



# U-RIGHT INTERNATIONAL HOLDINGS LIMITED

## 佑威國際控股有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 627)

### AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2006

#### AUDITED ANNUAL RESULTS

The board of directors (the “Directors”) of U-RIGHT International Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2006, together with the comparative figures of last year, as follows:–

#### CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2006

	Note	2006 HK\$'000	2005 HK\$'000 (Restated)
<b>Turnover</b>	2	<b>1,343,852</b>	913,844
Cost of sales		<b>(1,015,489)</b>	(614,493)
Gross profit		<b>328,363</b>	299,351
Other income	3	<b>10,139</b>	9,640
Selling and distribution costs		<b>(99,113)</b>	(99,143)
Administrative expenses		<b>(48,955)</b>	(52,331)
Amortisation and impairment of intangible assets		<b>(13,247)</b>	(18,049)
Profit from operating activities	4	<b>177,187</b>	139,468
Finance costs		<b>(38,775)</b>	(13,877)
Share of profits of jointly-controlled entities		<b>55</b>	882
Amortisation of goodwill arising on acquisition of jointly-controlled entities		<b>–</b>	(7,500)
<b>Profit before taxation</b>		<b>138,467</b>	118,973
Taxation	5	<b>(17,628)</b>	(11,709)
<b>Profit for the year</b>		<b>120,839</b>	107,264
<b>Attributable to:</b>			
Equity holders of the Company		<b>103,406</b>	95,985
Minority interests		<b>17,433</b>	11,279
		<b>120,839</b>	107,264
Dividends	6	<b>34,836</b>	34,789
<b>Earnings per share</b>	7	<b>HK cents</b>	<b>HK cents</b>
Basic		<b>4.30</b>	5.85
Diluted		<b>4.30</b>	5.84

**CONSOLIDATED BALANCE SHEET**

AT 31 MARCH 2006

	Note	2006 HK\$'000	2005 HK\$'000 (Restated)
<b>Non-current assets</b>			
Fixed assets		335,664	236,250
Prepaid land lease payments		89,254	26,754
Investment properties		9,430	9,430
Intangible assets		118,716	125,163
Interests in jointly-controlled entities		55,583	55,528
Investment securities		–	32,953
Available-for-sale financial assets		72,194	–
Rental deposits		7,385	2,741
		<u>688,226</u>	<u>488,819</u>
<b>Current assets</b>			
Inventories		154,362	108,866
Trade receivables	8	229,684	82,162
Prepayments, deposits and other receivables		101,602	76,218
Prepaid land lease payments		2,206	643
Amounts due from jointly-controlled entities		–	253
Tax recoverable		2,206	89
Bank and cash balances		619,544	466,040
		<u>1,109,604</u>	<u>734,271</u>
<b>Current liabilities</b>			
Trade and bills payables	9	49,412	32,050
Accruals and other payables		22,066	19,105
Dividend payable to the minority shareholders		–	3,200
Amounts due to jointly-controlled entities		113	–
Provision for taxation		20,337	9,548
Interest-bearing borrowings		294,578	210,310
Finance lease payables		4,379	10,965
		<u>390,885</u>	<u>285,178</u>
<b>Net current assets</b>		<b>718,719</b>	<b>449,093</b>
<b>Total assets less current liabilities</b>		<b>1,406,945</b>	<b>937,912</b>
<b>Non-current liabilities</b>			
Interest-bearing borrowings		340,439	180,345
Finance lease payables		4,823	19,392
Deferred taxation		14,000	10,000
		<u>359,262</u>	<u>209,737</u>
<b>Net assets</b>		<b>1,047,683</b>	<b>728,175</b>
<b>Capital and reserves</b>			
Share capital		267,970	177,657
Reserves		758,125	543,163
<b>Total equity attributable to equity holders of the Company</b>		<b>1,026,095</b>	<b>720,820</b>
Minority interests		21,588	7,355
		<u>1,047,683</u>	<u>728,175</u>

NOTES:

**1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for accounting periods beginning on or after 1 April 2005. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group’s accounting policies and amounts reported for the current year and prior years except as stated below.

**(a) Presentation of financial statements**

HKAS 1 “Presentation of Financial Statements” affects the presentation of minority interests, share of profits of jointly-controlled entities and other disclosures. This change in accounting policy has been applied retrospectively.

The adoption of HKAS 1 resulted in changes in the amounts reported in the financial statements as follows:

	<b>2006</b> <i>HK\$’000</i>	2005 <i>HK\$’000</i>
Decrease in share of profits of jointly-controlled entities	–	138
Decrease in income tax expense	–	138
Decrease in deferred taxation (current liabilities)	–	10,000
Increase in deferred taxation (non-current liabilities)	–	10,000

**(b) Minority interests**

In previous years, minority interests were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets and minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to the shareholders of the Company.

With effect from 1 April 2005, in order to comply with HKAS 1 “Presentation of Financial Statements” and HKAS 27 “Consolidated and Separate Financial Statements”, minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. This change in accounting policy has been applied retrospectively.

