

Management Discussion and Analysis

RESULTS

Revenue for the year ended 31 December 2006 increased by 7% to HK\$2.25 billion. Net profit attributable to shareholders for the year ended 31 December 2006 was HK\$85 million, compared with a reported profit of HK\$67 million of last year. Basic earnings per share were 25.50 HK cents. Net asset value per share was HK\$2.40.

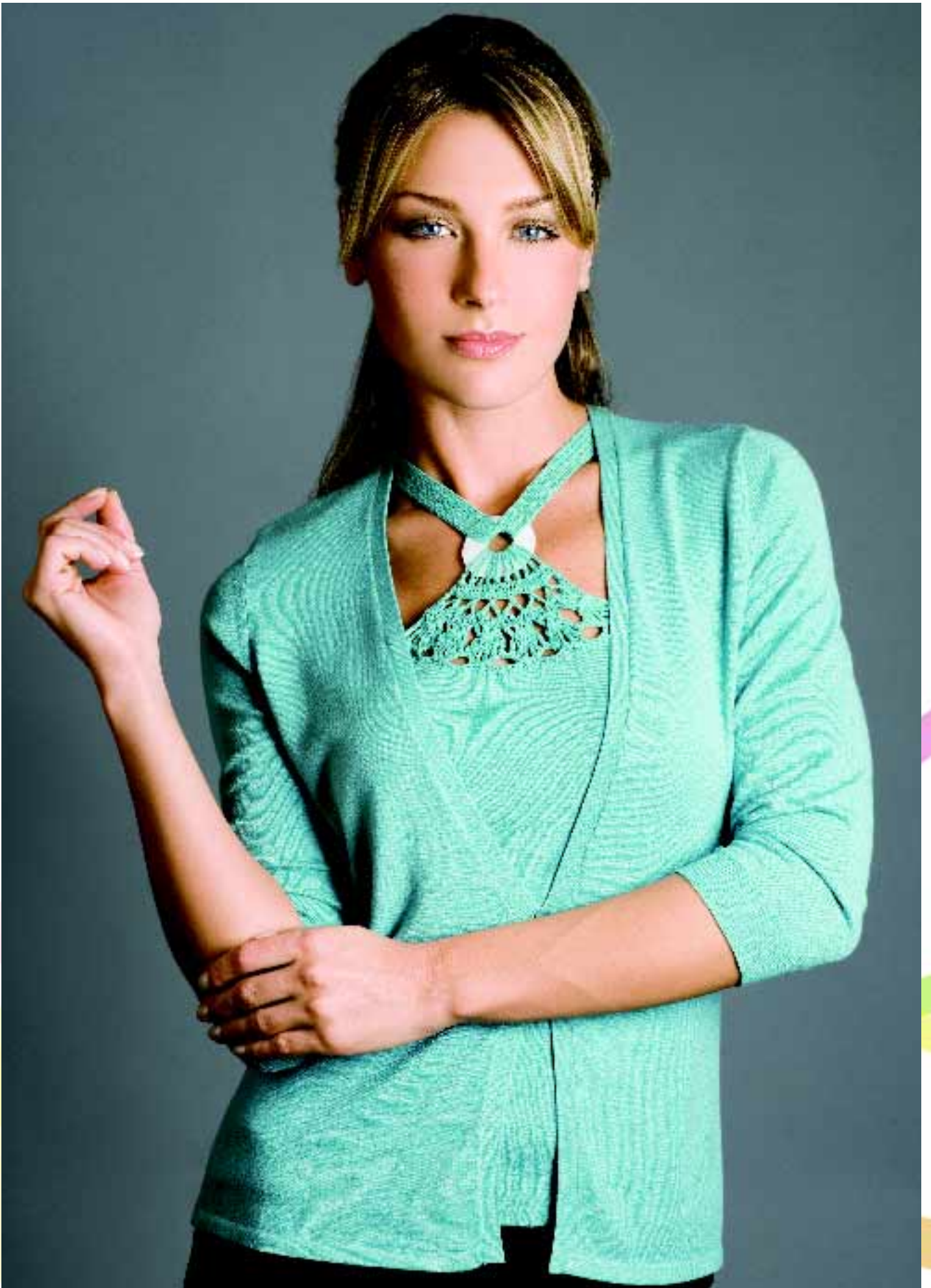
REVIEW OF OPERATIONS

The segmental information is as follows:-

| | Revenue | | Contribution | |
|---------------------------|------------------|------------------|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| By principal activity: | | | | |
| Manufacturing and trading | 1,974,750 | 1,856,872 | 133,336 | 102,386 |
| Retailing | 278,448 | 251,625 | (179) | (884) |
| | 2,253,198 | 2,108,497 | 133,157 | 101,502 |
| By geographical segments: | | | | |
| USA | 1,364,138 | 1,431,675 | 100,808 | 76,109 |
| Europe | 392,703 | 298,100 | 2,352 | 1,307 |
| Greater China | 453,264 | 348,875 | 26,237 | 20,988 |
| Others | 43,093 | 29,847 | 3,760 | 3,098 |
| | 2,253,198 | 2,108,497 | 133,157 | 101,502 |

The Group recorded growth in both revenue and operating profit of our core manufacturing and trading business when compared with last year.

Geographically, the United States continued to be the Group's major export market, accounting for 61% (2005: 68%) of revenue for the year of 2006. August Silk accounted for 35% of our revenue in the USA, comparable with last corresponding year. We have reorganized the management of August Silk, product line and enhanced the marketing strategy and the operation already contributed a return in 2006.



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Sales to the European market increased to 17% (2005: 14%) of revenue for the year of 2006. We are now set to accelerate our business expansion in the European market with new products and intensified marketing activities.

The revenue of our retail group of Theme amounted to HK\$278 million, increasing by 11% when compared with the year of 2005. The increase was partly attributable to the acquisition of the brand of CSLR and the increase of Theme's PRC sales. The retailing business recorded a minimal net operating loss of HK\$0.2 million for the year of 2006. The management of Theme is implementing cost control in relation to selling expenses; which being accomplished by the expansion of its franchise network could deliver a return to its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total outstanding bank borrowings were increased to HK\$461 million at the balance sheet date compared to HK\$369 million as at 31 December 2005. The increase in bank borrowing was mainly due to the acquisition of a new property in Shenzhen of Theme and the construction of production complex in Hangzhou. Our gearing ratio of non-current liabilities to shareholders' funds was 9% at the balance sheet date. Current ratio has been maintained at a healthy level of 1.2.

