

management discussion and analysis

business review

Operating Result

The Group recorded a turnover of HK\$1,774,007,000 for the year ended 31 March 2007, representing an increase of 32% from HK\$1,343,852,000 in the previous year. The Group's profit attributable to equity holders of the Company was HK\$123,092,000, an increase of 19% as compared to HK\$103,406,000 in the previous year. Earnings per share was HK4.55 cents for the year ended 31 March 2007.

Turnover

The fashion garments business recorded a turnover of HK\$1,310,760,000 and accounted for 74% of the Group's total turnover. This represented an increase of 44% as compared to HK\$909,041,000 in the previous year. The Texnology Nano business recorded a turnover of HK\$463,247,000 and accounted for 26% of the Group's total turnover. This represented an increase of 6.5% as compared to HK\$434,811,000 in the previous year.

Gross Profit

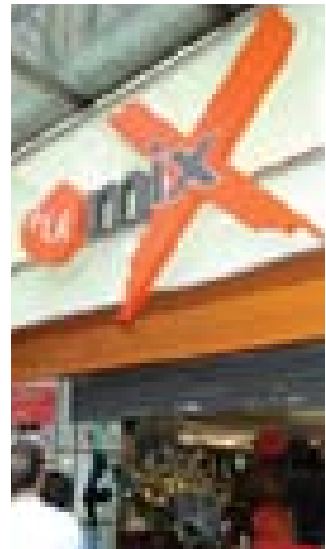
During the year under review, the Group recorded a gross profit of HK\$410,339,000, representing an increase of 25% from HK\$328,363,000 in the previous year, whilst gross profit margin slightly decreased to 23.1% from 24.4% in the previous year. Moreover, strong economic growth of the Mainland and Hong Kong, together with an increase in consumers' incomes, have driven the growth of overall retail industry. The Group's diversified fashion garments retail business generated good market response during the second half year, resulting in improvement of the overall gross profit margin of the Group as compared to the previous half year. This performance mitigated the effect from the low-margin trading businesses as well as the reduction of license fees generated from the Texnology Nano business.

Selling and Distribution Costs

During the year under review, the Group's selling and distribution costs amounted to HK\$142,820,000, representing an increase of 44% as compared to HK\$99,113,000 in the previous year. The increase in selling and distribution costs was mainly attributed from the increase in number of our outlets in Hong Kong by more than two folds as compared with that in the previous year, and the launch of SEVENDAYS, a multi-brand shop, in the Mainland. Nevertheless, the Group will continue to strictly adhere to its policy on controlling selling and distribution costs.



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Fashion Garments Business

The PRC

The economy of the PRC has recorded strong growth in recent years. Average consumption per capita and consumers' desire for trendy fashion brand names have been increasing accordingly. In order to meet consumers' demand on wider choice of fashion garments, in addition to the continuous development of the original U-RIGHT brand, the Group have undertaken a multi-brand strategy. SEVENDAYS, a new multi-brand shop, was opened in major cities such as Shanghai and Beijing during the year under review, bringing new momentum to the growth of the Group's fashion garments business.

U-RIGHT, a proprietary brand name - The Group continued to strengthen our sales efforts for U-RIGHT brand through the expansion of sales network in second and third-tier cities in the PRC, further enhancing our brand image amongst the general public. Currently, U-RIGHT brand outlets cover over 100 cities in 18 provinces throughout the PRC. As at the year end, there were 425 U-RIGHT outlets in the PRC.



SEVENDAYS, a multi-brand shop - To embrace innovation and change, commencing in October 2006, the Group entered into distribution agreements with a number of PRC, Hong Kong and international fashion designers for the distribution of their labeled products in order to expand the range of stylish fashion brand names under our distributorship. This is the first time for the Group to develop this line of business in first-tier cities in the PRC such as Beijing and Shanghai. SEVENDAYS, a new multi-brand fashion shop opened by the Group, offers a wide selection of voguish fashion targeting at younger consumers who pursue individuality and style. Through SEVENDAYS as a promotion platform for the fashion brands, the Group strategically selects those brands with market potential, including its self-created brand PEZZX and other Hong Kong and international designers' labels. This will become one of the major directions of the Group's future development. As at the year end, there were 4 points of sale of SEVENDAYS in the PRC.

Review of the fashion garments business in the PRC - During the year under review, the Group's fashion garments retail and distribution business in the PRC recorded a total turnover of HK\$554,881,000, representing an increase of 9% over the previous year. The turnover accounted for 42% of the Group's fashion garments business.

