

Management Discussion and Analysis

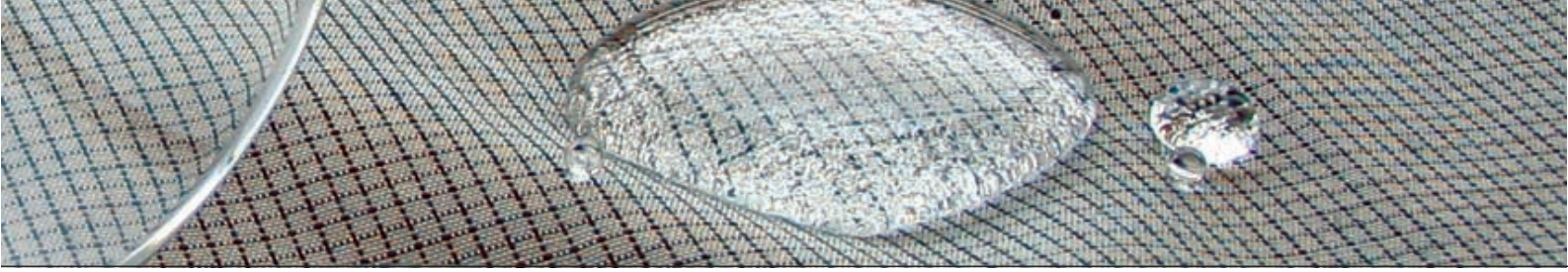
BUSINESS REVIEW

The Group recorded a turnover of HK\$913,844,000 in the year ended 31 March 2005, which represents an increase of 23.5% from HK\$739,677,000 last year. The increase was attributed to the rapid development of the Texnology Nano group business. Net profit attributable to shareholders was HK\$95,985,000 compared to last year's HK\$113,872,000. Basic earnings per share was HK5.85 cents.

Last year's net profit attributable to shareholders included the gains on disposals of interests in subsidiaries of HK\$45,294,000, there are no such gains this year.

The Group's manufacturing and sale of fashion garments business maintained solid growth. It recorded a turnover of HK\$600,844,000, or 65.7% of the Group's total turnover. The Texnology Nano group business also demonstrated marked growth and its turnover increased by 110.3% to HK\$313,000,000 which accounted for 34.3% of the Group's total turnover. The increase in turnover was due to the Group's concerted efforts in broadening nano technology application. This allowed the Group to move upwards in the production chain and speed up technology commercialization.





Manufacturing and Sale of Fashion Garments

The PRC

The PRC was still the Group's key and steady market, with turnover of HK\$501,531,000 accounted for 83% of the Group's garment business. The PRC economy enjoyed rapid growth and higher consumption power in 2004. The Group continued to record encouraging performances in second- and third-tier mainland cities and possessed more than 330 sales and distribution points, including self-managed stores, franchised stores and sales counters in shopping malls. They spanned more than 100 cities across the PRC. One of the highlights during the year under review was the introduction of self-managed "concept" stores to increase the market penetration of "U-Right".

Hong Kong

During the year under review, rental costs rose sharply in Hong Kong. The Group made adjustments in the number and location of retail shops in Hong Kong to maintain our profitability. Turnover stood at HK\$99,313,000, which was similar to last year's figure despite the closure of 5 shops. Turnover from Hong Kong accounted for 17% of the Group's garment business. The Group currently operates 19 retail outlets in Hong Kong.

Overseas

During the year under review, the Group continued its overseas expansion foray. The number of franchised stores in the Middle East market increased to 25. The Group also had a number of overseas partners to distribute the Group's apparel goods and nano-processed textile wear in the Southeast Asian, European and US markets.





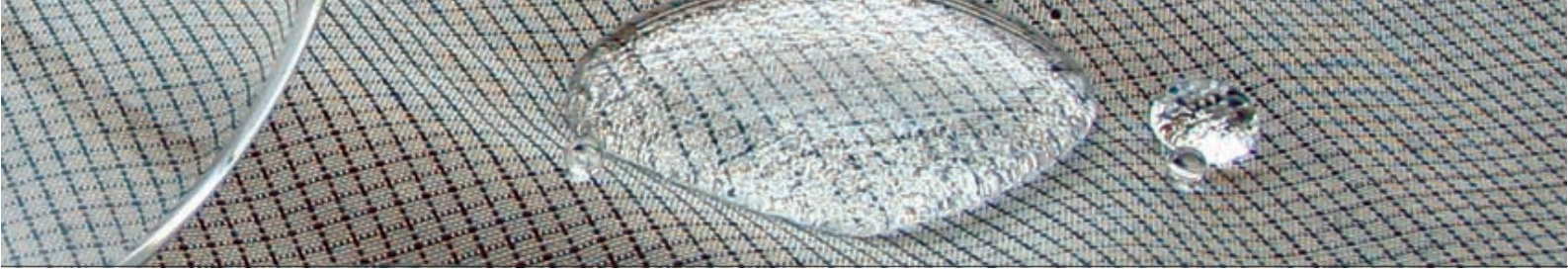
Texnology Nano Group Business

Texnology Nano group business had made continued progress during the year under review. The key business models of Texnology Nano group business include materials processing, licensing and product sales. The Group has capitalized on the collaboration with different textile manufacturers in the region to expand technology application of Swedish nano technology. The use of such technology has been expanded to cover a wide array of textile raw materials including fabric, cashmere and wool yarn. That represents an upward move in the production chain.

