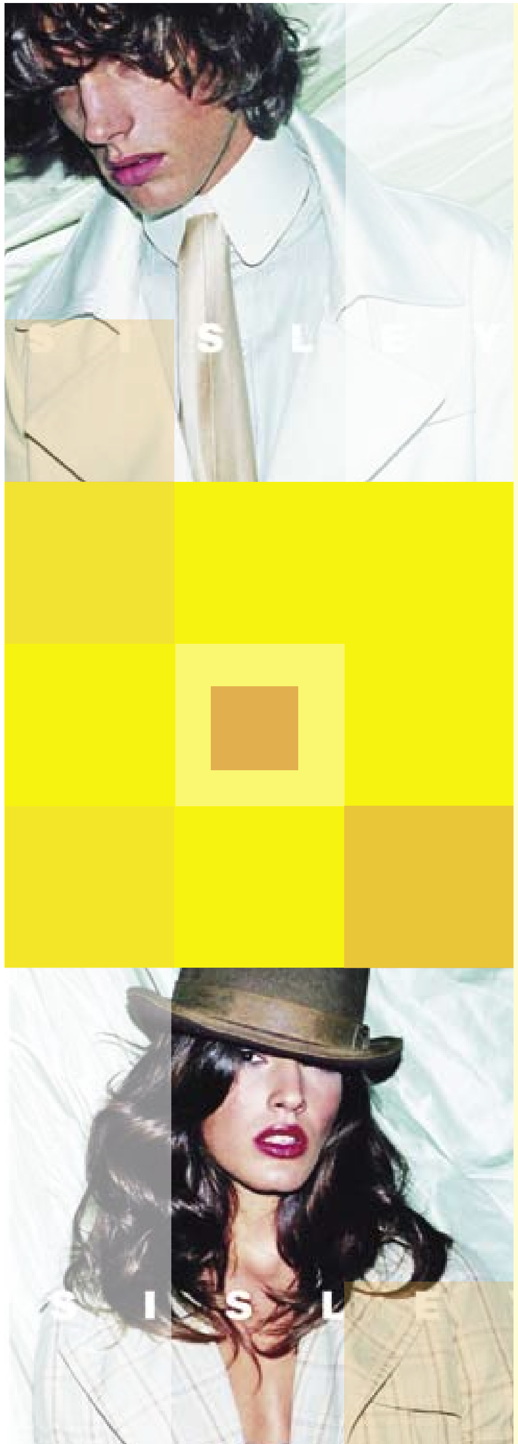
MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Overview

The strong increase in revenue for 2006 indicates the Group has continued to thrive in the markets where it operates. During this year, the Group's revenue reached HK$611.7 million, representing an increase of 43.0% as compared to last year. The Group's overall gross margin improved to 35.9% as compared to 33.2% reported last year. Profit attributable to the equity holders of the Company in 2006 also increased by 34.3% to HK$78.1 million.



The outstanding performance is attributable to the Group's continuous broadening of its supply chain services, based on the strategy of creating added values for its customers. The operating and financial results of our distribution and retailing business also continued to improve. It achieved a turnaround from a loss in 2005 to a slight gain in 2006.

SUPPLY CHAIN SERVICES

Despite key market challenges, including the rise in fuel costs, higher raw material prices and global trading regulatory changes for textile products (especially given the additional textile safeguards placed on China by the United States and European Union), the Group's supply chain services flourished. Revenue for the supply chain services increased by 34.0% to HK$551.9 million as compared to last year, which accounted for 90.2% of the Group's revenue in 2006. The gross margin of the Group's supply chain services surged from 32.7% to 35.3%, as compared to last year, notwithstanding the increased cost environment and the pricing pressures exerted by appreciation of the RMB.

This remarkable growth can be attributed to the rising global trend, particularly in Europe, of outsourcing production to Asia, especially China. Leveraging on the Group's comprehensive supply chain services platform, we are well placed to capitalize on the growth of this outsourcing trend. Europe remains our biggest export market, accounting for 77.9% of the Group's revenue. The above aside, the Group's strategy towards the creation of added values for its customers, which has proved sound, has contributed to the improvement of the gross margin. These added values include services such as quick response sourcing, product design and development support, logistical management and etc.