**(c) Financial instruments**

The adoption of HKAS 32 “Financial Instruments: Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement” has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice (“SSAP”) 24 “Accounting for Investments in Securities” to investments in securities for the 2005 comparative information. The adjustments required for the accounting differences between previous SSAP 24 and HKAS 39 are determined and recognised at 1 April 2005.

The adoption of HKASs 32 and 39 resulted in changes in the amounts reported in the financial statements as follows:

	<b>2006</b> <i>HK\$’000</i>	2005 <i>HK\$’000</i>
Increase in available-for-sale financial assets	<b>32,953</b>	–
Decrease in investment securities	<b>32,953</b>	–

**(d) Leases**

Upon the adoption of HKAS 17 “Leases”, the land and buildings elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and subsequently recognised in the income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively.

In previous years, leases of land and buildings, with net book value of HK\$50,375,000 (2005: HK\$49,927,000) as at 31 March 2006, were included in fixed assets and carried at valuation less accumulated depreciation and impairment losses. Since the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments continue to be treated as finance leases and included in fixed assets.

The adoption of HKAS 17 “Leases” has resulted in a change in the accounting policy relating to the reclassification of leasehold land from fixed assets to prepaid land lease payments. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease. In previous years, the leasehold land, with net book value of HK\$91,460,000 (2005: HK\$27,397,000) as at 31 March 2006, was accounted for at fair value less accumulated depreciation and impairment losses. HKAS 17 has been applied retrospectively.

The adoption of HKAS 17 resulted in changes in the amounts reported in the financial statements as follows:

	2006 HK\$'000	2005 HK\$'000
Decrease in fixed assets	64,063	27,397
Increase in prepaid land lease payments	64,063	27,397

(e) **Business combinations**

The adoption of HKFRS 3 “Business Combinations” resulted in a change in the accounting policy for goodwill. Until 31 March 2005, goodwill was:

- Amortised on a straight-line basis over 5 to 10 years; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1 April 2005;
- Accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ended 31 March 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairments; and
- Negative goodwill included in capital reserve is transferred to the retained profits.

HKFRS 3 has been applied prospectively from 1 April 2005.

The adoption of HKFRS 3 resulted in changes in the amounts reported in the financial statements as follows:

	2006 HK\$'000	2005 HK\$'000
Increase in retained profits	585	–
Decrease in capital reserve	585	–
Decrease in amortisation and impairment of intangible assets	16,876	–
Decrease in amortisation of goodwill arising on acquisition of jointly-controlled entities	7,500	–
Increase in earnings per share	HK1.01 cent	–

2. **SEGMENT INFORMATION**

In determining the Group’s geographical segments, revenue is attributed to the segments based on the location of the assets.

The Group’s geographical segments comprise Hong Kong and the People’s Republic of China (excluding Hong Kong) (the “PRC”).

The Group’s business segments comprise fashion garments business and nano business. Nano business refer to business utilising the Swedish Texcote Technology which is a material processing technology based on principles of nanotechnology.

(a) **Geographical segments**

The following table presents revenue information for the Group’s geographical segments:

	Hong Kong		PRC		Elimination		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment revenue:								
Sales to external customers	95,952	99,313	1,247,900	814,531	–	–	1,343,852	913,844
Inter-segment sales	–	–	48,259	45,554	(48,259)	(45,554)	–	–
Total revenue	<u>95,952</u>	<u>99,313</u>	<u>1,296,159</u>	<u>860,085</u>	<u>(48,259)</u>	<u>(45,554)</u>	<u>1,343,852</u>	<u>913,844</u>

(b) **Business segments**

The following table presents revenue information for the Group’s business segments:

	Fashion garments business		Nano business		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment revenue:						
Sales to external customers	<u>909,041</u>	<u>600,844</u>	<u>434,811</u>	<u>313,000</u>	<u>1,343,852</u>	<u>913,844</u>

3. **OTHER INCOME**

	2006 HK\$'000	2005 HK\$'000
Gross rental income	1,608	931
Interest income	6,724	2,187
Management fee income received from jointly-controlled entities	12	423
Gain on sales of investment securities	–	2,039
Service income	–	3,646
Others	1,795	414
	<u>10,139</u>	<u>9,640</u>

#### 4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (Restated)
Cost of inventories sold	1,015,489	614,493
Depreciation		
Owned fixed assets	22,885	18,158
Leased fixed assets	5,809	1,980
Amortisation of prepaid land lease payments	578	479
Loss on disposals of fixed assets	247	2,028
Interest on bank loans and overdrafts	37,676	13,441
Interest on finance leases	1,099	436
	<u>1,099</u>	<u>436</u>

#### 5. TAXATION

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (Restated)
Current year provision		
Hong Kong	11,619	630
Elsewhere	1,651	2,114
Under/(Over) provision in previous year	358	(1,035)
	<u>13,628</u>	<u>1,709</u>
Deferred taxation	4,000	10,000
	<u>17,628</u>	<u>11,709</u>

