



SIMM Exhibition, Madrid, Spain
September 2003

Product Innovation to Spearhead Global Presence



China's Casual Wear Fair, Zhongshan, PRC
October 2003



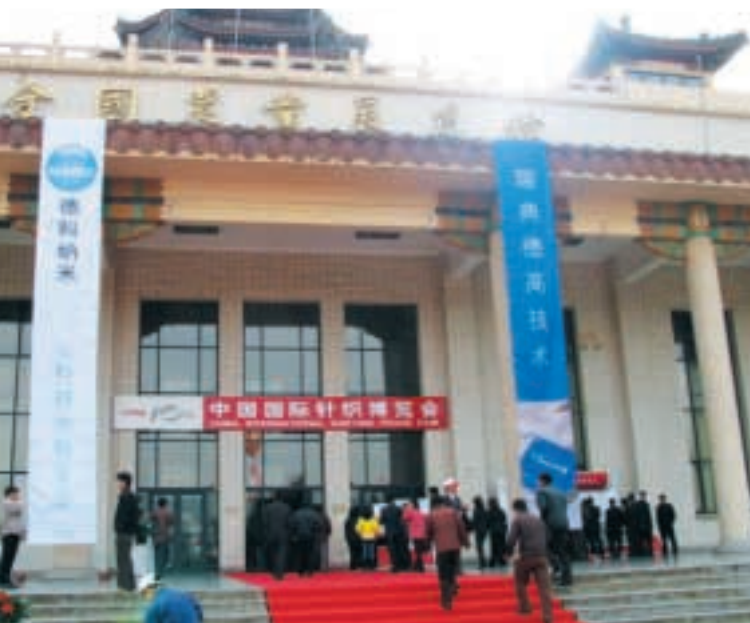
FATEX Exhibition, Paris, France
November 2003



Texcote Technology Seminar, Zhongshan, PRC
October 2003

Branding and Marketing

During the year under review, the Group diversified its sales and marketing efforts to promote Swedish Texcote Technology and its "Nanoeco" garment products around the world. The Group also joined hands with the partners to participate in a number of worldwide large-scale exhibitions and seminars in Spain, Japan, France, Beijing, Guangzhou, Zhongshan, etc.. These marketing initiatives were effective to boost the global awareness towards Swedish Texcote Technology, paving the way for the Group to initiate talks with customers to expand the clientele network.



China International Knitting Trade Fair, Beijing, PRC
March 2004



China International Knitting Trade Fair, Beijing, PRC
March 2004



Financial Review

Liquidity, Financial Resources and Capital Structure

The Group has consistently financed its business development by means of internal resources, equity funding and bank borrowings. During the year under review, the Company raised funds from the issuance of capital, through the arrangement of shares placement and exercise of share options and warrants totalling approximately HK\$117,508,000, net of issuing expenses of HK\$1,966,000. In January 2004, the Group entered into an unsecured HK\$200 million syndicated bank loan facility agreement arranged by Oversea-Chinese Banking Corporation. The syndicated loan bears interest at a rate of HIBOR plus 1.15% per annum and has a term of three years. A major portion of such syndicated loan was used to refinance the previous syndicated loan.

As a result of the above fund raising activities, the Group's liquidity and financial resources position during the year remained sound and in particular, the Group's cash position was substantially enhanced. As at 31 March 2004, the Group had an aggregate cash and bank balances of approximately HK\$384 million (2003: approximately HK\$108 million). The Group had available committed banking facilities totalling approximately HK\$382 million in which approximately HK\$289 million was utilized as at 31 March 2004. As at 31 March 2004 the Group was in a net cash position.

Pledge of Assets

As at 31 March 2004, certain assets of the Group located in the PRC with an aggregate net book value of approximately HK\$ 41,696,000 were pledged to financial institutions in the PRC for standby credit facilities granted to the Group's subsidiary in China. These facilities were not utilized as at 31 March 2004.

Acquisitions and Disposals

In order to consolidate the development of the Swedish Texcote Technology business, the Group acquired a further 10% equity interest in Texnology Nano (BVI) Limited for an aggregate consideration of HK\$ 42,357,000 during the year. The Group also acquired 12.5% equity interest in Texnology Nano International Limited for an aggregate consideration of HK\$ 51,908,000 during the year.

Apart from the above acquisitions, the Group successfully disposed of a 10% equity interest in New Asia Associates Limited, a holding company for the Swedish Texcote Technology business, for a consideration of HK\$ 45,000,000.

Employment, Training and Development

As of 31 March 2004, the Group had a total of 1,007 employees, including 215 in Hong Kong and 792 in the PRC. The Group provided its employees with comprehensive remuneration packages according to market trends, individual expertise and performance. Other benefits included the mandatory provident fund and share option scheme.