Since the end of 2006, completion of the new phase of our Yangzhou production base has also strengthened the Group's dual operation model in production management and high-tech garment manufacturing techniques. Such newly completed production facilities comprise a production workshop for the manufacture of high-tech outdoor wear as well as a production workshop for the Group's 50:50 joint venture with Mountain Experience Beteiligungs Gesellschaft M.B.H. ("MEB"), a global sports and mountaineering products provider.

The MEB 50:50 joint venture, established in the third quarter of 2006, will further boost our supply chain services as the Group can leverage on the established brand names held by MEB and its long established network. This joint venture's mission is to operate a PRC production and technological center for the manufacture of products sold under the trademarks *Salewa*, *Dynafit* and *Silvretta*, with the goal of developing high-tech garment manufacturing techniques. Besides, minimum orders of *Salewa* products are guaranteed. With the support of MEB, the joint venture has obtained "*GORETEX*" certification from W.L. Gore & Associates.

On the information technology front, we have also made consistent and solid strides to increase operational efficiency through the implementation of Lawson Software's M3 fashion enterprise suite, a leading Enterprise Resource Planning ("ERP") solution tailored specifically to the fashion industry. This has allowed greater information transparency within the Group's supply chain management system, reduced operation costs, facilitated business flow and optimized management. Efforts have also been made to our production management system including significant investment in the sample room application and the Enterprise Resources Management ("ERM") system, as well as the updated Point of Sale ("POS") management system for distribution and retailing. These initiatives have improved inventory and cost control and boosted overall efficiency.

Going forward, the Group will continue to consolidate its customer base to focus more high-end customers with high margin and significant growth potential. In particular, we will concentrate on high fashion and luxury brand, and high-tech functional garments. Also, in view of the fast changing customer expectations, the Group will retain its strategy to create more added values for its customers along the supply chain, especially in product design and development and in technology.

DISTRIBUTION AND RETAILING

The Group's distribution and retailing business has continued to operate under a favorable business environment due to strong and sustained economic growth in the PRC and the rising consumption power of its emerging middle class.

Revenue of the Group's distribution and retailing business, accounting for 9.7% of the Group's revenue, achieved an outstanding growth of 276.9% to HK$59.4 million, as compared to last year. The gross margin of the Group's distribution and retailing business has also improved from 36.4% to 37.9%, as compared to last year.

These improved results can be mainly attributed to the commencement of the Group's distribution for the brand *Lotto*. The Group's 50:50 joint venture with Lotto Sport H.K. Limited was established in the fourth quarter of 2005, wherein such joint venture is granted a 10 years exclusive right to distribute and sell apparel and footwear products under the brand *Lotto* in the PRC, Hong Kong and Macau. Adopting a diversified retail model that comprises franchised retail shops and directly-managed retail shops, the joint venture has, within a short span of one year, established a sizeable network. As at 31 December 2006, the joint venture has 65 points-of-sale including 11 directly-managed shops and 54 franchised shops throughout the PRC, covering mainly the first and second tier cities.

The gross margin for this *Lotto* joint venture has been favorable, as the Group focused significantly more on sourcing products within the PRC. Given the current interest in sports and sportswear in the PRC, fueled by the imminent Olympic Games in 2008, the Group plans to further expand the *Lotto* network to 250 points-of-sale by 2008.

Additionally, the substantial increase in revenue of the Group's distribution and retailing business can be attributed to the Group's expanded distribution network for the brand *Stonefly*, under a 50:50 joint venture, which the Group established with Stonefly S.p.A. in mid 2004. As at 31 December 2006, the joint venture has 34 points-of-sale including 22 directly-managed shops and 12 franchised shops throughout the PRC, again covering mainly the first and second tier cities.

The gross margin for this *Stonefly* joint venture dropped slightly this year due to the apparel stock clearance, as the Group switched away from offering both apparel and footwear, and focused solely on footwear.

The distribution and retailing business was further supported by a joint venture agreement with the Benetton Group in September 2006, which made the joint venture as the exclusive distributor for all items of men and women's apparel and accessories under the brand of *Sisley* in the PRC.

In the first half of 2007, about 35 shops, directly-managed by Benetton Group, are expected to be transferred to the new joint venture. And the Group plans to cover 115 additional points-of-sale through directly-managed shops in the PRC over the next four years.

