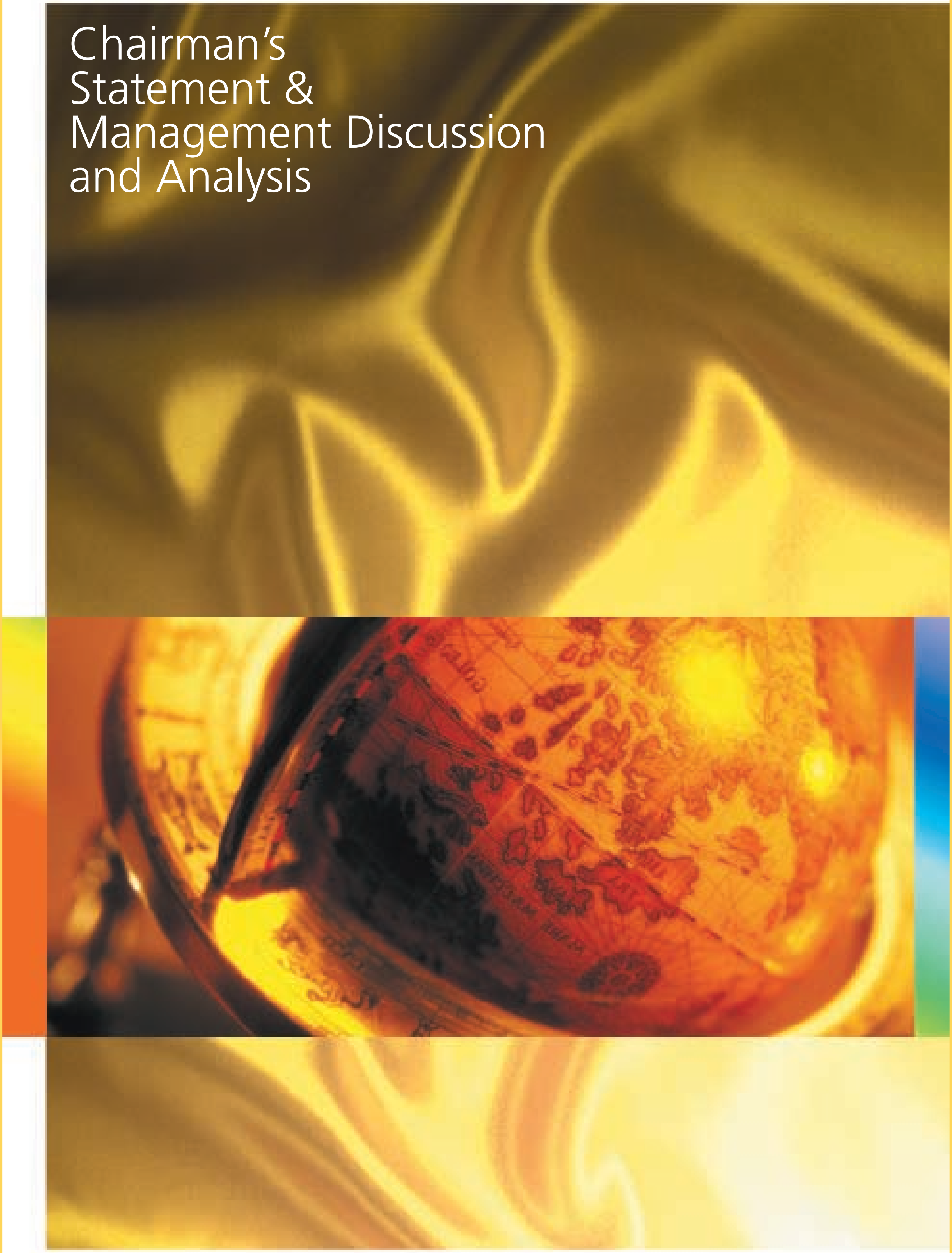
Chairman's Statement & Management Discussion and Analysis



To Shareholders,

On behalf of the board of directors of the Group, I hereby present the annual report for the year ended 31 December 2005.

FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2005.

FINANCIAL RESULTS

Turnover increased by HK$35.6 million over last year to HK$244.7 million (i.e. 17%) as a result of the substantial upshot of turnover in sale of garments during the year. However, the Group's gross profit margin reduced to 5.1% as compared with 13.3% last year mainly because of some inefficiency in the production processes was encountered by the fabric processing factory and there were some large customers' quality claims in the first half of 2005.

Turnover derived from provision of fabrics processing services reduced to HK$63.5 million (i.e. decreased by 19.5% when compared with last year). Commencing from the second half of 2005 financial year, merely processing orders with higher profit margins and processing orders from customers with good payment records were selected and accepted, leading to a drop of turnover in provision of fabric processing services. In addition, turnover derived from sale of dyed fabrics also dropped to about HK$62.8 million (i.e. decreased by 26.1% when compared with last year) because of the adoption of a similar stringent customers and orders selection processes as above. On the other hand, income generated from trading of garments shot up to HK$118.4 million (i.e increased by 162.0% when compared with last year) because of our strong back-up of garment factories in Bangladesh which was nearly the most favorable production base for garment production orders in 2005 under the current hot trading dispute between China and the United States.

