

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the year under review, in spite of the volatility of the global economy, the Group achieved continuous growth in its results. The Group's turnover amounted to approximately HK\$338 million, representing an increase of approximately 16.7% in comparison with HK\$290 million of last year. Net profit from ordinary activities attributable to shareholders increased to approximately HK\$91 million, showing an increase of approximately 16.2% against prior year. This sound performance was mainly attributable to the Group's well-structured business expansions.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 30 September 2003, the Group principally financed its operations and investing activities by its internal resources, proceeds received from placement of new shares and exercise of share options, and bank borrowings.

For the year ended 30 September 2003, the Group generated net cash flow from operating activities of approximately HK\$111,438,000. As at 30 September 2003, the Group had cash and cash equivalents of approximately HK\$114,537,000.

The Group had total bank borrowings of approximately HK\$38,396,000 which were fully secured.

At 30 September 2003, the Group had net current assets of approximately HK\$98 million (2002: HK\$85 million).

The current ratio (calculated as the current assets to the current liabilities) of the Group as at 30 September 2003 was approximately 1.73 (2002: 1.96).

The gearing ratio (calculated as the total bank borrowings to the total shareholders' equity) of the Group as at 30 September 2003 was approximately 0.10 (2002: 0.08).

CAPITAL STRUCTURE

On 1 August 2003, 67,200,000 new shares were placed to certain independent third parties at a consideration of HK\$1.00 per share and net proceeds of approximately HK\$65,150,000 were raised. The Company intended to apply the proceeds for the construction of a new cotton yarn spinning plant within the Company's existing factory complex, purchase of cotton yarn spinning machinery and equipment, and as general working capital of the Group.

During the year under review, an addition of 64,000,000 shares were issued at an exercise price of HK\$0.57 per share with proceeds totalling HK\$36,480,000 due to the exercises of share option.

CAPITAL EXPENDITURE

During the year under review, capital expenditure amounted to approximately of HK\$170 million, which was mainly used for the expansion of fabric processing production capacity, amounting to approximately HK\$51 million, and the construction of a fabric manufacturing plant and a cotton yarn spinning plant, amounting to approximately HK\$6 million and HK\$106 million respectively.

Details of capital expenditure are set out in note 13 to the financial statements.

MATERIAL ACQUISITIONS/ DISPOSALS

The Group had no material acquisitions or disposals during the year under review.

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FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed elsewhere in Management Discussion and Analysis, and the details set out in the section headed “Future Plan and Prospects” in the prospectus of the Company dated 20 August 2002 (the “Prospectus”), as at 30 September 2003, the Group had no future plans for material investments.

FOREIGN EXCHANGE EXPOSURE

The sales and purchase of the Group are mainly denominated in U.S. dollars, Hong Kong dollars and Renminbi. Bank borrowings are denominated in Renminbi. As the exchange rates of U.S. dollars against Hong Kong dollars and Renminbi were relatively stable during the year under review, the directors consider that the Group’s exposure to fluctuations in exchange rates was minimal.

CONTINGENT LIABILITIES

As at 30 September 2003, neither the Company nor the Group had any significant contingent liabilities (2002: Nil).

PLEDGE OF ASSETS

Details of the charged assets of the Group are set out in note 18 to the financial statements.

EMPLOYMENT INFORMATION

As at 30 September 2003, the Group employed a total of 752 employees (2002: 729). The Group’s emoluments policies are formulated on the performance of individual employee and on the basis of the salary trends in various regions. During the year ended 30 September 2003, the total staff costs (including Directors’ emoluments) amounted to approximately HK\$16,835,000 (2002: HK\$13,422,000).

The Group operates a share option scheme (the “SO Scheme”) for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group. During the year under review, options to subscribe for an aggregate of 64,000,000 shares in the Company have been granted under the SO Scheme.

BUSINESS DEVELOPMENT AND OUTLOOK

The Group had successfully implemented a series of business diversifications and capacity expansions during the year under review, to maintain a continuous growth in revenues and profits and to build up its global clientele. The strategic implementations included:

- ◆ **New Plant Establishments:** The Group extended its core business in fabric processing to encompass a comprehensive range of services including fabric manufacturing and cotton yarn spinning. Two major plants were constructed during the year:
 - The grey fabric manufacturing plant commenced operation in April 2003 with an annual manufacturing capacity of 7,000 tonnes of fabrics;
 - The cotton yarn spinning plant commenced operation in January 2004 with estimated full capacity reaching 12,000 tonnes of yarn per year.
- ◆ **Extended Fabrics Processing Services:** The Group commenced non-pure cotton woven fabric processing services at the end of 2003, adding to its already established processing services for knitted fabrics.

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◆ Capacity Expansion:

- Capacity expansion in pure cotton processing to 22 million lbs per year was completed in July 2003 ;
- Capacity expansion in the waste water system to support the Group's anticipated business growth. Expected completion in the first quarter of 2004, aiming at an annual processing capability of 1,400,000 tonnes of water.

◆ Other Developments:

- Establishment of sales offices at strategic points in the PRC to strengthen the Group's sales network in the territory. Guangzhou and Shanghai sales offices which were set up in 2003 are currently in full operation. Sales offices in Beijing and Chengdu will be established within 2004;
- Promotion of the Group's own brand name fabrics "Fentex" to achieve business diversification and increase the revenue stream.

In the last quarter of 2003, we saw a noticeable upturn in the global economy. With the robust economic growth in China and the surging demand for textile products and fabric processing services in the European and North American markets, the Group is determined to capture the lucrative market opportunities and expand its global clientele, with emphasis on the PRC and the European markets. With the well-structured strategic expansions implemented in 2003, the Group is confident and fully geared to grow and stay competitive in the vast and rapid-changing market environment. The Group will continue to deliver services and products of uncompromising standards to our customers and bring forth satisfactory returns to our shareholders.