Chairman's Statement

RESULTS

The Group managed to stabilize the overall business performance in the fiscal year ended March 31, 2006 although the operating environment remained challenging.

Entering into the "quota free" era in 2005, the market was fraught with chaos and uncertainties. Despite the fact that China and the U.S. government have eventually come to an agreement to exempt most garment categories from safeguard consideration, the impact during the year with the first half period in particular has hindered the growth of the Group's export sales. As a result, full year sales were only slightly over last year. On profitability, we are delighted to see our effort in cost control and lifting operating efficiency bear fruit. Gross profit margin was sustained at a reasonable level while labour and material costs in China were creeping up with the increasing oil price and interest rates. During the year under review, the Group's USA wholesale label business and Mainland China retail business were in the course of business overhaul and had yet to provide contribution to the Group's profit.

For the fiscal year ended March 31, 2006, turnover of the Group increased 1% to approximately HK$2 billion. Profit before tax, taking into account the increase in fair value of investment properties, increased 21% to HK$118 million. Profit attributable to equity holders of the Company and earnings per share grew 1.7% to HK$72 million and HK$20.6 cents respectively. Return on average equity for the year increased to 15.3%.

FINAL DIVIDEND

The Board of Directors has resolved to recommend at the forthcoming Annual General Meeting a final dividend of 11.5 HK cents per share (2005: 14.0 HK cents per share), payable on September 13, 2006 to shareholders whose names appear on the Register of Members on September 5, 2006. Together with an interim dividend of 5.5 HK cents per share (2005: interim dividend 6.0 HK cents per share and special dividend of 33.0 HK cents per share), the total dividends for the year will be 17.0 HK cents per share (2005: 53.0 HK cents per share).

BUSINESS REVIEW

Manufacture and export business

The Group's manufacture and export business was affected by the disarray and uncertainties happened in 2005 when the quota system was abolished. The speculative sentiment held back buying decisions of overseas buyers and added price pressure to the markets. Nevertheless, our long established foundation in the industry and effort to enhance our competitiveness helped reduce the impact on us. We managed to sustain our total turnover and achieved 1% growth for the full fiscal year.

In terms of geographical distribution, sales to North America were stable at HK$1,748 million, which accounted for 89% of the Group's turnover. Export sales to Europe and other markets grew remarkably by 35% to HK$96 million, representing about 5% of the turnover of the Group.

Chairman's Statement

USA wholesale label business

As disclosed in the interim report, we terminated the operation of "FAL" label in the second half of the year in view of its persistently unsatisfactory performance. The move was effective in cutting the loss of the overall USA wholesale label business. Meanwhile, with focused management resource, another label "Zelda" started to see improved momentum.

Mainland China retail business

The apparel retail market in Mainland China continued to be featured by stiff competition. Year-round price-driven promotion and growing number of local new entrants to the market put tremendous pressure on the average price point and shortened the product life cycle. In response, we rationalized some unprofitable shops, revamped the process management for quicker product flow and strategically realigned our brand product mix. At the fiscal year end date, the Group operated 92 stores in Mainland China. Total retail sales amount for the year was slightly lower than last year's and accounted for approx. 5% of the Group's turnover.

PROSPECTS

Manufacturing and export business

With the safeguard issue resolved between China and the US government in November 2005, the market has resumed a clearer pattern where overseas buyers and suppliers are able to plan forward with greater confidence. Nevertheless, the operating environment will continue to be clouded by the high oil price and the hiking interest rate. The growing labour wages and material costs in Mainland China and the appreciating value of RMB will put pressure on costs as well.

To enhance our competitiveness and to meet the more sophisticated requirements of overseas buyers, the Group will keep on strengthening its core competence including customized product development, (top-notch) workmanship, timely delivery and the flexible and geographically diversified production facilities. At present, we maintain about 75% of our overall production capacity in Mainland China. Our factories set up across other Asian countries including Thailand, the Philippines, Malaysia and Vietnam are all established operations which offer high level of adaptability to changing market environments. Organized around customers' procurement needs, we shall constantly review and strengthen our mix of production capacity.

As for cost control, the Group will continue to streamline the workflows of all aspects, covering frontline departments, support functions as well as factories in order to eliminate inefficiency. We will also identify low-value processes and evaluate the feasibility of relocating them to more cost-effective regions.

Based on the current evaluation and the present order position, we are cautiously optimistic about the business outlook and we aim to achieve moderate turnover growth in the first half of this new fiscal year.

USA wholesale label business

Since the termination of "FAL" label business, we have been able to concentrate our effort in strengthening the product development and marketing programs of "Zelda" label. According to the latest estimates, we are expecting to achieve a break-even in the second quarter of this new fiscal year. By end of March 2007, the loss of the overall USA wholesale label business is expected to reduce remarkably.

Mainland China retail business

Fashion retailing is facing the threats of fast-growing local new entrants and the cut-throat competition led by department stores. We believe quick response to consumers' needs is the key to perform in such a crowded market. In this regard, we are leveraging on the Group's production capacity to achieve just-in-time logistics and to shorten the time to market for our products. Meanwhile, we are stepping up our presence in the second tier cities where competition is less severe and rental is more affordable. With our strong production support and established product logistics network, we are confident in meeting the fast-changing needs of our target customers and to secure a reasonable market share. As at the report date, the Group is operating 84 stores in Mainland China.

Major Factories/Offices | Wholesale Label in the United States | Retail Stores in China

HUMAN RESOURCES

We see human resources an asset to the Group and an essential part of our continued success. We recognize and offer opportunities for competent and talented people who have great sense of team work and common purpose, and commitment to shared values. Building a strong and competitive team for meeting future challenge has always been our management priority. We constantly seek to reward and incentivize our high-calibre personnel to contribute to the future development and growth of the Group.

ACKNOWLEDGEMENT

Last but not least, I would like to take this opportunity to thank our global management team and staff for their hard work and commitment despite the challenging operating environment. I would also like to express my sincere gratitude to our valued customers, shareholders, and the members of the Board for their generous support throughout the year.

Benson Tung Wah Wing
Chairman

Hong Kong, July 12, 2006

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Infinitive Collection