



**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 31 December 2001.

FINANCIAL RESULTS

As of 31 December 2001, the Group recorded a turnover of HK\$192 million, representing a substantial increase of about HK\$70 million or approximately 58% over last year; loss attributable to shareholders of HK\$26.8 million, representing an increase in loss of about HK\$11.4 million or approximately 74% over last year. Generally speaking, the deterioration in the Group's loss was mainly due to:



1. the global economic recession triggered by the bursting of technology bubble in 2000 and the US terrorist attack on 11 September 2001; and

2. the globalisation of economies and the adoption of open door policy by most developing countries reinforced the intense competition for thin profit margin in production and trading sectors.

FINAL DIVIDEND

The directors do not recommend the payment of dividend for the year ended 31 December 2001 (2000: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Business Review

The US economy took an abrupt turn towards the end of 2000 as signs of downturn began to surface, becoming more apparent in the first half of 2001. This turn of events has been felt not only in North America but also across the world, impacting nearly all economies and business sectors. Especially after 9-11 events, product demands from major US buyers contracted drastically. Product prices slid further under heavy global competition in textile industry. Inevitably, the Group's performance in 2001 was affected by the adverse operating environment. In addition, the globalisation of world economies and the adoption of open door policy by most developing countries reinforced the intense competition for thin profit margin in

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production and trading sectors. Manufacturing and production are now principally arranged in developing countries, such as the PRC, Bangladesh, Cambodia, South America and



even in Africa which continue to provide low-cost production environment. As a consequence, we do not expect there will be any significant changes in this deflationary economic climate in the foreseeable future.

In view of these, the Group, at the beginning of 2001, decided to switch its principal operation of purely fabric processing to a kind of “One-stop Services” to customers, which included:

1. Fabric trading;
2. Fabric processing; and
3. Garment manufacturing and trading.

The provision of “One-stop Services” to customers can provide a more cost-efficient arrangement by means of vertical integration in our fabric processing, fabric trading, and garment manufacturing and trading processes. As the set-up processes had been completed by end of 2001, we expect our profit margin and turnover will rebound significantly with the global economic recovery in 2002.

Moreover, to sharpen the Group's competitive edge, we had set up/arranged production sites



and sales offices in certain major cities all over the world, including New York, Los Angeles, El Salvador, Bangladesh, Cambodia, India, Shanghai, Zhongshan, etc. to provide global production and delivery services to our customers.

With the PRC accession to the WTO, we expect textile industry will have high potential growth in future. As a result, the Group had re-engineered its sales strategy by allocating more resources to strengthen our domestic sales in the PRC.

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Detailed Operation Review

Sale of Fabric

Major customers are worldwide garment manufacturers, including those situated in Hong Kong, the PRC, the United States, India, Cambodia, Bangladesh, etc. Our business focuses on both the antique and trendy items. The Group's products mainly include pure cotton, linen, polyester cotton, blend, corduroy, canvas, pure linen,



synthetic cotton-linen and stretch fabric. The Group is now one of the major fabric importers from Pakistan, Indonesia and the PRC. During the year, we formed joint ventures with a number of fabric traders to strengthen the Group's capability in trading of fabric. One of the Group's major strategies in the foreseeable future will be the continuous alliance with local and overseas fabric traders in order to capture the competitive advantage of economies of scale

of the Group's fabric processing production capacity.



Fabric Processing

The Group provides fabric processing services to fabric traders globally which directly supply finished fabric to the buying offices of overseas apparel companies and to garment manufacturers. The Group provides a comprehensive range of fabric processing services, including bleaching, dyeing, printing, polishing and brush and post-processing for all sorts of fabrics. The Group also offers customised post-processing includes heat setting, wrinkle resistance, water repellant, stain release, softener treatment and shrinkage treatment. The Group's strategies in this area are:

1. To strengthen the PRC domestic orders by incorporating a separate sales team

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in the PRC to obtain domestic orders directly;

2. To form joint ventures and strategic alliance with local and overseas fabric traders to fully reflect the economies of scale of the Group's production capacity;



3. To set up sales points in Shanghai, India, New York and Singapore to capture fabric orders from major buyers from the United States; and
4. If possible, to establish a remarkable showroom to present the Group's new development in fabric types and processing skills to potential buyers.

Garment Manufacturing and Trading

To meet the expanding demand of the Group, the Group has set up its own garment manufacturing facilities situated in Zhongshan,

the PRC. Over 300 staff is serving the manufacturing factory to produce all kinds of clothing, including shirts, dresses, trousers and child's clothing, etc. According to recent statistics, the production capacity of the garment factory has reached approximately 800,000 pieces per annum.

The Group sells textile, garment and clothing to certain major retailers and department stores in the United States and Germany. Merchandising and sourcing have expanded globally all over the world, including Bangladesh, the PRC, the United States, Cambodia and even certain regions in Africa. The Group has established long-term strategic alliance with several major suppliers and customers all over the world. This section serves as a window for the Group to absorb and digest the latest fashion trend of the world. We have very experienced merchandising team to provide "One-stop" service to the customers. In addition, the Group has registered two brand names as "Woodock" and "Fascination" for fashion trading and wholesaling businesses in certain department stores in the PRC.

Prospect and Outlook

The management is confident to improve performance significantly in the run up to the end of 2002 based on the following reasons:

1. We expect the global economy will mildly recover from recession in 2002 which will assist the Group to increase both of its sales volume and amount;

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2. The PRC accession to WTO will give opportunity to the Group to obtain more direct orders in the PRC;
3. Continuous establishment of sales points in major cities in the world will give the Group opportunity to obtain updated fashion and fabric trend and to contact major customers more directly;
4. Continual process in vertical integration of the Group's operation by strategic alliance with local and overseas fabric traders will fully reflect the competitive advantage of economies of scale; and
5. Cautious production and administrative cost control will assist the Group to alleviate the impact of the global recession.

Liquidity and Financial Resources

As at 31 December 2001, the Group had total assets of HK\$265 million which were financed by current liabilities of HK\$105 million, long-term liabilities of HK\$11 million and shareholders' equity of HK\$149 million. Accordingly the Group's ratio of debt to total assets was 43.8%.

The Group's principal source of funds from operating activities was generated from the fabric processing charge income, sale of fabric and processing and sale of garment. The Group also financed its operation with banking facilities and placement of new shares. During the year, the Group had made use of the capital markets to meet its funding needs. As set out in

the announcement dated 27 March 2001, 9,302,326 shares of the Company were issued and allotted at HK\$0.43 per share on 3 April 2001 as part of the consideration to acquire 56 per cent. shareholding in South Field (Pacific) Limited.

In addition, on 29 May 2001, 30,690,000 shares of the Company were placed and allotted to independent investors at HK\$0.26 per share. The net proceeds of about HK\$7,780,000 was used as general working capital of the Company.

On 29 November 2001, 80,357,142 shares of the Company were issued as part of the consideration to acquire 100% equity interest in Yiu Tung Fashion Co. Ltd., a company engaged in garment manufacturing and trading and was held by two executive directors. Mr. Yiu Kwok Ming, Tommy and Mr. Yiu Kwok Yung as to 20% and 80%, respectively.

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, 25 April 2002