The Group has strategically modified the expansion plan of its nano textile production base in the PRC. In order to meet the demand of textile manufacturers in the Pearl and Yangtze River Delta regions for nano textile goods, the Group has relocated

five nano textile processing lines from Shunde to Nanchang, Jiangxi province. The initial maximum production capacity is expected to top 1,000,000 units a month. The nano textile processing lines in Nanchang would process different textile goods, including jacket, shirt, wool wear, pants, tie, bedding goods and hats etc. The new nano textile production base in Nanchang will also provide training for other technology licensees of the nano textile processing technology.

Labour costs in Jiangxi province are 40% lower than in Guangdong province. The local government also offers tariff concessions and subsidies for the Group. These factors help boost the Group's competitiveness in the production of textile goods. The Group also makes use of the technology licensee's distribution network to step up its expansion in the PRC and European and US markets.



During the year under review, the Group sealed a technology consultancy agreement with the Research and Development Centre of China Textile Academy (“CTA”). Under the agreement, the CTA will assist in the R&D of the Group’s proprietary nano technology application into related textile and garment products, and provide technical and marketing support for our proprietary nano technology. CTA is the largest and most comprehensive R&D institution in the mainland textile industry. It boasts a strong R&D team and a full range of testing facilities, equipment and pilot plants. It also provides innovative technology support for its subsidiary companies and other enterprises in the textile industry. In addition, the University of Science and Technology of China and scientists from Sweden will continue to explore nano technology application in different textile and non-textile products.

Promotion of Brand and Products

The Group has adopted a wide range of promotion strategies to raise global awareness of Swedish Nano Technology and the NANOECO collection. The Group has joined hands with different partners to participate in numerous exhibitions and seminars. Through different promotional channels, the Group has succeeded in raising global awareness of Swedish Nano Technology. This will facilitate the Group to initiate talks with different clients and expand overseas markets.



FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group enjoys sound financial management. It has consistently financed its business development by means of internal resources, equity funding and bank borrowings. During the year under review, the Group raised funds from the issuance of capital, through the exercise of share options and warrants, totalling approximately HK\$102,045,000 (net of issuing expenses of HK\$968,000).

The Group boasts a strong liquidity and financial resources position as a result of the above fund-raising activities. As at 31 March 2005, the Group has aggregate cash and bank balances of HK\$466,040,000, (2004: HK\$383,800,000) and the Group was in a net cash position.

The Group has available banking facilities totalling approximately HK\$752,000,000 in which approximately HK\$391,000,000 was utilized as at 31 March 2005.

The Group's core operations are in the PRC and Hong Kong, and its assets are calculated in Renminbi and Hong Kong dollar, risks of currency fluctuation are therefore low.

Pledge of Assets

As at 31 March 2005, assets with an aggregate net book value of HK\$77,999,000 have been pledged to banks for banking facilities (2004: HK\$41,696,000). As at 31 March 2005, HK\$27,000,000 were utilised under these facilities (2004: HK\$ Nil).

Contingent Liabilities

As at 31 March 2005, the Group did not have any significant contingent liabilities.

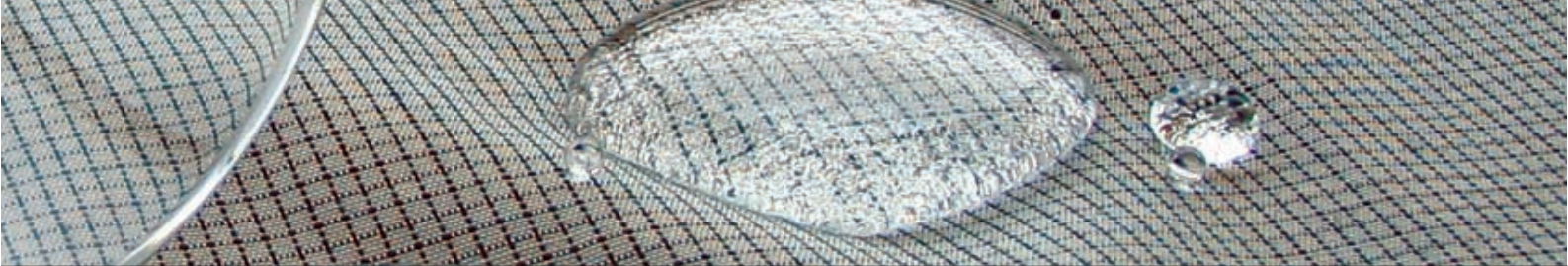
Acquisitions and Disposals

In a bid to further consolidate its Texnology Nano group business, the Group acquired a 7% stake in Texnology Nano (BVI) Limited for HK\$32,000,000 during the year.

