

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operational and Financial review

The Group is a fabrics processing group which is principally engaged in the sale of finished fabrics and the provision of fabrics processing subcontracting services to its customers.

#### *Turnover*

For the six months ended 30 June 2006, the Group recorded a turnover of approximately RMB332.0 million (RMB236.5 million for the six months ended 30 June 2005). During the period, the Group has participated in numerous trade fairs and sales exhibitions to promote the Group's products and services, corresponding with the constant improvement of living standard in the PRC, the demand for the Group's high quality fabrics increased. The Group managed to achieve a growth in turnover of 40.38% as compared with the previous corresponding period.

#### *Gross profit and gross profit margin*

With the increase in turnover, the Group's gross profit increased to approximately RMB78.7 million (RMB55.0 million for the six months ended 30 June 2005), representing an increase of approximately 43.09% as compared with the previous corresponding period. The overall gross profit margin of the Group had remained stable at approximately 23.3% in the previous period and at approximately 23.7% in the period under review.

#### *Expenses*

Distribution and selling expenses for the period under review were approximately RMB1.8 million (RMB1.6 million for the six months ended 30 June 2005), which were increased by approximately RMB0.2 million or approximately 12.5% when compared with that of the previous period and were corresponding with the increase in turnover and size of the Group's operation.

Administrative expenses for the period under review were approximately RMB16.2 million (RMB8.9 million for the six months ended 30 June 2005), which were increased by approximately RMB7.3 million or approximately 82.0% when compared with that of the previous period. Such an increase was mainly due to the one-off expenses in related to the listing of the Company, plus the increase in utilities expenses, sewage disposal expenses and other office expenses.

Finance costs increased to approximately RMB4.4 million (RMB2.3 million for the six months ended 30 June 2005), representing an increase of approximately 91.3% as compared with the previous corresponding period. Since the Group has utilized more of its banking facilities to finance its expanded operation in last year and because of the rise in average interest rate in the PRC during the period, finance costs increased by approximately RMB2.1 million as compared with the previous corresponding period.

#### *Profit attributable to shareholders*

The Group's profit attributable to shareholders for the period was approximately RMB49.4 million (RMB40.3 million for the six months ended 30 June 2005), increased by approximately 22.6% of that in 2005. Net profit margin for the period was approximately 14.9% (17.0% for the six months ended 30 June 2005). The decrease in net profit margin compared with previous corresponding period was due to the expiry of the tax holiday for some of the Group's PRC subsidiaries.

#### Future Plans and Prospects

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 has planned 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 computerized 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.

On account of the continuous changes in the fabrics processing industry, the Group will continue to adopt a quality driven marketing strategy to provide high quality finished fabrics at one stop to the customers, put effort in research and development of new products and commit to stringent and comprehensive quality control procedures throughout the production process from purchase of raw materials to product packaging. Leveraging its high quality products, unparalleled industry expertise and advanced technology, the Group is forging ahead towards becoming a dominant force in the global fabric processing industry and bringing an increasing profits return to the shareholders.

#### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2006, the Group had current assets of approximately RMB349.4 million (RMB313.8 million as at 31 December 2005) and current liabilities of approximately RMB213.0 million (RMB229.4 million as at 31 December 2005). The Group's cash and bank balances as at 30 June 2006 was approximately RMB102.2 million (RMB20.3 million as at 31 December 2005).

During the period under review, the Group's short-term bank loans had increased to approximately RMB131.7 million, (RMB123.3 million as at 31 December 2005) 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 period.

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 1.6 (1.4 as at 31 December 2005). The gearing ratio (a ratio of total bank borrowings to total assets) was approximately 17.9% (22.2% as at 31 December 2005).