

Management Discussion and Analysis

BUSINESS REVIEW

Operating Result

The Group recorded a turnover of HK\$1,343,852,000 for the year ended 31 March 2006, representing an increase of 47.1% from HK\$913,844,000 last year. The Group's profit attributable to equity holders of the Company was HK\$103,406,000, an increase of 7.7% compared to HK\$95,985,000 in the previous year. Basic earnings per share was HK4.3 cents for the year ended 31 March 2006.

Turnover

The fashion garments business recorded a turnover of HK\$909,041,000 and accounted for 67.6% of the Group's total turnover. This represented an increase of 51.3% as compared to HK\$600,844,000 in the previous year. The nano business recorded a turnover of HK\$434,811,000 and accounted for 32.4% of the Group's total turnover. This represented an increase of 38.9% as compared to HK\$313,000,000 the previous year.

Gross Profit

During the year under review, the Group's gross profit was HK\$328,363,000, representing an increase of 9.7% from HK\$299,351,000 for the same period in the previous year, whilst gross profit margin decreased to 24.4% from 32.8% in the previous year. The decrease in gross profit margin was mainly due to the increase in turnover of fashion garments trading business by over 2 times but its profit margin was lower than retail and wholesale businesses, which resulted in the fall of overall gross profit margin.

Selling and distribution costs

During the year under review, the Group's selling and distribution costs amounted to HK\$99,113,000, which was similar to that of the previous year. The percentage of selling and distribution costs to turnover fell from 10.8% to 7.4% in previous year. This was attributed by the Group's prompt and definite measures in controlling costs, as well as strictly controlling expenditures in rent and other operating expenses.

Innovative product functionalities

Riding with society's continuing strive for advancement, the Group also introduced innovative technologies to add value to traditional textile products, and allow the customers to experience innovative products. Following the application of nano technology in textile products and the launch of stain and water resistant "NanoEco Series", the Group again introduced the world's first feather-fiber textile patent technology for the production of "Super Warm Micro Feather Series", a light, thin and warm product. Super Warm Micro Feather is made of renewable materials, for which production cost is lower than that of the traditional down product. This innovative product of the new generation is light and thin, which can be cut into different shapes, revamping the general perception that winter wear are thick and expensive, hence possessing huge development potential. By capitalising on new technologies, the Group enhances the value of traditional products, improves its corporate image and is able to offer products with high quality and reasonable prices to the consumers.



Fashion Garments Business

The PRC

During the year under review, the PRC remained the Group's principal market. Strong growth was recorded for the economy in the PRC in 2005. Average income per capita increased, which drove up consumption power. The Group's fashion garments retail and wholesale businesses in the PRC, recorded a turnover of HK\$510,089,000, representing an increase of 33.0% as compared to that in the previous year, and accounted for 56.1% of the total turnover of the Group's fashion garments business. During the year under review, the Group further consolidated the brand image of U-Right, so as to boost the brand image and enhance its presence in the PRC. With the continuous increase in the consumption power domestically, retailers of famous overseas brands were attracted to the PRC which many commenced operations in major cities in the PRC. The number of fashion brands in the PRC surged continuously and competition became intense. As such, the Group continued to focus its fashion garments retail and wholesale businesses expansion in second and third-tier cities in the PRC. As at year end, there were more than 360 points of sale in the PRC.

Hong Kong

With continued positive outlook of the economy in Hong Kong during 2005, consumer confidence was boosted and the retail industry benefited as a whole. In the meantime, the surge of rental costs also created heavy burden to the retailers. Therefore, the Group decided to close several stores with expensive rent upon lease renewal and explored other areas with growth potential to expand its retail business. Following the refurbishment of shopping malls under the management by The Link Real Estate Investment Trust ("The Link"), these shopping malls attracted more visitors while rental costs are maintained at reasonable levels. This would help to alleviate the pressure on rental incurred by the Group on its retail business while expanding its sales network coverage. As such, the Group leased a number of retail shops from The Link under a portfolio of rental arrangements in February 2006. Meanwhile, the Group also identified other outlets in districts with favourable conditions, so as to further reposition and accelerate the expansion of local sales network. During the year under review, the fashion garments retail business in Hong Kong recorded a turnover of HK\$95,952,000, representing a decrease of 3.4% from the same period of the previous year and accounted for 10.6% for the Group's fashion garments business. Number of self-operated retail shops in Hong Kong as at year end was 27.

Trading

By riding on the Group's experiences in the manufacturing, retailing and wholesaling of apparels gained during these past years, a solid base of fashion garments business and effective sales strategies were successfully established. Moreover, the Group made consecutive successes in the textile product technology aspect during recent years. Both the "NanoEco Series" and the "Super Warm Micro Feather Series" were well received by the local and overseas markets. Therefore, during the year under review, the Group also offered services of one-stop textile product solution to its customers. From the design of textile products, materials procurement, production planning and quality control, solution based services that best suit its customers were provided by the Group. Development in the Group's textile trading business was thus strengthened. During the year under review, fashion garments trading business recorded turnover of HK\$303,000,000, representing an increase of over 2 times from the previous year, and accounted for 33.3% of the Group's fashion garments business.



Management Discussion and Analysis

Nano Business

Nano business continued to gain the support and trust from the customers during the year under review. Demand for nano textile products from the market increased continuously. In order to align with its business development, the Group completed the construction of a nano-processing base in Nanchang, Jiangxi Province in September 2005. Once production reaches full capacity at the nano-processing base in Nanchang, the Group's capability in the processing of nano textile products will increase substantially. This new facility can process five different textile goods, including jacket, shirt, wool wear, pants, tie, bedding goods and hat etc, with a production capacity of approximately 1,000,000 units of textile products per month.

