

CHAIRMAN'S
STATEMENT
&
Management
Discussion
And Analysis

Chairman's Statement & Management Discussion and Analysis

To Shareholders,

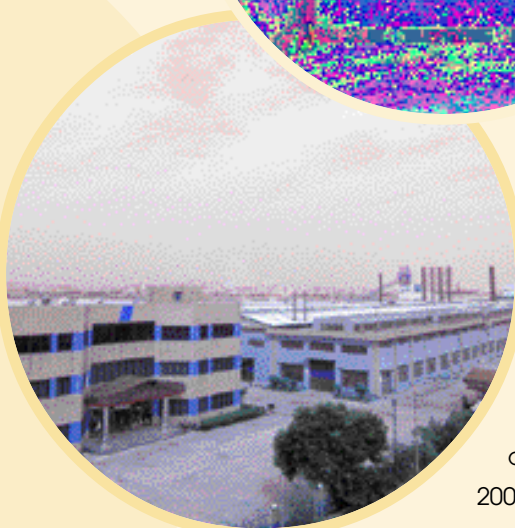
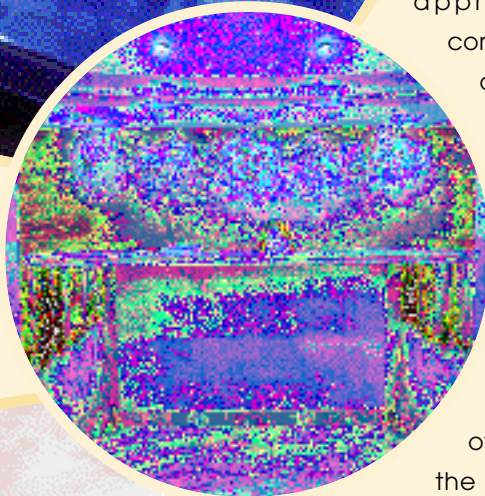
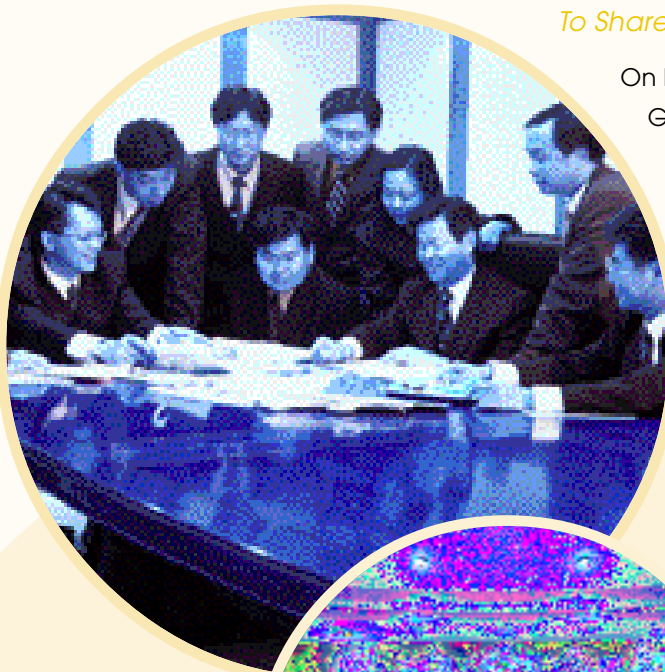
On behalf of the board of directors of the Group, I hereby present the annual report for the year ended 31st December 2000.

Financial Results

As of 31st December 2000, the Group recorded a turnover of HK\$121 million, representing reduction of about HK\$75 million or approximately 38% over the corresponding period last year; loss attributable to shareholders of HK\$15 million, representing its first record of loss after the listing of the Company's shares on the Stock Exchange of Hong Kong in January 2000. As mentioned in the interim report of the Group, the unfavourable results of the Group were mainly due to the adverse market conditions for fabric processing industry and the constant increase in global oil price which dramatically pushed up the Group's cost of production in the year.

Final Dividend

The directors do not recommend the payment of dividend for the year ended 31st December 2000 (1999: nil).