The Group's total cash and bank balances were HK\$219 million at the balance sheet date. Based on the comfortable cash position and the ample banking facilities available, the Group had a very strong working capital and liquidity to meet the operating needs.

The Group's receivables were mainly denominated in US dollars. Bank borrowings were denominated in US dollars, Hong Kong dollars and Renminbi. Since the Hong Kong dollar is pegged to the US dollar, the Group considers that its foreign exchange risk is minimal. Foreign exchange risks on the recent revaluation of Renminbi is managed by the Group with the use of forward contracts to hedge against the exchange fluctuation. The Group had no borrowings at fixed interest rates during the year.

The Group has no material contingent liabilities. Barring the pledge of trade receivables, bills receivables and bank deposits of certain subsidiaries of HK\$102 million, there were no charges on the Group's assets.

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TAX AUDIT

The Inland Revenue Department (IRD) initiated a tax audit on certain group companies in February 2006 for the years of assessment from 1999/2000 onwards. The management is of the opinion that, in all the years, adequate Hong Kong tax provisions were made on the Hong Kong sourced income. Since the tax audit is still at a fact-finding stage, the outcome of the tax audit cannot be readily ascertained. After consulting with professional advisers, the management is of the opinion that the existing provisions are adequate.

HUMAN RESOURCE

The total number of employees of the Group including jointly controlled entities as at the balance sheet date was about 12,200. Other than the competitive remuneration package offered to the employees, share options may also be granted to selected employees based on the Group's performance. No share options were granted to employees during the year.

CAPITAL EXPENDITURE

The Group entered into construction contracts to construct the production complex and living quarters at the Xiaoshan district in Hangzhou at a total consideration of HK\$85.3 million in 2006.

Theme acquired two floors of Hanggang Fuchan Commercial Building of Futian district in Shenzhen as the headquarter at a total consideration of HK\$46 million in July 2006.

Except for the above, there was no material capital expenditure during the year.

