MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The Group's turnover for the year ended 30 September 2005 amounted to approximately HK$518.1 million, representing an increase of approximately 36.2% over last year. Net profit attributable to shareholders was approximately HK$69.0 million, representing an increase of approximately 3.1% over last year.

The increase in turnover was mainly due to the full commencement of the operation of the two yarn spinning plants in the whole of the fiscal year. Manufacture and sale of yarns amounted to approximately HK$91.3 million during the year. The turnover for the provision of fabric processing services, and the manufacture and sale of fabrics remained stable during the year under review.

The gross profit margin of the Group decreased from approximately 30.8% in 2004 to approximately 24.1% in 2005, which was mainly attributable to the continued upsurge in production expenses such as coal and higher than expected raw material cost on cotton.

Slight increase in net profit attributable to shareholders was mainly due to tightening of all production costs of two plants in manufacture and sale of yarns which commenced operation in March 2004. To cope with high cotton prices, the Group continued to keep considerably high level of inventory all year round. To maintain a higher production capacity in fabric processing, the Group followed a restructuring programme through out the year on disposing old machinery and to acquiring replacements.

ANALYSIS BY CUSTOMER GEOGRAPHICAL REGIONS

Sales to customers located in the Greater China region significantly rose from approximately 31.3% in 2004 to approximately 54.3% in 2005. This upsurge was due to the fast growing and strong demand of the Chinese economy and the nearby region. Yarns continued to be a primary product for PRC customers. The Philippines market continued to be a strong base of customers of the Group, accounted for approximately 37.0% of the Group's total turnover. The remaining 8.8% of sales were generated from customers located in Africa, Australia and North America.

The segment result of the Greater China remains stable as compared to previous year with minor reduction in the contributions of other regions.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At 30 September 2005, the Group had current assets of approximately HK$250.6 million (2004: HK$205.1 million) and current liabilities of approximately HK$176.9 million (2004: HK$171.1 million). The current ratio (calculated as current assets to current liabilities) increased from 1.20 as at 30 September 2004 to 1.42 as at 30 September 2005, owing primarily to improved cash position. The gearing ratio (calculated as the total bank borrowings to total shareholders' equity) had risen slightly from 0.35 as at 30 September 2004 to 0.38 as at 30 September 2005. These ratios were at reasonably adequate levels as at 30 September 2005 while the Group had sufficient resources in meeting its short-term and long-term obligations.

During the year under review, the Group principally met its funding requirements by cash flows from operations and bank borrowings. The total bank borrowings increased by approximately HK$38.7 million.

At 30 September 2005, the Group had total bank borrowings of approximately HK$187.2 million, of which approximately HK$111.3 million was short-term bank borrowings and approximately HK$75.9 million was long-term bank borrowings. Approximately 49.3% of the total bank borrowings was subject to fixed interest rates while approximately 50.7% was subject to floating interest rates. There are no seasonal adjustments with respect to the Group's borrowings.

During the year, a total of 100,000 ordinary shares were issued upon the exercise of warrants and the warrants were expired on 21 August 2005. As a result of the new issue of shares as referred to above, the total number of issued shares of the Company as at the date of this report is 774,552,000.

CAPITAL EXPENDITURE AND MATERIAL ACQUISITION

During the year under review, the total capital expenditure of the Group was approximately HK$71.0 million, which was incurred as follows:

- approximately HK$23.0 million for the expansion of various plants via purchase of leasehold land and erection of new buildings;

- approximately HK$48.0 million for the acquisition of addition plant, machinery and equipment for cope with increase of production and sales volume.

The Company has terminated the joint venture agreement with Italian shirting fabrics processor, MVB on 9 June 2005. As a result, the deposit of Euro200,000 (approximately HK$1.9 million) was forfeited by MVB as per the details of the announcement dated 14 June 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE EXPOSURE

The sales and purchases of the Group were mainly denominated in US dollars and Renminbi. Bank borrowings were denominated in Renminbi and Hong Kong dollars. As the exchange of US dollars against Renminbi and Hong Kong dollars were relatively stable during the year under review, the Group's exposure to currency exchange risk was minimal.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 September 2005 (2004: Nil).

At 30 September 2005, the Company had provided corporate guarantees to the extent of HK$25,000,000 (2004: HK$50,000,000) for banking facilities granted to a subsidiary, which were utilised to the extent of HK$25,000,000 (2004: HK$50,000,000).

PLEDGE OF ASSETS

The Group's bank borrowings are secured by certain of the Group's leasehold land and buildings, and plant and machinery with a total carrying value of approximately HK$110,375,000 at 30 September 2005 (2004: HK$83,781,000), and corporate guarantees given by subsidiaries of the Company and the Company respectively.

EMPLOYMENT INFORMATION

At 30 September 2005, the Group had a total of 2,031 (2004: 2,345) employees in Hong Kong, Macau and the PRC. The Group's emoluments policies are formulated on the performance of individual employees and on the basis of the salary trends in various regions, and are reviewed periodically.

For the year ended 30 September 2005, the total staff costs (including Directors' emoluments) amounted to approximately HK$38,886,000 (2004: HK$21,858,000). The great upsurge was due to increase in production while maintaining a steady work force.

The Company also maintains a share option scheme for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group. No share options were granted during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS DEVELOPMENT AND OUTLOOK

Prior year plant acquisitions and other business expansions have started to contribute to the Group's turnover. The management expects to see further growth with future expansion of plant facilities.

Existing plants came into operation include:

- Huafeng Knitting (wholly-owned subsidiary of the Company) specializes in fabric manufacturing and processing with an annual production capacity of 51,600 tonnes.

- Shenyang Huafeng (53.6% owned subsidiary of the Company): principally engages in sourcing and fabric processing of corduroy; fabric processing and printing of muslin. Total annual processing capacity reaches approximately 36 million meters;

- Fenghua (wholly-owned subsidiary of the Company): principally engages in yarn spinning (65,000 spindles) with an annual production capacity of approximately 13,000 tonnes; and

- Lianyungang Huafeng (wholly-owned subsidiary of the Company): principally engages in cotton processing and yarn spinning (40,000 spindles) with an annual production capacity of approximately 8,000 tonnes.

- Lingfeng (wholly-owned subsidiary of the Company): principally engages in fabric processing with an annual processing capacity of approximately 36,000 tonnes.

The Group reported a robust business turnover in 2005. This reflected the success of a series of initiatives implemented, which has proved to be effective and beneficial to the operation. Driven by the surge in production capacity, the business activity of the Group has gathered further momentum during the year, and the Group is fully geared to extend its foothold to new markets across the board. The Group will remain very conscious of the changing global market conditions to secure a competitive edge over its competitors.

In the future, the Group will continue to focus on the development of its core business in fabric processing. The development will be facilitated through capacity expansion of the Group's existing operations. Such investments will be funded by bank borrowings and internal resources. We remain confident that the Group's business will continue to grow strongly and profitably.