Chairman's Statement & Management Discussion and Analysis

Management Discussion and Analysis

Business Review

The Group is principally engaged in the provision of fabric processing services and the sales of cotton fabrics. Approximately 90% of the Group's customers are Hong Kong based fabric traders who directly supply finished fabrics to the buying offices of overseas apparel companies in the United States and to garment manufacturers with a few remainder being garment manufacturers in the PRC. Accordingly, the market conditions in the United States have deep impact upon the operating results of the Group.

The growth of US economy had slowed down drastically in the year 2000. Most analysts and economists were concerned about the possible recession of US economy in 2001. Manufacturing activity had slowed down for the seventh consecutive month in February 2001. New jobless claims in the United States had climbed up to 372,000 and were well above forecasts, indicating that the labour market continued to soften. To relieve the quick economic downturn, the Chairman of the Federal Reserve, Mr. Alan Greenspan, had cut down the inter-bank interest rate, in aggregate, by 2% from January to April 2001. However, the manufacturing sector's decline had



continued and the drop in the employment index in the manufacturing reports suggested that the Federal Reserve will have to conduct another big slice in interest rate so as to slow down the potential economic recession.

In view of these, the Group had concentrated its efforts on cultivating Hong Kong and previously untapped markets such as South East Asia and the PRC to broaden its income base. In addition, the Group strove to control its costs of production and overheads harshly in order to maintain a favourable profit margin. The Group had during the year diversified its businesses into sale of cotton fabrics and garment trading to reduce its heavy reliance on the income derived from fabrics processing.

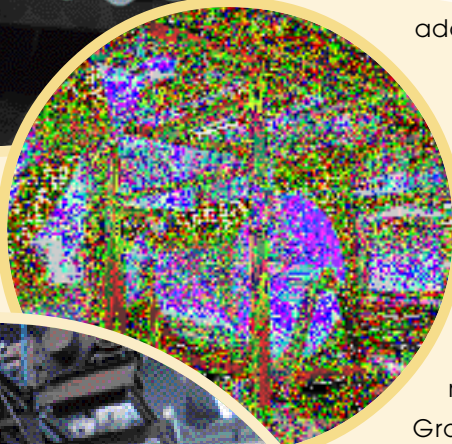
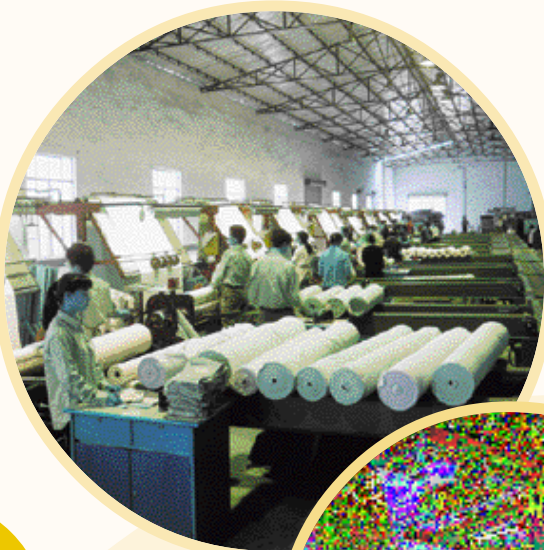
Chairman's Statement & Management Discussion and Analysis

Fabrics Processing

Fabrics processing has always been one of the Group's principal businesses. Fabric processing services provided by the Group include dyeing, printing and finishing, which are the necessary steps to prepare finished fabrics for garment manufacturing. Fabric processing business of the Group encountered an adverse market condition in 2000 as some fabric traders and buying offices reduced their orders substantially, anticipating that the economy in the United States would slow down by the consecutive increases in interest rates during the year. In addition, some fabrics processing orders had been shifted to state-owned fabrics processing factories in northern region in the PRC, which were able to offer an aggressive price in view of their relatively lower costs of production.

To reduce these impacts, the Group had formed extensive strategic alliance with certain fabrics traders to maintain a long-term and reliable relationship with the customers. In addition, the Group also tried to develop new bleaching and dyeing technique in order to broaden its customer bases. The Group had put strong effort on maintaining and improving the quality of its fabrics processing work to maintain its mid- and high-end customers and to relieve the impact of the aggressive pricing policy adopted by those state-owned factories. The Group also participated in various market promotions, advertisements and exhibition fairs to increase its reputation and to broaden its customer base.

