

OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the sale of finished fabrics and the provision of fabrics dyeing and processing subcontracting services in order to provide customers with comprehensive and high-quality fabrics. As at 31 December 2006, the factory site of the Group in the PRC occupies a total gross floor area of approximately 98,000 sq.m., and has a workforce of 1,700 people, together with a total of 25 processing lines, 2 printing lines and 4 washing lines. During the year, the annual production capacity of the Group further expanded to 21,200 tons of knitted fabrics and 68.2 million metres of woven fabrics, hence enabling the Group to become the largest textile printing and dyeing company in Shishi City and also one of the leading companies in the PRC in terms of woven cotton fabrics.

The production facilities of the Group are strategically based in Shishi City, Fujian Province, the PRC, which is globally renowned for casual wear and is a major casual wear manufacturing center in the PRC. Shishi City owns a complete production chain from weaving, printing and dyeing, to garment manufacturing and volume fabrics trading. Benefiting from the role of Shishi City as a global procurement centre of casual wear fabrics, the Group enjoys a significant geographical advantage.

On 13 June 2006, the Group acquired 100% of the registered capital of Xiamen Tophot Trade Co., Ltd. for a consideration of RMB3,000,000 so as to exploit international trading opportunities of fabrics and clothing. This trading business will generate extra profit for the Group and will serve as a compliment to the Group's core fabrics dyeing and processing operations.

Turnover

Capitalizing on capacity expansion, new product development, favorable market condition, successful marketing strategy, the Group recorded a turnover of approximately RMB902.5 million for the year ended 31 December 2006 (2005: RMB599.9 million), representing an increase of approximately 50.4% as compared with last year.

On the one hand, the turnover of the Group's main business segment, which includes the processing, printing and sales of finished fabrics and the provision of fabrics processing subcontracting services, amounted to approximately RMB809.9 million for the year ended 31 December 2006 (2005: RMB580.3 million), representing an increase of approximately 39.6% as compared with last year. On the other hand, the turnover of the trading of goods amounted to approximately RMB92.6 million for the year ended 31 December 2006 (2005: RMB19.6 million), representing an increase of approximately 372.4% as compared with last year.

Gross profit and gross profit margin

Along with the increase in turnover, the Group recorded a gross profit of approximately RMB198.3 million for the year ended 31 December 2006 (2005: RMB150.2 million), representing an increase of approximately 32.0% as compared with last year. The Group's overall gross profit margin for the year ended 31 December 2006 was approximately 22.0% (2005: 25.0%), which was lower than that of last year. The decline in overall gross profit margin was due to the sharp increase in the turnover from the newly established trading business, which commands a substantially lower margin.

Expenses

Distribution and selling expenses for the year ended 31 December 2006 were approximately RMB4.7 million (2005: RMB5.0 million), representing a decrease of approximately RMB0.3 million (or approximately 6.0%) as compared with last year, mainly due to lower transportation costs as a result of timely shipment and deliveries.

Administrative expenses for the year ended 31 December 2006 were approximately RMB28.9 million (2005: RMB25.0 million), representing an increase of by approximately RMB3.9 million (or approximately 15.6%) as compared with last year, mainly due to the once-off expenses and other relevant costs with regard to the listing of the Company.

Finance costs for the year ended 31 December 2006 were approximately RMB8.9 million (2005: RMB6.3 million), representing an increase of approximately 41.3% as compared with last year, mainly due to an increase in bank borrowings and an increase in interest rate during the year.

Profit attributable to shareholders

The Group recorded a profit attributable to shareholders of approximately RMB135.6 million for the year ended 31 December 2006 (2005: RMB110.5 million), representing an increase of approximately 22.7% as compared with last year. The Group's overall net profit margin for the year ended 31 December 2006 was approximately 15.0% (2005: 18.4%), which was lower than that of last year. The decline in overall net profit margin was mainly due to the sharp increase in the turnover from the newly established trading business, which commanded a substantially lower margin and was partly due to an increase in income tax for the Group's PRC subsidiaries for the year ended 31 December 2006.

LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG

The Company was incorporated with limited liability in the Cayman Islands on 26 January 2005 and was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 March 2006.

The Company has issued an aggregate of 140,000,000 new shares by way of placing and public offer at an offer price of HK\$1.16 per share.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Group raised approximately HK\$148.0 million, net of related expenses, from the issue of 140,000,000 new shares in connection with the listing for the Company's shares on The Stock Exchange on 30 March 2006.

The application of the net proceeds from the new issue, have been applied as follows:

	Planned Amount HK\$'000	Amount utilised up to 31 December 2006 HK\$'000
– for the expansion of production facilities in the PRC	64,400	64,400
– for the establishment of raw fabrics production facilities or acquisition of existing raw fabrics producers;	38,800	–
– for the construction of waste water treatment facilities;	20,000	20,000
– for the establishment of sales offices	10,000	10,000
– for research and development and staff training; and	5,000	5,000
– for general working capital for the Group	9,800	9,800
	<u>148,000</u>	<u>109,200</u>

The balance of the proceeds of approximately HK\$38,800,000 had been placed with banks for later application.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group had current assets of approximately RMB387.9 million (2005: RMB313.8 million) and current liabilities of approximately RMB229.2 million (2005: RMB229.4 million). The Group's cash and bank balances as at 31 December 2006 was approximately RMB45.6 million (2005: RMB20.3 million). During the year, the Group's short-term bank loans had increased to approximately RMB151.7 million (2005: RMB123.3 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 for 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 1.7 (2005: 1.4). The gearing ratio (a ratio of total debts to shareholders' equity) was approximately 25.2% (2005: 37.2%).

CAPITAL EXPENDITURES

As at 31 December 2006, the Group has capital commitments of approximately RMB13.4 million in respect of purchases of property, production plant, equipment and machineries.

CONTINGENT LIABILITIES AND EXCHANGE RISK EXPOSURE

As at 31 December 2006, the Group did not have any significant contingent liabilities (2005: Nil). 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 have 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 period ended 31 December 2006.

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, and the acquisition of a subsidiary on 13 June 2006 as detailed in note 25 to the financial statements, there had not been any material acquisitions or disposals of subsidiaries and associated companies made during the year.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the year ended 31 December 2006, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

EMPLOYMENT

As at 31 December 2006, the Group had about 1,700 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 and are reviewed periodically.

In addition, the Group maintains a share option scheme for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group.

FUTURE PLANS AND PROSPECTS

With a niche focus on new product research and development, the Group will continue its customer-oriented marketing approach to best service its customers, whilst continually expanding its production capacity to meet with the rising market demand.

As publicly announced on 16 March 2007, 協盛協豐(泉州)紡織實業有限公司 (“Shasing-Shapheng (Quanzhou) Textile Industrial Co., Ltd.”), an indirect wholly-owned subsidiary of the Company in Shishi City, Fujian Province, the PRC, has been approved by the Shishi Economy Bureau to establish a textile production plant in Hongli Industrial District, Hongshan Town, Shishi City, Fujian Province, the PRC for the production of high-density and high-end yarn. Looking forward, the Group will strive towards a comprehensive integration of upstream spinning, midstream weaving, and downstream printing and dyeing as a nationwide textile company in the PRC.

DIVIDEND

The Board has proposed to pay a final dividend of HK3 cents per share for the year ended 31 December 2006 (2005: nil) but is subject to approval by the shareholders in the coming general meeting.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Friday, 25 May 2007 to Wednesday, 30 May 2007 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrar in Hong Kong, Tricor Investor Services Limited not later than 4:00 p.m. on 23 May 2007. Tricor Investor Services Limited is located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.