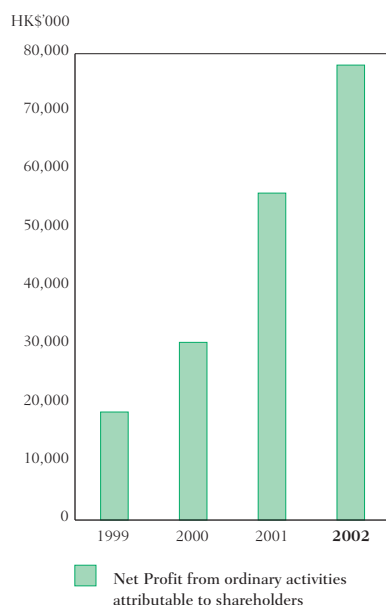
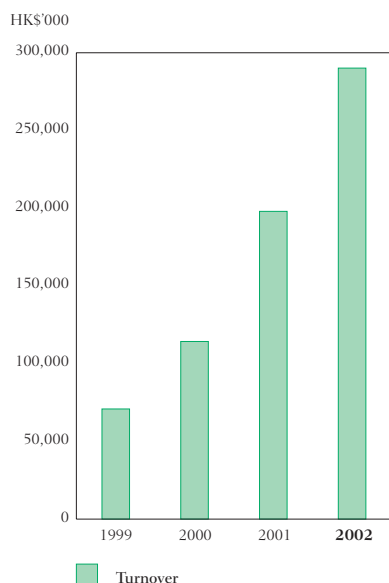


MANAGEMENT DISCUSSION AND ANALYSIS



LIQUIDITY AND FINANCIAL RESOURCES

As usual, the Group's operations were generally financed by internally generated cash flow. For the year ended 30 September 2002, the Group generated net cash flow from operating activities for approximately HK\$77.5 million. At the end of the year under review, the Group had cash and cash equivalents of HK\$71.5 million. At the same day, the short-term bank loans amounted to approximately HK\$15.7 million, which were fully secured by fixed charges on certain plant and machinery and a corporate guarantee given by a related company.

The operation of the Group is sound and the turnover period for the trade receivable is at 90 days while the turnover period for the inventory was 47 days and turnover period for the trade payable was 65 days.

The financial gearing ratio of the Group, based on the total borrowings to the total shareholders equity, has decreased from 0.24 in 30 September 2001 to 0.08 in 30 September 2002. The current ratio, based on the current assets to the current liabilities is improved from 1.1 in 30 September 2001 to 2 in 30 September 2002.

The sales of the Group are mainly denominated in US dollars, Hong Kong dollars and Renminbi and the

purchase of raw materials is mainly made in US dollars, Hong Kong dollars and Renminbi. Bank borrowings are also denominated in Renminbi. Though the Group does not engage in any hedging contracts, the Group's exposure to foreign exchange risk is minimal.

For the year under review, the Directors are not aware of any significant changes from the position as at 30 September 2001 and the information published in the Prospectus. Furthermore, the Company did not have any significant commitments and investments as at 30 September 2002.

The Board believes that the Group's sound and healthy financial position will enable it to discharge its debts, finance its operation in such difficult and competitive business environment and explore other business development opportunities.

CAPITAL STRUCTURE

The capital structure of the Company only consists of share capital. On 30 August 2002, the Company issued warrants by way of a bonus issue conferring the right on holders thereof to subscribe up to a maximum of HK\$83,200,000 in aggregate in cash for 128,000,000 shares of nominal value of HK\$0.01 each in the capital of the Company ("Share(s)") on the

MANAGEMENT DISCUSSION AND ANALYSIS

basis of a subscription price of HK\$0.65 per Share. Dealings in the said warrants commenced on main board of the Stock Exchange up to and including 21 August 2005.

REVIEW OF OPERATIONS

Business Goals and Use of Proceeds

As set out in the Prospectus, the Directors intended to achieve its business goals through the implementation of the following with the net proceeds raised through the Company's initial public offer:

- continue the second stage construction of the Group's pure cotton fabrics processing plant with an aim to achieving an annual processing capacity of approximately 10,000 tones utilizing a total of HK\$10 million from the net proceeds raised;
- expand the Groups annual processing capacity of non-pure cotton fabrics from approximately 46,000 tones to approximately 59,000 tones through the acquisition of additional machinery and equipment utilizing a total of HK\$8 million from the net proceeds raised;
- expand the Group's waste water treatment system to support the anticipated expansion of its annual

processing capacity of pure and non-pure cotton fabrics utilizing a total of HK\$6 million from the net proceeds raised;

- vertically integrate into the fabrics manufacturing business through the acquisition of various fabrics manufacturing machinery and equipment, to develop its fabrics distribution business and introduce its own brandname fabrics utilizing a total of HK\$8 million from the net proceeds raised;
- continue its research and development on nano-technology with the aim of introducing new value-added fabrics characteristics, as well as for further advancements in fabrics processing utilizing a total of HK\$3 million from the net proceeds raised; and
- allocate approximately HK\$4 million as general working capital of the Group.

These proceeds were partially applied during the year ended 30 September 2002 as follows:

- as to approximately HK\$1.4 million for the second stage of construction of its pure-cotton fabric processing plant;
- as to approximately HK\$0.9 million for the expansion of its non-pure cotton fabric production capacity through the acquisition of

additional machinery and equipment;

- as to approximately HK\$2 million for the acquisition of fabric manufacturing machinery and equipment;
- as to approximately HK\$0.5 million for the expansion of its waste water treatment system;
- as to approximately HK\$0.5 million for further research and development in nano-technology; and
- as to approximately HK\$3.5 million as general working capital of the Group.

The balance of the proceeds of approximately HK\$30.2 million was placed on short-term deposits with licensed banks in the PRC as at 30 September 2002.

The actual and intended applications of the net proceeds are consistent with the plans set out in the said Prospectus.

Principal Activity

For the year ended 30 September 2002, the Group's turnover increased almost by 47% over the last corresponding year. The Directors believed that the improvement of the Group's performance was primarily a combined result of the intensive promotional efforts that we invested to

enlarge the size of our customer base. Another crucial reason was the increasing market acceptance of our new processing of the pure cotton fabric. To a certain extent, the profit margins have always been hindered by the continuously keen competition in the industry we operate, the Group's profitability; nevertheless, showed significant improvement in the reporting year.

For the year ended 30 September 2002, the Group invested approximately HK\$45,337,000 (2001: HK\$27,164,000) in the addition of property, plant and machinery for upgrading its factory and production facilities. In addition to our previous investments, the newly acquired assets have strongly strengthened the competitiveness of the Group as well as its market position, giving out additional revenues to the Group.

Contingent Liabilities

At 30 September 2002, neither the Company, nor the Group had any significant contingent liabilities (2001: Nil).

Employee and Employment Policies

As at 30 September 2002, the Group had approximately 729 employees. The

Group's emolument policies are formulated on the performance of individual employee and on the basis of the salary trends in the various regions, and will reviewed regularly every year.

The Group has established a share option scheme for its employees with a view to provide employee with an appropriate incentive interest in the growth of the Group.

Outlook

As market competition remains tough, it is likely to expect that stress on future profits sustains. The situation might go even worse if the global economy continues on a downturn phenomenon with uncertain future prospect. Therefore, the Group will keep on improving the production workflows, the quality control and the ability of product development. Equally important, the management should focus on the exploration of other potential markets in the PRC and elsewhere in order to maintain and even increase the Group's turnover and profitability. Despite of numerous business obstacles ahead of us, the Group is quite confident in expanding the market share in the coming years with increasing turnover and returns.