RESULTS AND BUSINESS REVIEW

Continuing its good performance during the six months ended 30th June, 2005 as stated in its Interim Report, the Group achieved further growth in turnover and profits in the latter half of the year and thus reported overall encouraging results for the whole financial year of 2005. The Group's turnover for the year ended 31st December, 2005 was HK$1,103.8 million (2004: HK$905.2 million); gross profit was HK$214.1 million (2004: HK$91.1 million). With fair value gains on investment properties of HK$4.1 million taken into account, profit attributable to equity holders amounted to HK$65.7 million (2004: loss attributable to equity holders of HK$41.2 million). Basic earnings per share was 18.25 HK cents for the year 2005.

Although global textile quotas were eliminated among member countries of the World Trade Organisation ("WTO") on 31st December, 2004, safeguard measures were introduced by the EU and US to discourage "dumping" of textile and garments from Mainland China. It was only after months of negotiation that new agreements were reached between Mainland China and the EU and US restricting import growth of most sensitive categories of textile and clothing products from Mainland China to the EU and US markets until the end of 2007 and 2008 respectively. Before the trade disputes were settled, opportunities arose for vendors in other developing countries.

In addition to favorable market conditions, the Group's achievement was attributed to it having secured a number of new customers and orders of products that have better utilized the Group's production techniques and capacity. Heeding the uncertainties surrounding the quota system at the turn of 2004 to 2005, the Group postponed shipment of certain products made in Indonesia to the beginning of year 2005 to help customers lower their business risks. This exceptional shift of shipment by the Group's Indonesia arm also fuelled the sales growth further in the year under review. Turnover of the Group surged by 21.9% over last year's. By product category, the turnover from knit tops, woven bottoms and knitted fabrics was 78.4%, 21.0% and 0.6% respectively (2004: knit tops: 62.6%, woven bottoms: 28.7%, sweater tops: 7.8% and knitted fabrics: 0.9%).

Effective cost control and the Group's efforts to maximize production capacity to achieve economies of scale during the year had helped to lower unit production cost. Reduced production and quota costs improved the Group's gross profit margin by 9.3% over that of last year. Selling expenses to turnover ratio was comparable with last year's. The Group also kept its administrative expenses low, which overall contributed to a significant increase in its operating profit.

Indonesia

During the year under review, Indonesia remained the Group's major production base. The Indonesia factories contributed 64.3% (2004: 50.9%) to the Group's turnover, of which 49.2% and 15.1% was from knit tops and woven bottoms respectively. The growth was partly the result of the exceptional shift of 2004 shipments to 2005 and partly because the factories enhanced computerization which improved their production efficiency and capacities. With quota restrictions lifted from 1st January, 2005, the Group has expanded its production capacity in Indonesia to enhance the Group's overall competitive advantages.

El Salvador

During the year, the knit factory, Charter, S.A. de C. V. in El Salvador, contributed 16.4% (2004: 16.7%) of the Group's total turnover, similar to last year. The Group secured appropriate orders for the factory to allowing it to apply its resources and strengths to the full. The factory brought in a stable income to the Group.

Lesotho

The output from the knit factory, Shinning Century Limited in Lesotho accounted for 9.8% (2004: 11.9%) of the Group's total turnover.

Vietnam

The overall output from Vietnam, including subcontracting business, accounted for 3.6% (2004: 10.1%) of the Group's turnover. The decrease in turnover was due to the slow-down in sales growth of the knit factory, Molax Vina Co., Ltd. threatened by US quotas on imports from Vietnam. As it was uncertain when Vietnam would be admitted to WTO and assumed quota free status, the Group decided to focus resources on its main production base and disposed of its interests in the factory in October 2005.

Mainland China

During the year, the Group's interests in ShanDong WeiQiao HengFu Textile Limited, a joint venture factory for knitting, dyeing and finishing of knitted fabrics, was diluted from 60% to 40%, the aim of which was to give its mainland partner greater flexibility and control in managing the operation of the factory. The move is expected to help boost management efficiency and improve the factory's financial performance which will ultimately benefit both partners.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a conservative financial management system and maintains a healthy liquidity position. At 31st December, 2005, the Group's cash and bank balances amounted to HK$49.9 million (31st December, 2004: HK$76.9 million) while bank borrowings, in the form of trust receipt loans, amounted to HK$76.4 million (31st December, 2004: HK$73.0 million) and term loan, amounted to HK$25.2 million (31st December, 2004: HK$31.2 million). The bank loans were denominated in either HK dollars or US dollars. Working capital represented by net current assets amounted to HK$103.1 million (31st December, 2004: HK$83.4 million).