Furthermore, the Group also collaborated with a number of leading textile enterprises in Mainland China and overseas to further expand its technology applications to produce textile raw materials such as textile fabrics, cashmere and wool yarn, developing vertically upstream on its supply chain. Satisfactory progress was achieved in this aspect. Applications of nano-processing technology were further expanded, strengthening the competitive edge of the Nano business.

Business Promotion and Expansion

In order to further enhance the reputation of the Group and improve its brand image, the Group has implemented diversified promotion strategies, so as to promote the "U-Right" apparel brand, nano processing technology products and innovative feather-fiber textile patent technology products in the PRC and local markets. During the year under review, the Group not only participated in numerous local and overseas exhibitions, but also promoted its brand products, nano processing technology and feather-fiber technology products via magazines, newspapers and bus advertising.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 March 2006, the Group had a total number of 1,559 employees, including 191 in Hong Kong and 1,368 in the PRC. Total staff costs, including directors' emoluments, amounted to approximately HK\$44,217,000 for the year under review. 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.



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 in aggregate HK\$218 million by way of open offer of new shares. In July 2005, the Group entered into a facility agreement for a term loan of HK\$220 million and a revolving credit of HK\$110 million with a syndication led by HSH Nordbank AG, Industrial and Commercial Bank of China (Asia) Limited and OCBC Bank, and participated by other banks. The loan borrowed under the facility agreement was mainly applied to repay an existing syndication loan and provide general working capital for the needs of the Group.

The Group boasts a strong liquidity and financial resources position as a result of the above fund-raising activities. As of 31 March 2006, the Group had net current assets of approximately HK\$718,719,000, with its current ratio maintaining at 2.8. The Group's cash and bank balances was approximately HK\$619,544,000 (2005: HK\$466,040,000).

HK\$635,017,000 of the Group's banking facilities was utilised as of 31 March 2006. Borrowings net of cash and bank balances was HK\$24,675,000 ("net borrowing"). Net gearing ratio (net borrowings to net assets value) was 2.4%.

Foreign Exchange

The Group's core operations are in Hong Kong and the PRC, and its assets are denominated in Hong Kong dollars and Renminbi. Risks of currency fluctuation are therefore low.

Pledge of Assets

As at 31 March 2006, assets with an aggregate net book value of HK\$211,000,000 (2005: HK\$80,948,000) have been pledged to banks for banking facilities required in the usual course of operation for the Group. As of 31 March 2006, HK\$81,420,000 (2005: HK\$27,400,000) of the Group's banking facilities that were pledged by the above mentioned assets was utilised.

Contingent Liabilities

As at 31 March 2006, the Group did not have any significant contingent liabilities.

Acquisitions and Disposals

In order to further consolidate its fashion garments business, the Group acquired a ground level shop in Kwun Tong, Hong Kong at approximately HK\$49,000,000 in total and a premise in Jing An District, Shanghai, the PRC at approximately RMB41,000,000 during the year. The purposes of such acquisitions were to further expand its retail network in Hong Kong and establish a well-founded platform in Shanghai, one of the major cities in the PRC so as to support the continuous expansion of the Group's retail and wholesale business in the PRC.

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

PROSPECTS

Fashion Garments Business

Innovation of Product Functions and Expansion of Sales Network to Capture Business Opportunities

The Group believes that the key to success is to closely watch the market trend. During recent years consumers' expectations towards the added value of apparel products increased continuously. The Group is endeavoured to explore new technologies to add value to the traditional products and to lead the trend of consumption. After the successful launch of the "NanoEco Series", the Group launched the world's first "Super Warm Micro Feather Series" in December 2005 by successfully introducing a feather-fiber textile patent technology. Hence, the Group has successfully established a unique image as being described as "Innovative Technology Breaking Through Traditional Products" among the consumers in the PRC and Hong Kong. At the same time, the feather-fiber textile patent technology has the thermal detention effect of natural feather-fiber but thinner and flatter, and can be cut into different shapes for easy tailoring and washing. Hence, the material provides greater flexibility in design than traditional down products, and is equipped with huge development potential. The Group will further expand the application of feather-fiber textile patent technology to other products, so as to provide more high quality products to the customers and broaden the Group's revenue base.

Moreover, the Group has also made strategic deployment, and proactively implemented a multi-brand strategy, with products ranging from middle-to high-end for the purposes of enlarging the Group's profile in the sales of apparels in the PRC and Hong Kong, further diversifying its fashion garments retail and wholesale businesses. As the economic growth of the PRC and Hong Kong continues in a positive trend, the Group will accelerate its pace to expand its sales network among these regions.

Consolidation of Fashion Garments Business Foundation and Expand into New Market Segments

By leveraging on the strong purchasing power on textile products experience accumulated in past years, a solid base of fashion garments business and effective sales strategies, coupled with capabilities centered by the nano production base, the Group is committed to develop the fashion garments trading business and will continue to develop markets with potentials.



Nano Business

Building High-Tech Lifestyle by Expanding the Scope of Applications

There is an increasing demand for the nano processing products in the market. Therefore, the Group will further develop its nano processing business according to market demand. Meanwhile, armed with a maturing and proven technology, the Group will further increase the processing capacity and expand its licensing business, further extending the application of nano technology to other products and enlarge the sales channels and network.

Looking forward, the Group will strengthen its business development by ongoing devotion to the development of its fashion garments sales network and expansion of production scale of the nano business. The Group firmly believes that the diversification of business and innovative products will effectively mitigate the risk present in the market. As a result, the Group can maintain steady growth which can generate significant returns for its shareholders.

