The Group saw the first setback in fiscal year 2005/06 after six consecutive years of growth and increases in earnings.

Group sales declined 3% to HK$1,425.5 million, after-tax earnings 37% to HK$114.9 million and earnings per share from 17.0 HK cents to 10.7 HK cents.

The Board of Directors has proposed a final dividend of HK$0.03 per share.

As reported in our interim results, our core business took a hit from a combination of trade issues that took place in the first half of the fiscal which led to the setback for the year. While we were encouraged by our success in rebuilding our plant capacity and sales to a healthy level during the second half of the year, our profit performance suffered from abnormal operating costs as well as hefty airfreight expenses incurred during the second half of the fiscal year in clearing up the shipments delayed from the first half.

Our core OEM business remains fundamentally robust; we remain the largest supplier in the trade and shipped 56.7 million units during the year. We have continued the expansion in Thailand and we have added a small satellite plant some fifty kilometers inland from our Long Nan plant in Jiangxi Province, all in anticipation of the changing market demand which necessitates the support of new skills, new equipment, additional headcount and space.

Our branded business remains an insignificant portion of our portfolio, representing less than 2% of Group turnover. Losses, all of which were attributable to the Hong Kong operations, amounted to HK$6.5 million on a turnover of HK$21.7 million. Our strategic plan predicates the growth of this business unit on the acquisition of a distribution platform in China. Our cautious efforts in this direction have not yet produced results with unrealistic valuations by potential sellers being a significant factor. In the absence of an immediate M&A target we have exited from those unprofitable operations in Hong Kong and to prudently re-invest in our China structure to position ourselves for internal growth.

Financially, notwithstanding the difficulties of the year, the Group continues to maintain a strong balance sheet. As at 30 June 2006, shareholders' funds increased to HK$461.2 million from HK$434.3 million at 30 June 2005. The Group has credit facilities amounting to HK$150 million of which HK$4.9 million had been utilized at 30 June 2006. Cash and bank balances amounted to HK$65.3 million, which is sufficient for our immediate needs and which provides a firm basis for any M&A projects or expansion opportunities.

The Group is committed to maintaining a high standard of corporate governance. Our key corporate governance practices are set out in the Corporate Governance Report, benchmarked against the provisions of the Code on Corporate Governance Practices which came into effect this year. Your Board meets quarterly and, in order to enhance transparency, it was decided that we would post selected operational data on our website to bridge the gaps between our interim and final results announcements. The first of these updates was posted in May following our third quarter Board of Directors meeting. During the year we also established an internal audit function.

Looking forward to 2007 the worst seems to have been left behind us. The quota situation has been stabilized and is not likely to be a factor adversely affecting our operation and cost performance. Demand is stable; with the build up of our capacity, we have the ability to develop new customers and expand business with existing customers. There are concerns under the shadow of rising interest rates which might discourage spending and negatively impact business. The biggest challenge confronting us, however, is the rapidly deteriorating operating environment in China especially for those manufacturing companies operating in the Pearl River Delta. The steep rise in labour costs, reduction of VAT refund on exports, shortage of labour, shortage of energy supply, stepping up of environmental requirements etc., are all heavy burdens to our cost efficiency. Our business plan for the next fiscal year therefore calls for a prudent approach, with a focus on cost control and a growth level based on our capacity buildup achieved in the fourth quarter of this year. Long term, we will maintain our even spread of global capacity between China and other regions; our business strategy will have an emphasis on product innovation in order to support high value-added exports. As for our branded business, we have started to broaden the presence of our products in southern China. With the few sales counters we have set up in department stores, we expect a slight growth in the coming year while we continue to look for M&A or joint-venture opportunities.

There have been some changes in our Board of Directors during the year. I regret to report that Mr. Lam Ka Chung, William, an Independent Non-executive Director of the Company, passed away on 24 April 2006. Mr. Lam served the Board for over twelve years and his wise counsel, diligence and independence of mind will be sorely missed.

On 3 May 2006, the Board announced the appointment, subject to the approval of shareholders at the upcoming Annual General Meeting, of two new Independent Non-executive Directors, Mr. Leung Ying Wah, Lambert and Mr. Lin Sun Mo, Willy. Biographical details are set out on page 35 of this Annual Report. Both bring a wealth of expertise and experience to our business and, on behalf of all Board members, I welcome them to the Group.

This has not been an easy year for our managers and employees and, on behalf of the Board, I wish to express our appreciation for the hard work and diligence they have demonstrated in difficult circumstances.

Fung Wai Yiu
Chairman