The Group's current ratio was 1.4 (31st December, 2004: 1.3). The gearing ratio of total bank borrowings to equity attributable to the Company's equity holders was 39.8% (31st December, 2004: 52.6%).

The debt maturity profile of the Group as at 31st December, 2005 was as follows:

	At 31st December, 2005 (Audited) HK$'000	At 31st December, 2004 (Audited) HK$'000
Repayable within one year	**84,199**	80,825
Repayable after 1 year, but within 2 years	**15,500**	7,800
Repayable after 2 years, but within 5 years	**1,938**	15,600
Total	**101,637**	104,225

CAPITAL EXPENDITURE

For the year under review, the Group incurred a total capital expenditure of HK$27.2 million (2004: HK$56.6 million), funded by its own financial resources. The expenditure was mainly for addition and replacement of plant and machinery.

FOREIGN EXCHANGE EXPOSURE

The Group's sales are principally denominated in US dollars. Operating expenses for the Group's factories and offices are either denominated in US dollars or their respective local currencies.

As at 31st December, 2005, the exchange rates for the Indonesian Rupiah and South African Rand to one US dollar were 10,035 (31st December, 2004: 9,355) and 6.3 (31st December, 2004: 5.7) respectively. The Group closely monitors currency fluctuations and reduces its exchange risk by entering into forward exchange contracts from time to time.

The Salvadoran Colones, the local currency of El Salvador, has been pegged to the US dollars since 1st January, 2001 at 8.75 Colones to US$1. The Group does not foresee any near term currency risk exposure in El Salvador.

CREDIT POLICY

Trading terms with customers are normally on letters of credit except for several well-established customers. During the review year, about 59.6% (2004 : 86.3%) of the Group's business was transacted under letters of credit, with the balances on open account basis granted to individual customers. The credit ratings of customers are regularly reviewed and their respective credit limits adjusted, if necessary.

CHARGES ON INVESTMENT PROPERTIES

The Group's property in Hong Kong with a carrying value of HK$22.3 million (31st December, 2004: HK$18.6 million) has been pledged with a bank to secure trade facilities to the extent of HK$140.2 million (31st December, 2004: HK$140.2 million). At 31st December, 2005, the respective secured bank loans amounted to HK$41.8 million (31st December, 2004: HK$56.9 million).

CONTINGENT LIABILITIES

As at 31st December, 2005, the Group had no material contingent liabilities.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group believes that employees' commitments and the provision of a harmonious working atmosphere to staff are important to the Group's success. It rewards its employees according to prevailing market practices, employees' individual experience and performance. Staff benefits include medical and accidental insurance coverage as well as a provident fund scheme. To attract and retain high caliber employees, the Group also awards discretionary bonuses to its employees based on their performance evaluation and it also maintains staff share option schemes.

As at 31st December, 2005, the Group employed a total of 7,595 (31st December, 2004: 7,664) full-time employees in the following regions:

Indonesia	4,451
Lesotho	1,529
El Salvador	1,253
China (Mainland and Hong Kong)	362
Total	7,595

OUTLOOK

Price deflation is expected in the next few years with trade restrictions lifting. Buyers free from quota limitations are continuously adjusting their buying patterns and consolidating vendor portfolios to lower sourcing costs. The vendors with multi-manufacturing bases that can offer a wide range of apparel products and other value-added services to meet customers' requirements will have competitive advantages.

Spotting huge potential for growth ahead, the Group has re-engineered its manufacturing facilities in different regions, especially Indonesia, the major production base of the Group. By enhancing computerization of production facilities and building closer ties with local reputable sub-contractors, the Group's Indonesia arm is expected to have expansion in its production capacities and improvement in its production efficiency. The total value of the Group's orders from customers received for the first half year of 2006 is comparable to the same period last year. To beef up marketing, a product and development sourcing team was set up during the year to provide services including tailor-made fabric, market sample and trend research for individual buyer. With the concerted effort of its employees, the Group is confident to achieve a promising progress in its future development.

With Mainland China and the EU and US governments having agreed on import growth of most sensitive apparel categories, we see a clearer and more certain prospect for textile and clothing trade for the coming years. The Group is optimistic about the prospects of Mainland China as one of the main production bases in the global apparel market as the country boasts the advantages of high productivity, comparatively cheap labour cost, availability of raw materials and well-developed infrastructure. To seize the vast opportunities arising in Mainland China, the Group will actively seek to set up its own production base in the country in the near future.

Looking ahead, the Group will respond innovatively to the rapidly changing market while fulfilling its commitments to customers. The Group will strive to capitalize on any strategic opportunities that may help it realize its corporate vision and deliver long-term growth for its shareholders.