, plant and equipment of approximately HK$3.1 million and increase in interest income of approximately HK$25.7 million.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company for FY 2006 amounted to approximately HK$408.5 million, representing an increase of 7.2% when compared to HK$381.0 million for FY 2005.

Liquidity and Financial Resources

The Group continues to be in a strong financial position, with bank balance and cash of approximately HK$837.6 million as at 31 December 2006.

The net cash inflow from operating activities amounted to approximately HK$221.5 million, a decrease by approximately HK$197.0 million from approximately HK$418.5 million in FY 2005. The decrease was mainly due to an increase in the level of inventory maintained by the Group for its retail business, the increase in accounts receivable and the raw materials and work-in-progress for the OEM business. The net cash used in financing activities increased by approximately HK$677.3 million. As in FY 2005, the Group received net proceeds of approximately HK$1,012.5 million raised from the initial public offering completed in December 2005. Excluding the effect of net proceeds from the initial public offering, the net cash used in financing activities decreased from approximately HK$472.9 million in FY2005 to approximately HK$289.0 million in FY2006.

(3) OUTLOOK

In 2006, OEM sales of silk and silk-blended fashion were affected by the increasing prices of raw silk. This affected the Group's profit margin. During the second half of 2006, the raw silk prices have been back to the normal levels. This accelerated the demand for silk and silk-blended fashion. In 2007, the Directors anticipate that the raw silk prices will remain stable. On this basis, the Directors consider that the Group's OEM sales, as well as the profit margin, should be benefited from this latest development.

In addition to silk and silk-blended fashion, the Group has started the construction of a production plan nearby the existing China Ting Industrial Complex in Hangzhou. This new plant is expected to commence its operations by early 2008. By then, the Group's production capacity will increase by four million pieces a year. Moreover, to reinforce its competitive strength in the industry, the Group is planning to expand its ODM services and its product mix. The Group also plans to set up its own wool fabric production lines.

In order to further improve its operational efficiency and increase its production capacity, the Group is in the process of upgrading its existing production lines to an advanced automatic system. The management estimates that upon completion, the production capacity will be increased by at least 20%.

Given a consistent economic growth in China and the Group's extensive sales network spreading at the well-known department stores, the Directors intend to boost up the retail business in 2007. The Group will strengthen the image of various in-house brands through a number of programmes including opening of flagship shops, the recruitment of European designers, upgrading the image of shops, the increase in marketing, advertising and promotional activities. The Group intends to expand its network of retail sale shops to a total of 455 shops by the end of 2007. In addition, the Group has formed a joint venture with a leading UK jeans brand Lee Cooper to set up 120 sales points in China over a period of three years targeting young customers. The Group will continue to look for opportunities to cooperate with internationally renowned fashion brands.

Looking forward, China Ting Group will continue to diversify its product offerings in OEM business and to aggressively grow its fashion retail business. By effectively tapping the OEM business and brand retailing markets, the Group can expect to see its business growing in good pace and to maximise the returns for its shareholders.

(4) HUMAN RESOURCES

As at 31 December 2006, the Group had approximately 11,000 full-time employees. The staff costs for FY 2006 was HK$279.0 million, representing an increase of approximately 21.7% over FY 2005.

The Group has established an incentive bonus scheme for its employees, in which the benefits are based on the performance of the Group and individual employees. The Director 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.

(5) USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING

During the period from 15 December 2005 (date of listing) to 31 December 2006, the Group has already used part of the net proceeds from initial public offering to invest into the following projects for the business expansion:–

(a) approximately HK$52.5 million to complete the construction of a new apparel production plant and the establishment of a design, development and exhibition centre in Hangzhou;

(b) approximately HK$20.4 million for the expansion of retail shops and engaging in advertising and marketing campaigns;

(c) approximately HK$42.7 million on the acquisition of plant and machinery to enhance production capacity; and

(d) approximately HK$116.3 million to repay the bank borrowings.

The net proceeds raised by the Group in its initial public offering in 2005 amounted to approximately HK$1,099.9 million. As at 31 December 2006, approximately HK$868.0 million of the net proceeds had not been used by the Group and were deposited with a licensed bank in Hong Kong as short-term deposits with interest rate of approximately 4.8% per annum.