To uphold the management philosophy of "Delivering Quality Services to Customers", the Group organized training courses for frontline salespersons and management staff during the year under review. This helped to enhance the employees' product knowledge and sales techniques, as well as the overall management efficiency.



Community Affairs

The Group had long been committed to community affairs. During the SARS outbreak, the Group pioneered in applying Swedish Texcote Technology to launch a series of nano medical products. These included nano masks (Nano Type) and nano protective gowns, which were equipped with water repellency, stain resistance and anti-bacteria features to shield water droplets and bacteria. The Group donated nano medical products to a number of hospitals and charitable organizations in the PRC, Hong Kong and Taiwan. The Group also offered part of its sales revenue in Hong Kong and the PRC to the "WE CARE" fund set up by the Chinese University of Hong Kong, as well as to other PRC medical institutions. The donations were aimed at supporting frontline medical staff in Hong Kong and the PRC. The Group also pledged its support to the needy by donating part of the sales revenue in Hong Kong to Children's Cancer Foundation in Hong Kong.





Solid Foundation Paves the Way for Breakthrough

Well-established Cornerstone to Excel in the Future

Prospects

Apparel Manufacturing and Distribution

Looking ahead, the Group will strive to keep up its market penetration in the PRC. The Group will pledge its commitment in expanding the distribution network in the potentially high-growth second-tier and third-tier cities in the PRC to embrace the burgeoning purchasing power backed by the robust growth in the PRC economy. The Group's apparel distribution business has already established a solid foothold in the southern part of the PRC. The Group plans to further vault into the central and northern part of China, under the auspices of our proven business model and versatile experiences.

The Group will adopt a prudent approach to develop the retail apparel business in Hong Kong amid tightening cost control measures. The Group will close down those unsatisfactory outlets and open new shops which demonstrate high growth potential. This can help cement our market share in the local retail market.

Swedish Texcote Technology

In view of the growing demand of Swedish Texcote Technology, the Group is on course to construct a new production plant and facilities with a total floor area of 300,000 sq. ft. in Shunde of Guangdong Province. The new production plant is expected to accommodate ten sets of processing facilities of Swedish Texcote Technology, and the first batch of five processing lines are expected to commence production in the fourth quarter of 2004. More than 1,000,000 pieces (in garment units) can be Texcote-processed per month during the first run. The new processing lines are designed to provide Texcote-processing for textile fabrics, garments and other textile finished products. The Group expects the new production plant can further enhance the Group's Texcote-processing capabilities and the product varieties.

Besides, in order to enhance the supply of chemical raw materials of Swedish Texcote Technology, the Group plans to set up a plant in the PRC for the production of chemical raw materials of Swedish Texcote Technology. The new plant is expected to lower the raw material cost and reduces transportation time, which in turn boosts the operation efficiency.

The PRC is the Group's major market. In addition to the concerted efforts to cement our pre-eminent position in nano-processing in the PRC market, the Group will further expand its reach in the overseas market. The Group has already marched into the Pakistan market and is looking into collaboration possibilities with manufacturers in other Asian regions, such as Taiwan and Japan, to explore the application of Swedish Texcote Technology in textile fabrics and other products, such as down feathers, and this will be a major breakthrough for Texcote-processing in non-textile products.

The Group will continue to pursue partnership opportunities with prestigious manufacturers and industry leaders to maximize the application of Swedish Texcote Technology and cater to the needs across different industries. The Group will engage in different business models to jointly develop the Swedish Texcote Technology business with the partners, including 1) material processing services; 2) technology licensing; and 3) establishment of joint venture to jointly manufacture and distribute nano textile products. Moreover, the Group will actively move upwards in the value chain through extending the technology application from textile finished products to textile fabric materials to embrace the enormous business opportunities in the nano textile market.

The Group also puts due emphasis on enhancing the research and development ("R&D") capabilities of Swedish Texcote Technology. Besides the R&D efforts by Swedish scientists and the University of Science and Technology of China, the Group has also signed a three-year technology consultancy agreement with the Research and Development Centre of the China Textile Academy ("CTA") in April 2004. Under the agreement, the CTA will assist in the R&D of Swedish Texcote Technology application into related textile and garment products and provide technical and marketing support in promoting Swedish Texcote Technology.

Forging ahead, the Group will spare numerous efforts to expand the Swedish Texcote Technology business to underscore our leadership position in the nano textile arena. Our leading-edge technology will also give a strong boost to our global expansion plan. The Group believes that the dual business model will stand us in good stead to reach new heights in the future and bring significant returns to the shareholders.