The Group also bought the 31st and 32nd floors of Billion Plaza, located at 8 Cheung Yue Street in Cheung Sha Wan. It serves as the Group's corporate headquarters in Hong Kong, and has a total floor area of 20,000 square feet. The consideration was HK\$41,100,000.

Apart from the above, the Group was not engaged in any other major acquisitions or sales transactions.





EMPLOYMENT, TRAINING AND DEVELOPMENT

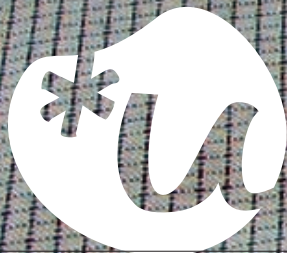
As at 31 March 2005, the Group had a total number of 1,145 employees, including 177 in Hong Kong and 968 in the PRC. The Group provides its staff with comprehensive remuneration packages according to market trend, individual expertise and performance. Other benefits provided by the Group include mandatory provident fund and a 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 CARE

Following the Asian tsunami disaster, the Group promptly responded to the needs of the victims by launching an internal charity fund-raising initiative. In addition to donating nano masks to frontline medical staff of different organizations to safeguard their health, the Group also offered part of the sales proceeds in Hong Kong to those in need through Hong Kong Red Cross.





PROSPECTS

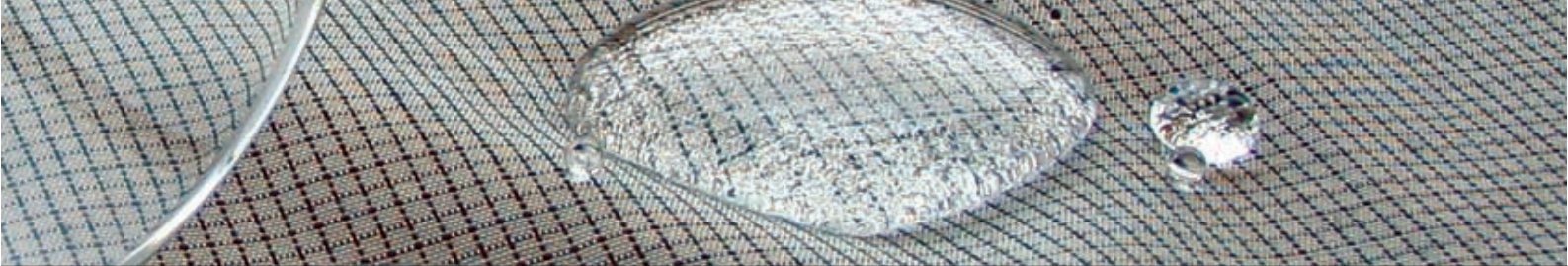
Manufacturing and Sale of Fashion Garments

Solid Foundation to Embrace Immense Opportunities

The demand of stylish brand image and high quality customer services is continuously rising, the Group will further expand its distribution network and acquire shops in Hong Kong as well as in second- and third-tier cities in the PRC. These will help boost the Group's market penetration. On the other hand, growth in the local retail market has led to skyrocketing rental costs which increase the Group's operating costs. Overall, in anticipation of the opening of Hong Kong Disneyland in September 2005 and the further relaxation of the Individual Travel Scheme for mainland visitors, the Group is confident in the local retail market. The Group will strive to expand the distribution points and acquire retail shops for long-term investment to alleviate the impact of rising rental costs on the Group's earnings.

In the PRC market, the Group will not only maintain its franchise model but also increase the number of self-managed stores. These measures will enable the Group to boost the "U-Right" brand and set itself apart from other rivals, to pave the way for the Group to secure larger market penetration in the PRC.

"U-Right" apparel goods have long been widely recognized for its quality and reasonable prices in the PRC and Hong Kong markets. In a bid to better provide customers with quality textile wear, the Group will introduce another new apparel line to broaden customer reach.



Texnology Nano Group Business

Taking Full Advantages of Opportunities Presented by Technology Nano Group Business

To keep pace with our business expansion, the Group plans to further boost the production facilities in Nanchang to increase the processing capacity of finished goods and textile fabric at the year end 2005. The imminent expansion of the nano textile processing base in Nanchang is set to become the centre of its kind in the PRC. The city of Nanchang will also become the centre of the Group's expansion in the manufacture of nano textile goods. The Group will fully utilize its experience in procurement of textile goods, the multi-function nano textile goods as well as the competitive human resources advantages in Nanchang. The Group plans to develop into a one stop full-service textile enterprise and enhance the development of exporting business of textile products in European countries and US. Besides, the Group will reap the benefits of the well-developed technology to further expand the licensing business of nano technology. The Group will continue to develop the application of nano technology to a variety of products, sale channels and networks. The Group will also consider establishing a plant for producing nano chemicals for the Texnology Nano group business in the PRC. This could speed up the production cycle of nano chemicals and more cost efficient.

Forging ahead, the Group will ride on its presence in the apparel and Texnology Nano group businesses to further boost the Group's business scale and maintain our strong growth momentum. The Group has strong confidence on the burgeoning potential ahead, to bring significant returns for shareholders.

