

Chairman's Statement



2006 marked a year of solid progress for the Group to further strengthen and enhance our corporate capability, leading us towards the stated goal. We adopted an aggressive approach in expanding the business to our expectation. August Silk, our US brand, had returned to profitability and is back on track for development, complementing the planned strategic moves for promoting private label business. It is expected that we will be better positioned in the development of our business in USA. With a number of significant expansion initiatives being effectively planned, managed and delivered, European business recorded a healthy growth of 32%, accounting for 17% of the Group's turnover in 2006. Such growth is expected to continue.

The Group's retail business had not been able to get breakeven, but in China market, we had achieved good progress and pathed the way for significant growth. In addition to Theme, the brand acquired during the year, recorded profit contribution. In March 2007, we entered into an agreement with Stefanel, an Italian brand, in relation to the establishment of a joint venture for exploring the Stefanel in China market. In addition, we reached an agreement to award the distribution rights of Mango in 14 China cities. In view of the dynamic economic development and vibrant market in China, we are confident that the existing strategic moves will bring about a bright future for the Group and prepare it for the competition ahead.

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The Group's mission is to work its way up to the top player in the silk apparel industry, and become a world-class apparel enterprise. The construction of the Group's major facilities in Xiaoshan District, Hangzhou for establishing a first class production base of ladies silk apparel is in good progress as planned, so is our construction in Xinchang, Zhejiang Province. It is expected that they will commence production one after another by the end of this year. We consider that the integrated and comprehensive manufacturing facilities will form a more centralised, modernized platform which will significantly strengthen our competitiveness. Looking forward, we believe we are well prepared to capture any opportunities arise in the future.

I would like to take this opportunity to express my gratitude to the shareholders, customers, suppliers and my fellow Directors for their support. I would also like to thank the staff from various regions for their dedication and contribution in achieving the corporate goals.

Lam Foo Wah

Chairman

Hong Kong, 11 April 2007