Looking ahead, the Group plans to enhance each brand's market awareness through aggressive PR campaigns, with the view to increase the sales per shop, to capitalize in the sustained growth of the PRC economy and the exponential demand for premium consumer products. Meanwhile, leveraging on the Group's comprehensive supply chain services platform, the Group is able to improve the overall gross margin of its distribution and retailing business through more local products sourcing.

We will continue to form long-term synergistic partnerships with renowned international brands in the PRC market and develop our niche in being a multi-brand operator with a portfolio of renowned brands that targets the middle-high class consumers in the PRC as they represent the largest mainstream market for our products.

Striving to expand our sales network whilst simultaneously achieving an economies of scale, we believe our distribution and retailing business will be the growth engine for the Group in the years to come.

OPERATING EXPENSES

In 2006, the Group's distribution costs surged by 44.8% to HK$25.0 million, as compared to last year, which, as a percentage of revenue, remained fairly stable at about 4.0%. The increase in the Group's distribution costs is mainly attributable to the Group's vast distribution and retailing business expansion, of which distribution cost is a key component. These distribution costs mainly comprise (i) advertising costs; (ii) staff salaries and emoluments; (iii) rental and shop expenses/overheads; and (iv) travelling expenses.

The Group's administrative expenses substantially increased by 67.4% to HK$86.4 million, as compared to last year. As a percentage of revenue, the Group's administrative expenses increased from 12.1% in 2005 to 14.1% in 2006. The substantial increase in administrative expenses is mainly attributable to a charge of our Initial Public Offering expenses of HK$8.9 million and the share option expenses of HK$1.9 million in compliance with the new Hong Kong Financial Reporting Standard 2 – Share-based Payment requirements. Meanwhile, the higher expenses in staff salaries and emoluments also attribute to the significant increase in our administrative expenses, given more human resources are required to cope with the Group's vast expansion. Besides, additional depreciation in respect of our new facilities completed in Nanjing, the PRC, has increased the Group's administrative expenses during the year.

FINANCE COSTS

Finance costs increased by 87.2% to HK$23.3 million, as compared to last year. This substantial finance costs' increase is mainly attributable to the higher average level of interest rate in 2006 as compared to 2005 and a higher level of bank borrowings necessary to finance the Group's vast expansion.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group met its funding requirements in its usual course of operation by cash flows from operation, bank borrowings, as well as issuance of equity securities. As at 31 December 2006, the Group had bank balances and cash of HK$238.4 million, primarily denominated in RMB and HK dollars, (31 December 2005: HK$84.6 million) and total bank borrowings of HK$392.7 million (31 December 2005: HK$246.6 million), of which 73.3% constituted short-term bank borrowings and 26.7% constituted long-term bank borrowings. Besides, 5.1% of the total bank borrowings were subject to fixed interest rates, whilst 94.9% thereof was subject to floating interest rates. The Group's bank borrowings were primarily denominated in RMB, HK dollars and US dollars. As at 31 December 2006, 15.0%, 18.8% and 66.2% of the Group's total bank borrowings were denominated in RMB, HK dollars and US dollars respectively. The substantial increase in the Group's bank borrowings was mainly attributable to the Group's high demand for working capital and capital expenditures, resulting from the Group's vast expansion in supply chain services as well as the distribution and retailing business, as the Group is still in a developing and high growth stage of its development cycle. As at 31 December 2006,

the nature of the Group's total bank borrowings were as follows:

	2006	2005
	HK$'000	*HK$'000*
Bank overdrafts	**76**	9,288
Bills discount loans	**91,667**	67,912
Trust receipt loans	**134,233**	104,794
Packing loans	**28,545**	13,755
Current-portion of term loans	**33,426**	4,598
Total short-term borrowings	**287,947**	200,347
Long-term borrowings	**104,710**	46,244
Total bank borrowings	**392,657**	246,591

With the net proceeds of HK$101.6 million raised from the Initial Public Offering on 13 July 2006, the Group's net gearing ratio (which is calculated on the basis of total bank borrowings (net of cash and cash equivalent) over the total shareholders' equity of the Company) and current ratio (which is calculated on the basis of current assets over current liabilities) significantly improved. The net gearing ratio decreased from 1.09 as at 31 December 2005 to 0.45 as at 31 December 2006, notwithstanding the substantial increase in the Group's bank borrowings. As at 31 December 2006, the Group had current assets of HK$609.7 million (31 December 2005: HK$328.4 million) and current liabilities of HK$399.1 million (31 December 2005: HK$285.9 million). The current ratio significantly improved from 1.15 as at 31 December 2005 to 1.53 as at 31 December 2006. Both net gearing ratio and current ratio are considered healthy and indicates the Group's sound liquidity.