The expenditure on fuel oil represented approximately 50% of the Group's fabric processing cost because dyeing process required substantial quantity of steam and electricity. Both of them were generated by fuel oil. For the past year, the oil price had increased by approximately 70% and the price of oil



Chairman's Statement & Management Discussion and Analysis

by-products had therefore recorded significant increases as well. Market expected that Organisation of Petroleum Exporting Countries would control the supply by cutting by about 750,000 barrels a day and maintain the oil price in the range of US\$22 to US\$28 a barrel. Accordingly, the Group expected that the oil price would stay in a relatively expensive level in foreseeable future. To reduce the Group's reliance upon fuel oil as the major component of its cost of fabrics processing and to increase its competitiveness, the Group had built a coal-fired facility for producing steam and electricity. The coal-fired facility had commenced operation in mid-March and management expected that the cost of fabrics processing would decrease by approximately 25% and therefore increase its profit margin accordingly.

Sale of Cotton Fabrics

For the sale of cotton fabrics, the Group purchased raw fabrics from suppliers in Hong Kong, Pakistan and the PRC and sells it to the customers following processing according to customers' specific requirements. Cotton fabrics sold by the Group are used in the manufacture of a wide variety of casual wear. During the year, the Group had established a separate sale and marketing team to

concentrate its effort on sale of cotton fabrics in order to diversify its income sources. Sale of cotton fabrics now accounted for about 19.4% of the total income of the Group. In future, the Group will concentrate its effort on pushing up the income derived from this line of business by active contact and partnership with the local and overseas garment factories.

Garment Trading

In addition to further consolidating the income sources derived from sale of fabrics, the Group had, subsequent to balance sheet date, acquired approximately 66% shareholding interest in a garment trading company which was engaged in trading of textiles, garments and clothings to certain major retailers and department stores in the United States. The management expected that the business in this area will expand gradually and ultimately become one of the key income sources to the Group in future.

Prospect and Outlook

For this financial year, the management employed a conservative strategy to ensure that the Group remained financially strong. As the economic conditions in Asia, Hong Kong and the

Chairman's Statement & Management Discussion and Analysis

United States ameliorate in mid 2001, the Group will expedite its business expansion plans with prudence. The management was confident that a progress will be seen in the results of the coming year. In the future, the Group will concentrate its resources to enhance the shareholders' value by striving for the following:-

- 1) to capitalise on the strengths of the Group in fabrics processing, sale of cotton fabrics and garment trading by seeking for potential strategic partners and further diversifying the Group's sources of income in future;
- 2) to further improve and establish internal management systems which have clearly defined responsibilities and to improve efficiency and effectiveness as well as to minimise risks; and
- 3) to consider various fund raising alternatives to meet its future working capital and financing requirements.

Liquidity and Financial Resources

The Group's principal source of funds from operating activities was generated from the fabrics processing charge income and sale of cotton fabrics. The Group also financed its operation with banking facilities and placement of new shares. The Company made an initial public offering through placing and new issue of 50 million shares at HK\$1.10 per share to the investing communities in January 2000. The net proceeds

of approximately HK\$44.84 million were used by the Group for financing the future expansion and for general working capital purposes.

The net proceeds of approximately HK\$44.84 million have been applied up to the date of this report as follows:

- a) approximately HK\$5.24 million for the purchase of additional machinery to enhance the quality of fabric processing by the Group; and
- b) approximately HK\$19.00 million for additional working capital of the Group;

Subsequent to the balance sheet date, about HK\$6.00 million was used as part of the consideration to acquire approximately 66 per cent. shareholding interest in a garment trading company. The remaining HK\$14.60 million have been placed on short-term deposits with banks.

Appreciation

I wish to extend my sincerest thanks and appreciation to staff at all levels within the Group and my fellow directors for their collective efforts, loyalty and continuing support to the Group during the year.

Yiu Ching On
Chairman

Hong Kong, 18th April 2001