Hong Kong

Hong Kong's economy has continued to grow in 2007. With an improvement in consumers' confidence, the retail market has been vibrant. Taking advantage of U-RIGHT brand's favourable impression on Hong Kong consumers' mind over the years, the Group has been proactively opening new U-RIGHT outlets during the year under review in order to increase the brand's market share. In the meantime, the Group also opened its brand-matching shop U-MIX to inject new elements to the Hong Kong fashion garments business. The concept of U-MIX is to mix and match U-RIGHT brand, as the main element of style, with JD, a trendy Hong Kong designer's label, to create synergy while highlighting their respective merits, offering a diversified selection of fashion garments to the consumers. The Group is actively looking for appropriate locations for opening new shops in second and third-tier districts in Hong Kong to accelerate the expansion of our local sales network. During the year under review, U-RIGHT's fashion garments business in Hong Kong recorded a turnover of HK\$191,675,000, representing a two-fold increase over the previous year. The turnover accounted for 15% of the Group's total turnover of fashion garments business. As at the year end, the Group managed 64 U-RIGHT brand shops in Hong Kong.



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Trading business

With the Group's experience in garments manufacturing, retailing and distribution over the years and its outstanding achievement in the field of innovative textile technology, the Group continued to offer services of one-stop textile products solution to its customers during the year under review. From the design of textile products, materials procurement, production planning and quality control, the Group provided solution based services that best suit its customers. Development in the Group's textile business was thus strengthened. During the year under review, the trading business recorded a turnover of HK\$564,204,000, representing an increase of 86% over the previous year. This accounted for 43% of the Group's total turnover of fashion garments business.

Innovative textile technology

With the development of innovative textile technology, the Group has established a clear image in the customers' mind of our dedication to add value to traditional textile products. The nano processing technology and the feather-fibre licensed technology introduced by the Group are well-received by the consumers in the PRC and Hong Kong and become important considerations to consumers when making purchase-decisions. By taking advantage of these brand new technologies to improve traditional products, the Group is able to enhance its corporate image and offer high quality products at reasonable prices.

Texnology Nano business

Texnology Nano business continued to gain support from customers and the market in general. The market demand on nano textile products never ceased, and the environmental friendly NanoEco Series launched by the Group continued to be well-received by the market. Currently, the market demand on nano processing is on the rise, and the Group plans proactively to expand vertically to the upstream production line and to further enhance its nano processing capability. It is also the Group's strategy to further extend the scope of application of nano processing technology in order to strengthen Texnology Nano business's competitive edge.



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employment, training and development





As at 31 March 2007, the Group had a total of 2,541 employees, including 369 in Hong Kong and Macau, and 2,172 in Mainland China. During the year under review, the total employees' cost (including directors' remuneration) was approximately HK\$73,607,000. The Group provided its employees with comprehensive remuneration and benefits packages according to market trend, individual expertise and performance. Other benefits offered to the employees 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 sales and management staffs during the year. This helped enhance their product knowledge and sales skills, as well as their operational management expertise.



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financial review

Liquidity, Financial Resources and Capital Structure

The Group applies sound and flexible financial management, and has financed its business development by combination of internal resources, equity funding and bank borrowings. During the year under review, the Group issued a 5-year zero coupon convertible bond in the amount of HK\$60,000,000 to ABN AMRO Bank N.V.. In addition, the Group also raised proceeds of approximately HK\$73,000,000 in total through placement of shares. These funding activities provided the Group with adequate general working capital to meet its needs.

During the year, the Group's liquidity and financial resources position remained sound. As at 31 March 2007, the Group's net current assets amounted to approximately HK\$676,857,000 while the current ratio maintained at 1.98. The Group's cash and bank balances amounted to approximately HK\$549,182,000 (2006: HK\$619,544,000).

As at 31 March 2007, the Group had utilized banking facilities amounting to HK\$690,309,000. The Group's borrowings net of cash and bank balances amounted to HK\$141,127,000 (net borrowing) while its net gearing ratio (net borrowings to net assets value) was 11.1%.



Foreign Exchange

The Group's core businesses are in Hong Kong and the PRC. Its assets are mainly dominated in Hong Kong dollars and Renminbi. Risks of currency fluctuations are therefore insignificant.

Pledge of Assets

As at 31 March 2007, the Group's assets with an aggregate net book value of approximately HK\$276 million have been pledged to banks for banking facilities required in the usual course of operation of the Group.

Contingent Liabilities

As at 31 March 2007, the Group did not have any significant contingent liabilities.

Capital Expenditure

Total capital expenditures of the Group for the year amounted to approximately HK\$226 million, of which HK\$172 million was incurred by the fashion garments business for the expansion of the retail and distribution network including the acquisition of retail shops in the PRC and in Hong Kong. On the other hand, HK\$54 million was incurred for the development and expansion of production capacity for Texnology Nano business.



