BUSINESS REVIEW

The Group is principally engaged in the manufacture and sale of linen yarns. The Group is the largest exporter of linen yarns in the PRC. The products of the Group include yarns with counts ranging from 8.5 Nm to 60 Nm, which are sold and marketed under the brands of "紫薇", "Crape Myrtle" and "Kingdom" to domestic and overseas markets. The Group's main overseas markets include Italy, South Korea, India, Russia and Turkey.

At present, the Group's scale of production for linen yarns has reached 52,000 spindles. Thus, the Directors believe that the Group is one of the largest linen yarns manufacturers in the world. By having the technical guidance of overseas experts and the innovative capability of the Group's staff, the quality of linen yarns has been markedly improved, especially for high-count (fine quality) products. So that the total sales volume of high-count products this year had almost doubled compared to that in 2005. Through innovation, the Group has improved aspects of equipment and manufacturing techniques. The Group has applied to the relevant department of the People's Republic of China ("PRC") government for the patent of invention of three new products, one of which has been granted the patent by such relevant department of the PRC government.

Following a year's preparation and effort, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing") on 12 December 2006. The Listing brings new resources for the development of the Group which we believe, as a public company, will enjoy greater opportunities.

FINANCIAL OVERVIEW

(1) Turnover

For the year ended 31 December 2006, the Group's turnover amounted to approximately RMB537,364,000 (2005: RMB452,349,000). The increase in turnover was due to the Group's shift of focus to develop the domestic market with quotas operating on exports to the European Union ("EU") countries. These domestic sales also reflected the increased production volume arising from the operation of the Group's production base in Rugao, Jiangsu province in the PRC, which commenced operation in 2005.

(2) Gross profit

The Group's gross profit for the year ended 31 December 2006 amounted to approximately RMB146,675,000 (2005: RMB134,061,000) with a gross profit margin of approximately 27.3%, a slight decrease from 29.6% of the previous year. This was due to the fact that the gross profit margin of domestic sales which increased during the year was less than that of export sales.

(3) Profit attributable to shareholders

The Group's profit attributable to shareholders for the year ended 31 December 2006 amounted to approximately RMB90,710,000 (2005: RMB91,749,000), a decrease of approximately 1.1% compared to that of 2005. The Group's net profit margin for the year ended 31 December 2006 was approximately 16.9% (2005: 20.3%). The decrease in net profit margin from the previous year was a result of the decrease in gross profit margin, increase in administrative expenses and rise in the cost of borrowings as well as the effect of income tax.

(4) Expenses

The Group's selling and distribution expenses amounted to approximately RMB16,701,000 (2005: RMB14,802,000), and accounted for approximately 3.1% of the turnover for the year ended 31 December 2006 (2005: 3.3%).

The Group's administrative expenses amounted to approximately RMB22,118,000 (2005: RMB14,753,000), accounted for approximately 4.1% of the turnover for the year ended 31 December 2006 (2005: 3.3%). Administrative expenses increased by approximately 50% over 2005, which was mainly due to the increase in the number of management staff and their salaries and the increase in auditing and consulting fees.

Net finance costs were approximately RMB17,649,000 (2005: RMB11,940,000). Finance costs increased by approximately 48% over 2005, which was due to the increase in bank borrowings and the rise in interest rate on borrowings.

IMPORTANT EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to the PRC enterprise income tax passed by the Fifth Plenary Session of Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on detailed pronouncements that have yet to be issued. Since implementation and transitional guidance applicable to the Group has not yet been announced, the Group cannot reasonably estimate the financial impact of the new law to the Group at this stage.

FUTURE PLANS AND PROSPECTS

The Directors expect that the Company may utilize the proceeds of the initial public offering undertaken in connection with the Listing for investment on new projects in 2007. These include a capital investment of approximately RMB130 million for a new production facility in Rugao to increase the Group's production capacity by 5,000 tonnes, and of some RMB60 million in the cultivation of the raw material of linen yarns in order to increase the Group's product competitiveness and to reduce exposure to raw material pricing risk. The Group will further increase its capability of research and development centre to speed up the development of production equipment and new products seeking continuous improvement in the technological standard of the Group's production equipment and the standard of the Group's products.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group had net current assets of approximately RMB337,481,000 (2005: RMB20,379,000). The Group finances its operations with internally generated resources and bank borrowings. As at 31 December 2006, the Group had cash and bank deposits of approximately RMB330,010,000 (2005: RMB60,566,000). The current ratio of the Group was approximately 183.4% (2005: 105.8%).

Shareholders' funds of the Group as at 31 December 2006 was approximately RMB652,538,000 (2005: RMB287,563,000). As at 31 December 2006, the bank borrowings of the Group, payable within 12 months from the balance sheet date amounted to approximately RMB193,800,000 (2005: RMB180,098,000) while long-term borrowings amounted to approximately RMB25,000,000 (2005: RMB30,000,000), together giving a gross debt gearing (i.e. total borrowings/shareholders' fund) of approximately 33.5% (2005: 73.1%).

