# Chairman's Statement

**In the past few years, our Group has experienced rapid growth. Growing is still our main target in the coming years. The commencement of operation of the New Production Plant during the year represents the first step of the expansion plan of our Group. Our efforts will be put on widening the customer base, penetrating into new markets, and developing and designing our own products to enable our Group to be growing stronger and stronger.**

*Dear Shareholders,*

The financial year of 2005/2006 was a year of historical milestone of Eagle Nice (International) Holdings Limited (the "Company") and its subsidiaries (together the "Group"). Tight collaboration with Yue Yuen Industrial (Holdings) Limited ("Yue Yuen" – stock code: 551), implementation of an advanced computer system – Enterprise Resource Planning System (the "ERP System"), commencement of operation of the new production plant in Shantou, the People's Republic of China (the "New Production Plant") and planning of establishment of Research and Development Centre during the year under review have built up a solid foundation for us to proceed to the next stage of our expansion through both internal growth, development and design of our own products as well as penetration into new markets especially US and European markets.

## GROUP RESULTS

For the year ended 31 March 2006, the revenue of the Group grew approximately 15% from approximately HK$451 million in 2005 to approximately HK$519 million in 2006. Profit before tax decreased from approximately HK$104 million in 2005 to approximately HK$92 million in 2006. Profit for the year attributable to equity holders of the Company decreased from approximately HK$95 million in 2005 to approximately HK$77 million in 2006, representing a decrease of approximately 18%.

The retrograde performance was mainly attributed to (a) increasing materials costs due to increase in crude oil price and inflation; (b) increasing production cost due to appreciation of Renminbi; and (c) initial costs and additional production overhead incurred with the commencement of operation of the New Production Plant during the year under review. Although the Group had successfully achieved approximately 15% increase in revenue and improvement in productivity resulting from improving the working efficiency of our workers and expansion of our production capacity, the above-mentioned negative factors outweigh the positive factors. Moreover, additional tax provision of approximately HK$7 million for the previous financial years was made during the year under review.

Nevertheless, the Group is still able to achieve approximately 15% net profit margin. To share the results with our shareholders, the board of the Company (the "Board") recommends the payment of a final dividend of HK6 cents per share in addition to the interim dividend of HK6 cents per share.

# Chairman's Statement

## NEW MANAGEMENT

With a view to further strengthening the collaboration with Yue Yuen, with effect from 14 October 2005, Mr. Tsai Nai Kun and Mr. Lin Pin Huang, Otto, both Vice Presidents of Yue Yuen, were appointed as Executive Directors of the Company. Mr. Tsai Nai Kun was further appointed as Chief Executive Officer of the Company. In addition, Mr. Chen Zhen Hao, Chief Production Officer of the Group, was also appointed as Executive Director of the Company with effect from 14 October 2005. With their rich management experience and expertise in manufacturing, we strongly believe the new management structure can lead our business and the Group to reach a new height.

## OUTLOOK

The Board expects the operating environment in the sportswear market will be challenging to the Group as prices and margins are under pressure due to certain negative factors such as rising materials costs and appreciation of Renminbi. To advance our Group's competitive power, development and design of our own products and cost controls will be our main targets in the coming years.

In the past, our production had been on an OEM (an acronym for "original equipment manufacturer", which produces or customises products according to the design supplied by the customers) basis without own designed products provided to customers. With our long business relationship with brand-named customers and our expertise in the garment manufacturing industry, we are able to understand the need of the customers and to capture the market trend to design suitable products to cater for customers' need. During the year under review, we planned to establish a Research and Development Centre. Its main function is to develop new products with own designs. It is expected that the Research and Development Centre will commence operation in 2007.

In respect of cost controls, we will continue to work on productivity enhancement as well as better management of materials costs and logistics expenses. With the implementation of the ERP System in the coming years, we believe calculation of materials need, inventory management and production management can be greatly improved.

## APPRECIATION

On behalf of the Group, I would like to express my sincere gratitude to the directors and the management for their valuable advice during the year. I would also like to thank our shareholders, suppliers, business partners and customers for their continued support to the Group as well as our dedicated staff for their hard work and commitment.

**Chung Yuk Sing**
*Chairman*

Hong Kong, 18 July 2006