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prospects

Fashion Garments Business

To Strengthen our image as a multi-brand and multi function fashion garments retailer

Established in fashion garments industry for over twenty years, U-RIGHT brand is well known for the range of casual wear it offers. The Group is devoted to provide consumers with quality and value-for-money products. In the future, the Group will significantly increase the number of U-RIGHT shops in the second and third tier cities and areas in the PRC and Hong Kong respectively and continue to enlarge its market coverage and strengthen its image as "Hong Kong's major fashion brand" amongst local consumers and general public in the Mainland. The brand image will be a valuable asset for us to capture opportunities from the Mainland and Hong Kong. The rapid growth of the Mainland economy has driven the rebound of the Hong Kong retail industry. The Mainland and Hong Kong consumers' taste for fashion has also changed dramatically. They no longer desire for apparel from a single brand. Instead, they look for apparel that will highlight their character and style. As such, the Group decided to inject more resources in order to go beyond our single brand strategy in the past to the development of a diversified fashion garments retail and distribution business in both the Mainland and Hong Kong. The Group takes advantage of its experience on the successful building of U-RIGHT brand name, and recruits experienced talents in the fashion industry to develop different types of fashion garments retail and distribution business, aiming at expanding our product range to meet consumers' demand. In Hong Kong, the Group will further develop the concept of U-MIX, a brand matching shop. Apart from mixing and matching with JD, a stylish Hong Kong designer's label, the Group will also actively identify other brand names with market potential, and nurturing them to operate speciality stores independently. Currently, JD has opened its first self-brand shop in Hong Kong. In the PRC, the Group is also devoted to develop the multi-brand shop SEVENDAYS, and will enter into distribution agreement with various designers for the distribution of their labeled products. The shop will provide a wide selection of trendy fashion collection and be developed as a new multi-brand vogueish fashion wear business. As the 2008 Beijing Olympic Games will boost local and the Mainland's retail industry, the Group has planned to expand to totalling more than 1,000 retail outlets in the PRC and Hong Kong in the coming year, including outlets for U-RIGHT, U-MIX, U-JUNIOR, U-SPORTS, SEVENDAYS, PEZZX, JD. The Group expects to benefit from the PRC's economic prosperity and aspires to become one of the largest and rapidly growing diversified fashion garments retailers in the PRC, meeting various needs of the consumers with our diversified fashion garments.



Innovative Textile Technology Technology Nano Business

The Group will actively cooperate with large-scale Mainland and overseas enterprises to jointly develop the application of nano processing technology on textile raw materials and different textile products. To meet the growing demand in the PRC of nano technology processing on textile products, the Group decided to expand its nano processing business to upstream textile products and enlarge the product range for the application of nano processing technology. Construction of a new up-stream nano textile product processing facility in Yixin City, Jiangsu Province of the PRC is underway to further enhance its nano processing capability. The processing facility is expected to commence operation in the second quarter of 2008. Meanwhile, the Group is also actively carrying out study on the application of nano processing technology on other materials, such as leather and down apparel, and study on the feasibility of their mass production. These studies will not only help enlarging the application of nano processing technology, but also introduce the nano processing technology to different parts of the world through the sales networks of our business partners.

Feather-fibre Textile Technology

The Group will continue to refine, and research and develop the functionalities and materials of feather-fibre technology in order to further highlight its characteristics of "light-weight, thin and warm", thus producing better quality and more environmental friendly garments. The Group has planned to introduce this technology to other thermal-retention apparel or household commodities manufacturers so that they can also share the benefits of this technology. In addition, the Group also intends to widen the product range in feather-fibre textile technology. Toward this end, tests have been carried out for the application of this technology on various textile products such as feather-fibre denim, feather-fibre woven fabrics, feather-fibre knitted fabrics and feather-fibre woolen sweaters. In order to strive for an expansion of the product range for sale, the Group is extending its application and improving the production capability. At present, the Group has already mastered the feather-fibre textile technology and successfully applies it on our products. As the next step, the Group will carry out tests for the application of the feather-fibre textile technology on construction materials, including tests on its thermal retention function and the feasibility of using the technology to such materials as all-weather thermal insulation boards and heat insulation material. The Group will actively identify other suitable commodities and strategic partners to jointly develop new application of this innovative technology.

Looking forward, the Group will take advantage of the business opportunities created from the continued growth of the PRC economy and the 2008 Beijing Olympics, and develop a diversified fashion garments business and innovative textile technology business in full force in order to enhance the Group's competitiveness, effectively minimize market risks, improve future revenue and profitability, and increase value to our shareholders.