



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 2003.

FINAL DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2003 (2002: Nil).

FINANCIAL RESULTS

As of 31 December 2003, the Group recorded a turnover of HK\$239 million, representing a decrease of about HK\$85 million or approximately 26% over last year; loss attributable to shareholders of HK\$43 million, representing a substantial increase of loss of about HK\$37 million or approximately 549% over last year.



During the year, the Group adopted a more prudent approach and concentrated resources on developing and pursuing the "One-stop Service" to customers. As a result, we decided to fully write off all goodwill arising from acquisition of two subsidiaries, namely South Field (Pacific) Limited and Yitung Fashion Company Limited at an aggregate amount of HK\$7.8 million, after amortisation charge of HK\$1.4 million. Both of them continuously incurred losses after acquisition. In addition to making a general provision for doubtful debts at about HK\$5.3 million for all account receivables aging over one year and a 50% general provision for those aging over 180 days and we decided to adopt a more conservative approach this year to specifically provide for all possible doubtful debts at a total sum of about HK\$4.6 million according to our previous experience and judgment. Moreover, we decided to make a general provision for a sum of HK\$14.2 million in respect of all existing and possible slow-moving and obsolete inventories of South Field (Pacific) Limited and Yitung Fashion Company Limited and the rest of the Group. The total effects of the above were summarized as below:

	HK\$'000
Impairment loss on and amortisation of goodwill	9,224
Bad debts written off and provision	9,967
Provision for slow-moving and obsolete inventories	14,245
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Total	33,436

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Exclusive of the above, the Group only incurred a loss of about HK\$9.9 million for the year ended 31 December 2003. Taking into account the significant annual depreciation of about HK\$12.9 million incurred by the Group, we had generated net increase in cash and cash equivalents of HK\$7.9 million in 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Business Review



During the year, the Group has experienced a serious challenge from the impact of continuous increase in raw material prices. US Federal Reserves had reduced the federal interest rate to a record-low level. CRB index had hit new high. Moreover, US Dollar had depreciated for about 20% in 2003. As most of the material prices were denominated in US Dollars, almost all material prices had increased substantially in 2003 and posed heavy pressure on the operating results of the Group.

We noted that both cotton and coal prices had increased over 30% in the second half of 2003. Both of them are essential components of the costs of production/sale in fabric processing and trading of dyed fabrics, respectively. We expect that the material prices will be maintained in a relatively high level in the coming few years. Therefore, we will adopt a more conservative approach in the area of cost control in future.

On the other hand, the global economies had rebounded a lot since the second half of 2003. Stock market indexes all over the world had increased for almost 30%. US property market was robust in 2003. We noted that sale orders were relatively more stable in 2003 as compared with 2002, though the selling price was squeezed down to a relatively lower profit margin due to intense global competition.



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. In this respect, we had carried out cautious operating, finance and administrative cost control to maximise the overall net profit margin of the Group.

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Strategically, we had taken a more prudent approach in our expansion plan in 2003. 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.

Moreover, the Group had set up several garments retail outlets in the PRC to sell garments with our own registered brand names of "Fascination" and "Woodock". Though the competition in garment retailing market in the PRC is still hot and intense, we consider that this sector will have a relatively high growth potential 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, 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 fabric importers from Pakistan, Indonesia and the PRC. This section has established

close connection with production sites in northern China and therefore can compensate the weakness of relatively high operating costs suffered by the Group's fabric processing factory located in Guangdong Province in the PRC. We noted that there was no growth in both turnover and contribution from this section. Due to substantial rise in material prices and its volatility, this section was very careful in accepting sale orders. They only accept sale orders with relatively high margin and therefore there was no growth in turnover and contribution in 2003. Since we expect the material price will be maintained in a relatively high level, we estimate that there will not be any major development by this section in 2004.

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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 customized post-processing includes heat-setting, wrinkle resistance, water



repellant, stain release, softener treatment and shrinkage treatment. In 2003, total yardage of fabrics processed by this section had increased to about 30 million yards per annum, representing almost a 60% increment as compared to 2002. However, due to strong competition, average selling price was squeezed down by about 5 to 10% in 2003. In 2004, this section will continue 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.

In addition, we will further market and promote our strength of global sourcing and purchasing of grey cloth on behalf of customers in 2004. In 2003, about 20% of our customers requested the Group to source and purchase grey cloth on their behalf. We would like to increase this proportion to about 30% in 2004. With this service, our customers are more willing to place orders to us and we can generate useful profit margin through this operation. To minimise the credit risk, we had shortened the receivable turnover period and requested for post-dated cheque payments and/or letter of credit settlements before delivery of goods.

A separate sales team in the PRC was established to strengthen our domestic sale orders. In 2003, about 25% of our sale orders in this section were PRC domestic orders. We expect to maintain this ratio in 2004.

In addition, we will actively participate in mill shows in Shanghai, India, New York and Singapore to capture fabric sale orders from major buyers from these countries.

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Garment Manufacturing

In 2003, we had downsized the garment manufacturing operation due to strong competition from manufacturers in northern China and many developing countries. In 2004, we will completely retreat from this operation as this section has continuously been making loss after acquisition. On the other hand, we anticipate the retail market in the PRC will have a high growth potential in future, though competition will be intense. Therefore, we will close down the garment manufacturing factory and switch our resources to garment retail operation to sell garments with our registered brand names of "Fascination" and "Woodock". Currently, we have already established about nine retailing points in the PRC and we expect another five retailing points will be opened in 2004. Since competition in retail market is very intense in the PRC, we will only adopt a very conservative approach in their future expansion.

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, 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 customers. In 2003, turnover in this section had decreased by 48% because we became more conservative in seeking garment orders due to intense global competition. Only sale orders with relatively high margins were accepted to minimise the risk of order cancellation and quality rejection. In 2004, we will continue to adopt this prudent approach in accepting sale orders.

PROSPECT AND OUTLOOK

In terms of operating cashflow, we were succeeded in maintaining a constant and steady positive operating cash inflow in 2003, though the loss attributable to shareholders was widened by substantial impairment loss on goodwill and large provision for doubtful debts and slow-moving and obsolete inventories. Consistent with 2003, the Group will adopt the following approaches to maintain a steady pace of development in 2004:

1. Continuous cautious production and administrative cost control to strengthen the survival ability;
2. Continuous vertical integration of the Group's operation in textile industry to maximise our profit margin;
3. Continuous concentration of the Group's resources on textile industry to maximise 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.

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LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2003, the Group had total assets of HK\$217 million which were financed by current liabilities of HK\$94 million, long-term liabilities of HK\$20 million and shareholders' equity of HK\$104 million. Accordingly, the Group's ratio of debt to total assets and debt to equity were 52% and 109%, respectively. In the environment of global stagflation, the Group will focus on reducing the gearing ratio to an even safer level.

The Group financed its operation mainly by internal resources and bank financing. During the year, no new equity shares had been issued for fund raising.

At 31 December 2003, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about HK\$41.8 million, which we consider was sufficient for normal daily operation and expansion.

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, 22 April 2004