The interest coverage, expressed as a multiple of EBITDA over the interest expenses, was 5.37, which is considered a comfortable level.

Subsequent to the balance sheet date, on 27 March 2007, the Group obtained a 3-year syndicated term loan and revolving credit facility in an aggregate amount of HK$200 million. The loan bears interest at HIBOR plus 1.55% per annum. The syndicated term loan is repayable by installments over the three years period. The proceeds will be used to finance general working capital and capital expenditure of the Group.

FOREIGN EXCHANGE EXPOSURE

The majority of the Group's sales, purchase and operating expenses were denominated in RMB, HK dollars and US dollars. Although the Group has been and will continue to be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group has adopted no formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the year.

CHARGES ON ASSETS

As at 31 December 2006, the Group's bank deposits of HK$57.5 million, available-for-sale securities of HK$7.4 million, property, plant and equipment with an aggregate net book value of HK$131.2 million, and land use rights with an aggregate net book value of HK$30.1 million were pledged to secure the general banking facilities and bank borrowings granted to the Group.

SUBSTANTIAL INVESTMENT

For the year ended 31 December 2006, apart from investments in property, plant and equipment, no other substantial investment has been made by the Group. Details are in note 15 to the financial statements.

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions nor disposals during the year.

CAPITAL COMMITMENT

As at 31 December 2006, neither the Group nor the Company had any significant capital commitments.

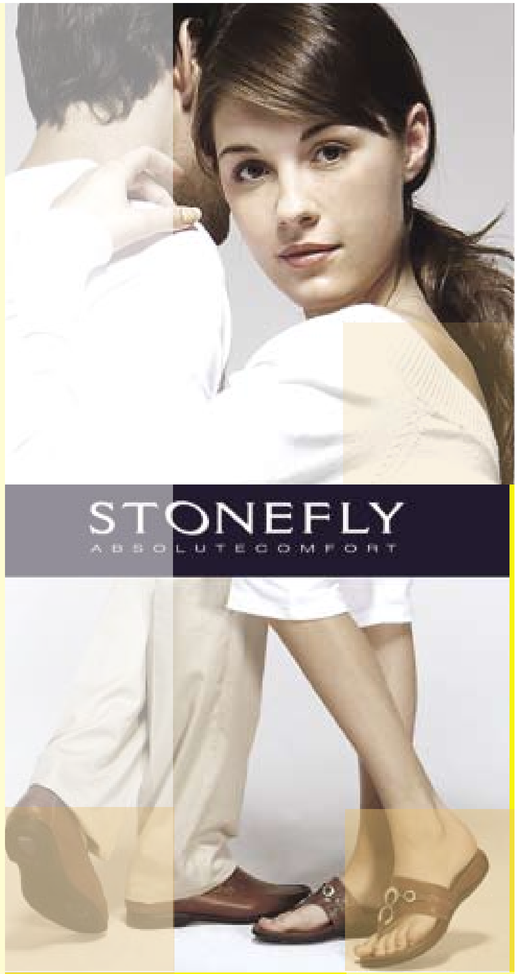
CONTINGENT LIABILITIES

As at 31 December 2006, neither the Group nor the Company had any material contingent liabilities.

EMPLOYMENT INFORMATION

As at 31 December 2006, the Group had about 2,030 employees in total, and they station mainly in the PRC, Hong Kong and Europe. The Group's emolument policies, which are reviewed periodically, are linked to the performance of the individual employees and are based on the salary trends, prevailing in the aforesaid regions.

In addition, the Group maintains a share option scheme for the purpose of providing incentives and rewards to eligible participants based on their respective contributions to the Group.



" Our record-high revenue in distribution and retailing business symbolizes our multi-brand strategy is set to fly. "