As at 31 December 2006, the maturity profile of non-current bank borrowings of the Group is as follows:

Repayable	**2006** **RMB'000**
Within 1 year	35,000
Over 1 year but less than 2 years	10,000
Over 2 years but less than 5 years	15,000
	25,000
	60,000

As at 31 December 2006, other than the bank borrowings already utilized, the Group has the facility granted by certain banks in the amount of RMB214 million.

The financial strength of the Group has been greatly improved after the Listing. The Board believes that taking into account capital expenditure to be made in 2007, the Group's existing financial resources will be sufficient for the Group's future expansion plans.

TREASURY POLICIES

The Group's treasury activities were managed centrally at the corporate level by managing the financial risks, such as interest rate and foreign exchange risks, and for providing cost efficient funding to the Group as a whole.

As at 31 December 2006, the Group's bank borrowings are mainly denominated in Renminbi and US dollars whilst the Group's cash and cash equivalents are mainly denominated in Renminbi, US dollars and Hong Kong dollars. Approximately 73% of the Group's bank borrowings bear fixed rate interest.

The Group has constantly monitored its interest rate and foreign exchange exposure. For the year ended 31 December 2006, the Group had not adopted any instrument for hedging purpose. Neither had the Group had any foreign currency net investment.

The Group's transactions and currencies are mainly denominated in Renminbi, US dollars and Hong Kong dollars. The operating expenses of the Group's PRC subsidiaries are mainly denominated in Renminbi, and the Group's domestic sales are denominated in Renminbi. Although the People's Bank of China announced that a new system of floating exchange rate for Renminbi be adopted from July 2005, the Group is of the view that it represents a normal adjustment to the prior value of the Renminbi, and whether or not Renminbi will appreciate is a question closely linked to the development of the national economy. With the continued development of the economy of the PRC, the Group anticipates that Renminbi will appreciate further. The assets, profits and dividends of the Group will be subject to the impact of the fluctuations of exchange rate of Renminbi.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company was listed on the Stock Exchange on 12 December 2006, as a result of which a total of HK$301.875 million was raised from the Company's initial public offering. The proceeds, which are currently placed with licensed banks in Hong Kong and the PRC, are intended to be applied in the following manner as set out in the Company's prospectus dated 30 November 2006 (the "Prospectus"):

– construction of a third production base;

– establishment or acquisition of a production base for the manufacture of flax fibres;

– repayment of existing bank loans; and

– in respect of the balance thereof, general working capital of the Group.

SEGMENTAL ANALYSIS

For the year ended 31 December 2006, the Group successfully developed the domestic market. Domestic sales sharply increased by approximately 93.3% from RMB119,675,000 for the year ended 31 December 2005 to RMB231,349,000 for the year ended 31 December 2006. Despite export sales to EU countries decreasing due to the quota restrictions imposed by the EU countries with effect from June 2005, the total turnover of Group increased by 18.8%. However, as the gross profit margin of domestic sales was less than that of export sales, the Group's overall gross profit margin decreased accordingly.

CHARGES ON GROUP ASSETS

As at 31 December 2006, the Group's bank deposits of RMB75,426,000 had been pledged to banks as security for the Group's bank loans and other banking facilities. The pledged bank deposits will be released upon the termination of relevant banking facilities. In addition, certain properties and equipment, certain land use rights and inventories with an aggregate carrying amount of RMB100,668,000, RMB30,131,000 and RMB33,340,000 respectively were pledged as security for the Group's bank loans.

CAPITAL COMMITMENTS

As at 31 December 2006, the Group's contracted capital commitments in respective of purchase of property, plant and equipment outstanding, but not provided for in the consolidated financial statements was RMB8,650,000.

STAFF POLICY

As at 31 December 2006, the Group had a total of 2,463 (2005: 2,252) employees. Total staff costs incurred during the year 2006 amounted to RMB41 million (2005: RMB32 milllion). The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Share options under the share option scheme of the Company and discretionary bonuses may be granted to the Group's staff depending on their performance. The Group is required to make contributions to a social insurance scheme in the PRC. Moreover, the Group and its employees in the PRC are each required to make contributions to fund the endowment insurance and unemployment insurance at the rates specified in the relevant PRC laws and regulations.

The Group from time to time provides training courses both internally and externally for its employees.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no contingent liabilities.

MATERIAL ACQUISITIONS OR DISPOSALS

There was no material acquisition or disposal of the Company's subsidiaries and associated companies during the year ended 31 December 2006 save for those disclosed in the Prospectus.

FINAL DIVIDEND

Subject to the approval at the forthcoming annual general meeting, the Board recommends the payment of a final dividend of RMB0.0375 per ordinary share for the year ended 31 December 2006.

SIGNIFICANT INVESTMENTS

Other than holding share interests in the subsidiaries, the Group does not have any significant investments.

Ren Wei Ming
Chairman
Haiyan County, PRC, 19 April 2007