



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 2002.

FINANCIAL RESULTS

As of 31 December 2002, the Group recorded a turnover of HK\$323 million, representing a substantial increase of about HK\$131 million or approximately 68% over last year; loss attributable to shareholders of HK\$6.7 million, representing tremendous reduction of loss of about HK\$20.1 million or approximately 75% over last year. The board of directors was pleased to inform the shareholders that we had nearly succeeded in turnaround of the Group in 2002.



FINAL DIVIDEND

In order to maintain sufficient financial resources to further reduce the gearing ratio of the Group and to keep adequate reserve for the Group's future development, the directors do not recommend the payment of dividend for the year ended 31 December 2002 (2001: HK\$ Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Business Review



As we had mentioned in our 2001 annual report, the US economy took an abrupt turn towards the end of 2000 as signs of downturn began to surface. In 2002, global recession was still impacting upon nearly all economies and business sectors. US economy had only a weak sign of recovery and some contradictory economic index. Federal reserves had reduced the federal interest rate to a record-low level. However, various national economic indicators were still reluctant to show coherent recovery signals. Unemployment rate was still standing on an average of 5.8%, a relatively high level; GDP at about 2% in 2002. In addition, dramatic depreciation of US Dollar in 2002 had posed significant threat on our export demand, even though consumer consumption index was still maintained within an expansionary range. International oil price had risen to a recession-triggering level. To hedge for the volatile fuel oil price during these few years, we had invested huge resources to establish coal-fire power for the use of fabric processing section since 2000. This arrangement had assisted us to avoid the adverse impact of the continuous rise in international oil price.

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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 production and trading sectors. To sharpen the Group's competitive edge, we had set up close connection with a lot of production sites in Bangladesh, Vietnam, El Salvador, Cambodia and in the PRC to provide global production and delivery services to our customers.

On the other hand, some of our competitors had gone bankrupt or downsized their operations due to intense competition and bleak economic future outlook. We had absorbed some of their marketing teams and most of their customers' orders in 2002 accordingly.

During the year, the Group had carried out cautious operating and administrative cost control, and the overall cost structure had been reviewed. Both of them had been reduced by approximately 20% in the year.

Strategically, we had taken a more prudent approach in our expansion plan in 2002. We concentrated our resources on textiles industry and had switched our principal operation to a kind of "One-stop Service" to customers, which included:

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

Vertical integration had maximized our profit margin during globally intense competition. We are very certain that our operating result in 2002 had given our shareholders confidence that the board of directors was correct in our business restructuring in 2002 and that we will direct the Group in a more long-term and relatively steady way in future.

Detailed Operation Review

Sale of Fabrics

Major customers are worldwide garment manufacturers, including those situated in Hong Kong, China, 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 fabrics. The Group is now one of the major fabrics importer from Pakistan, Indonesia and the PRC.

The new fabric trading subsidiaries formed in 2002 had reached breakeven point. We expect they will have steady growth in turnover and operating profit in 2003. They will concentrate on establishing

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close connection with production sites in northern China and therefore to complement the weakness of relatively high operating costs suffered by the Group's fabric processing factory located in Guangdong Province in the PRC. Fabric processing orders derived and referred from this section had reached about 10% of the total turnover of the fabric processing section. We expect this ratio will reach about 30% in the coming five years.

Fabric Processing

The Group provides fabric processing services to fabric traders globally which directly supply finished fabrics 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. Since 2002, the Group's strategies in this area were and will continue to be:



1. 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;
2. To strengthen the PRC domestic orders by incorporating a separate sales team in the PRC to obtain domestic orders directly;
3. To actively participate in mill shows in Shanghai, India, New York and Singapore to capture fabric orders from major buyers from these countries; 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.

During the year, the above strategies of the Group had not been changed substantially. However, in order to control operating cost strictly, we had determined to hold up the showroom project for the time being. In addition, to secure more orders and profit margin, we had diversified and strengthen our traditional fabric processing services by including purchases of grey cloth on behalf of our customers. We expect that demand of this service will increase dramatically in 2003.

In addition, due to the bleak economic outlook for the world economies in foreseeable future, we have adopted a more conservative approach in our receivables collection procedures. We will gradually shorten the receivable turnover period and request for post-dated cheque payments and / or letter of credit settlements before delivery of goods.

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Garment Manufacturing

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, dressers, 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.

In 2003, we will establish several retail outlets to sell self-manufactured garments with registered brand names of



"Woodcock" and "Fascination".

Though the competition in retail garment market in the PRC is still hot and intense, we consider that the sector will have a relatively high growing potential in foreseeable future. Accordingly, the board of directors will constantly explore the development potential in a prudent approach.

Garment Trading

The Group sells textile, garments and clothing to certain major retailers and department stores in the United States. 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 every experienced merchandising team to provide "One-stop" service to the customers.

In 2003, we will be more conservative in seeking garment orders due to the bleak economic outlook in the United States. We expect the risk of cancellation of orders and arguments for quality issues will increase. Accordingly, constant meeting of top management will be convened to control the Group's risk exposure.

PROSPECT AND OUTLOOK

In 2002, we had succeeded in the turnaround of the Group's operating results by limiting the loss incurred by the Group substantially. In 2003, we expect the Group's turnover will gradually increase to about HK\$400 million and operating results will have a steady growth in 2003. Given the continuous global recession, the board of directors will adopt the following approaches to maintain the steady paces of development of the Group in 2003:

1. Continuously cautious production and administrative cost control to alleviate the impact of global recession on the Group;

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2. Continuous vertical integration of the Group's operation in textile industry to maximize our profit margin;
3. Continuous concentration of the Group's resources on textile industry to maximize the efficiency of the Group's financial resources; and
4. Continuous exploration of PRC domestic textile market to tap the high-speed growing potential of the PRC economy.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2002, the Group had total assets of HK\$293 million which were financed by current liabilities of HK\$142 million, long-term liabilities of HK\$4 million and shareholders' equity of HK\$147 million. Accordingly the Group's ratio of debt to total assets was 49.8% (2001: 43.8%).

The Group's principal source of funds from operating activities was generated from the fabric processing charge income, sale of fabrics and manufacturing and sale of garments. The Group also financed its operation with certain banking facilities.

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, 16 April 2003