Compared with last year, distribution costs and administrative costs reduced by about HK$2.2 million (i.e. about 18.1%) and approximately HK$1.6 million (i.e. about 7.3%) respectively after successive tight internal controls. Almost no capital expenditure was incurred in the year to conserve limited resources for daily operation purpose. Provision of bad debts increased by about HK$0.8 million when compared with last year. In addition, finance expenses decreased slightly accompanied with repayment of certain bank advance after the climbing-up of Hong Kong banking prime rate.

REVIEW OF OPERATION

Fabric Processing

The management successfully pulled up the average unit fabric processing charge in Hong Kong by about 7.6%. However, the dyeing factory encountered some inefficiency in the production processes in the first half of 2005, leading to an upshot of direct production cost by about 12.2%. On the other hand, under stringent processing orders and customers selection processes, we limited the quality claims ratio significantly by 14.9%. Under this circumstance, turnover for provision of fabric processing service decreased materially from HK$78.9 million to HK$63.5 million, and its segment results deteriorated from loss of HK$5.2 million to HK$24.6 million in the year.

Competition in the textile industry and among dyeing factories situated in Pearl River Delta is still intense. We are still facing stiff competition from state-owned and domestic dyeing factories. They charge a very low unit processing charge for cut-throat policy. As we have mentioned in previous annual reports, we are now uplifting the proportion of income from sale of self-processed fabrics and reducing our reliance upon the income generated from fabric processing charges purely. However, the switching process was still slow in 2005.

Direct production costs of the dyeing factory increased spirally by 12.2% in 2005. We note that factory management encountered some inefficiency in production processes particularly in the first half of 2005. We have exercised close monitoring and control by end of the year and hopefully the production costs can be controlled within a relatively lower level in 2006. Notwithstanding the above, we still consider the existing direction is correct and will keep track on the following strategies in 2006:

1. Increase the portion of sale of self-processed fabrics to pull up the overall profit margin;

2. Maintain the existing average unit fabric processing charge by providing more high-end services;

3. Monitor closely the direct production costs to avoid any reoccurrence of inefficient running;

4. Set up credit limit system for each individual customer to control the credit risk; and

5. Expand the customer base to reduce the reliance upon single or a small batch of customers.

Sale of Fabrics

During the year, most subsidiaries engaged in trading of dyed fabrics could not get a favorable result. Turnover derived from sale of fabrics dropped substantially by about 26% mainly because:

1. The expiry of the cooperation agreement in a major fabric trading subsidiary in August 2004; and

2. The stringent sale orders selection processes exercised by the management on sale of self-processed fabrics.

As we mentioned above, since the dyeing factory encountered some production inefficiency in the first half of 2005, the processing costs of self-processed fabrics also increased dramatically, leading to the overall segment results turning to a loss of HK$7.4 million in the year (2004: profit of HK$0.7 million).

Notwithstanding the above, we will concentrate on orders with higher profit margins and keep on monitoring and controlling the factory direct production costs. We expect the segment results can turn around in 2006.

Trading of Garments and Accessories

Turnover derived from trading of garments and accessories shot up by 162.0% to HK$118.4 million as compared with last year. Segment result improved from HK$1.5 million to HK$9.0 million (i.e. about 511.4%). During the year, China and the United States were in dispute on the impact of revival of quota systems on China against certain textile products after a severe flood of China produced textile goods exported to the United States subsequent to the abolishment of quota systems pursuant to WTO agreement on 1 January 2005. Because of the uncertainty in China textile markets, this created a favorable environment for us with strong back-up of production bases in Southeast Asia like Bangladesh. We expect revenue generated from trading of garments and accessories will maintain at existing level in coming few years.

PROSPECT AND OUTLOOK

Consistent with 2005, the Group will adopt the following approaches to maintain a steady pace of development in 2006:

1. Continuous cautious production and administrative cost control to strengthen cash flow;

2. Continues vertical integration of 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 the PRC domestic textile market to tap the high-speed growing potential of the PRC economy.

In summary the following goals are set for 2006:

1. Increase the portion of sale of self-processed fabrics;

2. Increase the portion of provision of fabric processing services to domestic PRC customers;

3. Reduce direct processing costs of the dyeing factory in Zhongshan, the PRC; and

4. Increase the turnover derived from trading of dyed fabrics (excluding self-processed fabrics).

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group experienced a net cash outflow in operating activities of about HK$0.3 million as compared with a net cash inflow of HK$15.4 million in 2004. We are now setting up a credit limits policy to monitor the operating cash flow and credit risks.

At 31 December 2005, the Group had total assets of HK$156.4 million which were financed by current liabilities of HK$87.0 million and shareholders' equity of HK69.3 million. Accordingly, the Group's ratio of debt to total assets and debt to equity were 55.7% (2004: 50.4%) and 125.6% (2004:101.5%), respectively. In 2006, approximately RMB18 million of long-term bank loans at 31 December 2005 will become due. We have granted a preliminary consent from the relevant banks for a renewal of these bank loans for one year when matured.

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

At 31 December 2005, the Group had cash on hand, bank deposits and bank balances for an aggregate amount of about HK$29.3 million (of which about HK$17.4 million was pledged with banks for banking facilities for the Group) and unutilized banking facilities for a total of about HK$58.7 million, which we consider 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, 20 April 2006