Hong Kong profits tax is provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the respective jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

#### 6. DIVIDENDS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interim dividend paid – HK0.5 cent (2005: HK0.5 cent) per ordinary share	13,399	13,352
Proposed final dividend – HK0.8 cent (2005: HK0.8 cent) per ordinary share	21,437	21,437
	<u>34,836</u>	<u>34,789</u>

The final dividend for the year was proposed by the Directors on 25 July 2006. The proposed final dividend is not recognised as a liability at 31 March 2006 as it is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

#### 7. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
<b>Earnings</b>		
Profit attributable to equity holders of the Company, used in the basic and diluted earnings per share calculation	<u>103,406</u>	<u>95,985</u>
<b>Number of shares</b>	2006	2005
Weighted average number of ordinary shares used in basic earnings per share calculation	2,405,943,249	1,639,717,123
Effect of dilutive potential ordinary shares in respect of warrants	–	4,119,772
Weighted average number of ordinary shares used in diluted earnings per share calculation	<u>2,405,943,249</u>	<u>1,643,836,895</u>

## 8. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the balance sheet date, based on invoice dates, is as follows:

	<b>2006</b>	<b>Group</b>
	<i>HK\$'000</i>	<i>2005</i> <i>HK\$'000</i>
Within 30 days	56,182	40,030
31 days to 60 days	45,030	31,954
61 days to 180 days	129,517	11,866
Over 180 days	704	61
	<u>231,433</u>	<u>83,911</u>
Allowance for impairment	(1,749)	(1,749)
	<u><u>229,684</u></u>	<u><u>82,162</u></u>

Other than cash and credit card sales, invoices are normally payable within 30 days of issuance, except for certain well-established customers where the terms are extended up to 90 days. Trade receivables are recognised and carried at their original invoiced amounts less allowance for impairment when collection of the full amount is no longer probable. Bad debts are written off as incurred.

## 9. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice dates, is as follows:

	<b>2006</b>	<b>Group</b>
	<i>HK\$'000</i>	<i>2005</i> <i>HK\$'000</i>
Within 30 days	28,107	8,784
31 days to 60 days	5,243	9,050
61 days to 180 days	10,181	12,990
Over 180 days	5,881	1,226
	<u>49,412</u>	<u>32,050</u>

## FINAL DIVIDEND

The Directors recommended the payment of a final dividend of HK0.8 cent (2005: HK0.8 cent) per share for the year ended 31 March 2006 to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at 5 September 2006. Subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on 5 September 2006, the said final dividend will be paid to the Company's shareholders around 28 September 2006.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 31 August 2006 to Tuesday, 5 September 2006 (both dates inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the proposed final dividend for the year ended 31 March 2006 and qualify for attending the annual general meeting of the Company to be held on Tuesday, 5 September 2006, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 30 August 2006.

## 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 in 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 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 apparels 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 garments brands in the PRC surged continuously and competition became intense. As such, the Group continued to focus its apparels 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-owned retail shops in Hong Kong as at year end was 27.

### *Trading*

By riding on the Group's experiences in manufacturing, retailing and wholesaling of apparels gained during these past years, a solid base of apparels 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 apparels business.

## **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.

## **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 borrowings"). 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 apparels business, the Group acquired a ground level shop in Kwun Tong, Hong Kong at approximately HK\$49,000,000 in total and a premises 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.

## **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 organised 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.

## **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 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 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 business. 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 this region.

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

By leveraging on the strong purchasing power on textile products 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 Expand the Scope of Applications*

There is an increasing demand for Nano processed 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 apparels 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 risks present in the market. As a result, the Group can maintain steady growth which can generate significant returns for its shareholders.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2006.

## **REVIEW OF FINANCIAL STATEMENTS**

The Audit Committee of the Company has reviewed with senior management of the Group the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including the review of the Company's consolidated financial statements for the year ended 31 March 2006.

## **CORPORATE GOVERNANCE**

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except for the following deviations:

### *Code Provision A.1.1*

This code provision stipulates that regular board meetings should be held at least four times a year. During the year ended 31 March 2006, two regular board meetings were held. The directors of the Company will endeavour to schedule the forthcoming regular board meetings in advance so as to meet such code provision.

### *Code Provision A.2.1*

This code provision stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr Leung Ngok currently assumes the role of both the Chairman and the Chief Executive Officer of the Company. The Board believes that this structure provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies. As such, it is beneficial to the business prospects of the Company.

By order of the Board  
**Leung Ngok**  
*Chairman*

Hong Kong, 25 July 2006

As at the date of this announcement, Mr. Leung Ngok, Mr. Leung Shing and Mr. Lee Ka Yiu, Andy are the executive directors of the Company and Mr. Jia Luqiao, Mr. Wong Kong Hon, Mr. Yang Dong Hui and Mr. Wong Kai Cheong are the independent non-executive directors of the Company.

*\* For identification purposes only*

Please also refer to the published version of this announcement in The Standard.