

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the manufacture and sale of finished woven fabrics targeting at mid to high-end market in the PRC. The Group has vertically integrated its production processes, which include research and development, raw fabric weaving, dyeing and setting, cloth finishing such as pattern pressing and calendaring. The Group's products are used for manufacturing men's and women's fashions such as outer garments, eider down wear, trousers, windbreakers and jackets.

Turnover

For the financial year ended 30 June 2003, the Group recorded a turnover of approximately HK\$345,415,000 (2002: HK\$226,179,000), representing an increase of approximately 52.7% in comparison to the previous financial year. The increase in turnover was attributable to (i) the continuing demand of Elastic Fabrics Series; (ii) the launching of new series of products, namely Combined Fabrics Series; and (iii) the Group's commencement of participation in trade shows in Shanghai and Beijing.

Gross profit

For the financial year ended 30 June 2003, the gross profit margin of the Group was 29.5% (2002:29.3%).

Net profit

The Group's net profit attributable to shareholders for the financial year ended 30 June 2003 was about HK\$68,732,000 (2002: HK\$42,792,000), about 1.1% more than the estimated net profit of HK\$68,000,000, as stated in the prospectus of the Company dated 28 August 2003 (the "Prospectus"). Net profit margin of the year ended 30 June 2003 was about 19.9% (2002: 18.9%). The increase in net profit margin compared with previous year was due to effective cost control in selling, distribution and administrative expenses.

Expenses

Selling and distribution expenses amounted to approximately HK\$13,652,000 (2002: HK\$9,917,000), representing approximately 4.0% of turnover for the year ended 30 June 2003. Selling and distribution expenses increased by approximately 37.7% when compared with that of 2002. The increase was attributable to the increase in commission paid to distribution agents, and transportation expenses resulted from increase in turnover during the year.

Administrative expenses amounted to approximately HK\$6,842,000 (2002: HK\$3,235,000), representing approximately 2.0% of turnover for the year. Administrative expenses increased by approximately 111.5% when compared with that of 2002. It was mainly due to the establishment of sales liaison office in Shaoxing, Zhejiang Province, the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

Other operating expenses amounted to approximately HK\$835,000 (2002: HK\$2,594,000), representing approximately 0.2% of the turnover for the year. Decrease in amount was attributable to no provision being made on doubtful debts and no bad debts and pre-operating expense being written off for the year.

Finance costs of approximately HK\$1,677,000 (2002: HK\$1,720,000) was maintained at the same level with that of 2002.

Dividend

The Board does not recommend the payment of any dividend for the year ended 30 June 2003 (2002: Nil).

FUTURE PLANS AND PROSPECTS

As a result of the improvement of quality of life in the PRC, the demand for fashionable clothing and quality fabrics increases. Moreover, since PRC's entry into the World Trade Organization, the world-wide quota on PRC-origin imports of textile products will gradually be removed. The Board believes that the above creates ample opportunity for the development of the Group's business.

In order to diversify the customer base of the Group and tap the market potential, the Group plans to expand its distribution network to the other textile markets in the PRC and overseas textile markets. The Group intends to expand its distribution network by, on one hand, establishing sales points or appointing distribution agents in the intended new distribution locations and, on the other hand, strengthening its existing sales and marketing team in order to further promote the Group's products.

To cope with the expected growth in demand of the Group's products, the Group has commenced the establishment of a new production line in January 2003, which is located adjacent to the Group's factory premises for the existing production line for fabric dyeing. The Board expects that the establishment of the new production line will be put into commercial production by the end of the first quarter of 2004.

As a result of the continuous change in the trend of the textile and garment markets, the Group will continue to put effort in research and development of new products to suit the market needs.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2003, the Group had net current assets of approximately HK\$55,266,000 (2002: HK\$15,195,000). The Group generally finances its operations with internally generated resources and maintains a strong financial position. As at 30 June 2003, the Group had cash and bank balances of approximately RMB70,407,000, equivalent to approximately HK\$66,422,000 (2002: HK\$17,204,000). The current ratio of the Group was approximately 174% (2002: 127%).

MANAGEMENT DISCUSSION AND ANALYSIS

Shareholders' fund of the Group as at 30 June 2003 was approximately HK\$160,467,000 (2002: HK\$91,657,000). The total bank borrowings of the Group as at 30 June 2003, repayable within 12 months from the balance sheet date were amounted to approximately RMB25,600,000, equivalent to approximately HK\$24,151,000 (2002: HK\$19,057,000), giving rise to a gross debt gearing (i.e. total bank borrowings/net assets) of approximately 15.1% (2002: 20.8%).

The financial health of the Group has been strong throughout the year as indicated by the low gearing and high current ratio.

FINANCING

As at 30 June 2003, the total banking and loan facilities of the Group amounted to about HK\$24,151,000, all of which was utilized. The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable term.

The Group also obtained equity financing amounting to approximately HK\$77,100,000 by listing the Company's shares on the Main Board of the Stock Exchange on 10 September 2003. With the support of a shareholder base comprised of predominately long term institutional investors, the Group is in an enviable position to capture the market potential in the PRC.

CAPITAL STRUCTURE

The Company was listed on the Main Board of the Stock Exchange on 10 September 2003. The net proceeds from the initial public offer and placement as disclosed in the Prospectus, after deduction for relevant expenses, are approximately HK\$77,100,000. The Group will apply these proceeds for the purposes as disclosed in the Prospectus.

Since the listing of the Company's shares on the Main Board of the Stock Exchange on 10 September 2003, there has been no change in the capital structure of the Company. The share capital of the Company comprises only ordinary shares.

FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

For the year ended 30 June 2003, the Group was not subject to any significant exposure to foreign exchange risk as the majority of the transactions of the Group were denominated in either Hong Kong dollars or Renminbi. Hence, no financial instrument for hedging was employed.

All bank borrowings of the Group were denominated in Renminbi and at fixed rate basis. The Board is of the view that the Group was not subject to any significant interest rate risk.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGE ON GROUP'S ASSETS

As at 30 June 2003, certain leasehold land and buildings, and plant and machinery of the Group with aggregate net book values of approximately HK\$24,970,000 and approximately HK\$19,379,000, respectively, were pledged to banks to secure bank facilities granted.

CAPITAL EXPENDITURE

During the year, the Group invested approximately HK\$38,487,000 in fixed assets, of which approximately 35.5% was used for purchases of plant and machinery and approximately 64.5% for construction of new factory premises.

As at 30 June 2003, the Group had capital commitments of approximately HK\$4,837,000 in respect of fixed assets and research costs, which are to be funded by the net proceeds from initial public offer and internal resources.

STAFF POLICY

As at 30 June 2003, total number of employees of the Group was 329 in the PRC and 3 in Hong Kong. The Group offers a comprehensive and competitive remuneration and benefit package to all its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. Also, the Group and its employees in the PRC are each required to make contribution to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations.

The Group also provides periodic internal training to its staff.

CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company did not have any significant contingent liabilities.