

BUSINESS REVIEW AND PROSPECT *(Continued)*

Regarding business issues, the Group has further developed business relationship with customers having self-owned sales channel. Consequently, related orders have achieved a greater growth as compared with the corresponding period last year.

Spurred by the persistent economic growth and the increasing living standard in China, the Group saw great potential in China's domestic sales market, and as a result undergone a more dynamic exploration in China's retail and wholesale operations. For the first half of the year 2006, focus has been put on brand management and the construction of sales channel. Through full conglomeration of brand, product and sales channel, domestic sales is expected to leap forward.

Constant increase in labor cost, soaring cost of raw materials, anti-dumping investigation by European Union and the appreciation of Renminbi have remained severe challenges to the Group's further development. The Group will continue to strive for the betterment of the management module focusing on the enhancement of efficacy and to serve our existing customer with quality products and services, while actively identifying new customers and exploring China's domestic sales market so as to attain greater business growth and enhance our profit margin, and to serve our shareholders well.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2006, the Group's total net assets was US\$103,301,000, comprising mainly current assets of US\$68,384,000, non-current assets of US\$71,055,000, current liabilities of US\$25,658,000 and non-current liabilities of US\$10,480,000. The current ratio was approximately 2.67 times and the ratio of net bank borrowings to shareholders' fund was approximately 12.5%. The Group services its debts primarily through cashflow generated from its operation. The Directors believe that the Group has maintained sufficient working capital for its operation and future expansion.