

TURNOVER

The Group's turnover amounted to approximately RMB599.9 million (2004: RMB452.9 million), representing an increase of approximately 32.5% as compared with that of the previous year. Such an increase was mainly attributed to the increasing demand for the Group's products as (i) the Group was able to apply more new, self-developed fabrics processing techniques in its production and processing to provide better quality and wider variety of products to customers; and (ii) the number of customers increased from approximately 500 in the previous year to more than 600 in the year under review.

GROSS PROFIT AND GROSS PROFIT MARGIN

With the increase in turnover, the Group's gross profit increased to approximately RMB150.2 million (2004: RMB95.4 million), representing an increase of approximately 57.4% as compared with that of the previous year. The overall gross profit margin of the Group had improved from approximately 21.1% in the previous year to approximately 25.0% in the year under review.

DISTRIBUTION AND SELLING EXPENSES

Distribution and selling expenses in the year under review was approximately RMB5.0 million (2004: RMB3.1 million), which was increased by approximately RMB1.9 million or approximately 61.3% when compared with that of the previous year.

The increase was mainly attributed to the increase in sales staff cost, advertising expenses, transportation charges and other cost, corresponding with the increase in turnover and size of the Group's operation.

ADMINISTRATIVE EXPENSES

Administrative expenses in the year under review was approximately RMB25.0 million (2004: RMB13.1 million), which was increased by approximately RMB11.9 million or approximately 90.8% when compared with that of the previous year.

Such an increase was mainly due to increase in the number of staff and staff benefits, utilities expenses, sewage disposal expenses, other office expenses and listing expenses, corresponding with the growth of the Company.

FINANCE COSTS

Finance costs increased to approximately RMB6.3 million (2004: RMB3.3 million), representing an increase of approximately 90.9% as compared with that of the previous year, as the Group has utilized more of its banking facilities to finance its expanded operation for the year.

PROFIT AFTER TAX

Profit after tax increased by approximately RMB36.3 million or approximately 48.9% from approximately RMB74.2 million in the year ended 31 December 2004 to approximately RMB110.5 million in the year ended 31 December 2005 as a result of the above discussed.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group had net current assets of approximately RMB84.4 million, comprising current assets of approximately RMB313.8 million, representing inventories of approximately RMB151.2 million, trade and other receivables of approximately RMB139.5 million, pledged bank deposits of approximately RMB2.8 million and bank balances and cash of approximately RMB20.3 million.

As at 31 December 2005, the Group's current liabilities were approximately RMB229.4 million, representing trade and other payables of approximately RMB83.7 million, tax payable of approximately RMB3.9 million, other loan of approximately RMB17.7 million and bank loans and mortgage loan of approximately RMB124.1 million.

During the year under review, the Group's short-term bank loans had increased to approximately RMB123.3 million, (2004: RMB62.1 million) as the Group has to maintain a substantial level of inventories, both raw materials and finished products, to meet with increasing market demand and unexpected sales orders in response to the high turnover growth of the Group during the year.

The Group maintained a healthy liquidity position and has sufficient resources to support its operations. Apart from the borrowings as referred to above, the Group financed its operations by internally generated resources and adopted a conservative approach in its financial operations. The current ratio (a ratio of total current assets to total current liabilities) of the Group was approximately 1.4 (2004: 0.7). The gearing ratio (a ratio of total bank borrowings to total assets) was approximately 22.2% (2004: 16.4%).

CAPITAL EXPENDITURE

As at 31 December 2005, the Group has capital commitments of approximately RMB25.8 million in respect of purchases of production plant and machineries.

CONTINGENT LIABILITIES AND EXCHANGE RISK EXPOSURE

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

The Group's operations, sales and purchases were mainly denominated in Renminbi. The Group does not foresee significant risk in exchange rate fluctuations and no financial instruments have been used for hedging purposes. The Group will consider to use forward exchange contract for hedging purposes if and when appropriate.

SIGNIFICANT INVESTMENT AND MATERIAL ACQUISITIONS AND DISPOSAL

The Group had no significant investment held for the year ended 31 December 2005.

Apart from the Group's reorganisation carried out in about June 2005 to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited which is detailed in note 1 to the financial statements and more fully explained in the paragraph headed "Group reorganisation" in Appendix V to the prospectus of the Company dated 21 March 2006, there had been not been any material acquisitions or disposals of subsidiaries and associated companies made during the year.

EMPLOYMENT

As at 31 December 2005, the Group had a total of 1,271 employees in Hong Kong and in the PRC. Remuneration packages for the employees are maintained at a competitive level of the jurisdiction within which the employees are employed to attract, retain and motivate the employees. Remuneration packages are reviewed periodically.

FUTURE PLANS

Looking forward to the future, the Group has embarked on, and will go on with, the plans laid down at the time of listing and in accordance with the section headed "Future plans and use of proceeds" set out in the prospectus of the Company dated 21 March 2006.

The Group intends to attain its business goals by:

- expanding its existing production facilities by acquisition of existing printing and dyeing plants and/or purchase of more advanced computerised dyeing and printing machinery and equipment and increasing its purchase in raw materials;
- establishing raw fabrics production facilities or acquiring existing raw fabrics producers;
- establishing its own waste water treatment facilities;
- setting up sales offices; and
- continuing research and development to introduce new value-added fabrics and expand existing range of products.