

## CHAIRMAN'S STATEMENT



**“To strengthen Kingmaker’s long-term competitive position we will continue to uphold the highest standards of corporate governance and operational control. The cancellation of the quota system between World Trade Organisation countries as from January 2005 is expected to change the operating landscape for Asian economies, and to spark new demand from European countries ...”**



Timberland



## REVIEW OF OPERATIONS

The overall economic recovery during the reporting period has provided a backdrop for generally more dynamic business activities. Although we have seen signs of improvement in overall consumption power, the rebound trend in most key markets, including the United States, has remained fickle and unreliable. The tough market conditions faced by our customers were translated into keen price pressure for upstream manufacturers.

During the year, to keep pace with customer expectations and to address global concerns on the protection of environment and labour rights, we have enhanced both our production facilities and working environment, including the upgrading of leisure facilities for staff and labour. In accordance with international standards, we have implemented strict adherence to overtime restrictions and minimum-wage requirements. New environmental control facilities have also been installed. These enhancements will ensure our long-term competitiveness but have inevitably caused one-off investment and overhead increases. The resulting rise in operating expenses was partly offset by our consistent efforts to control administrative and selling costs, as well as our constant enhancement of operational efficiencies.

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Despite the lower-than-expected growth in the European market, management maintains confidence in the potential of this market in view of the growing trend towards outsourcing to Asian manufacturers by European brands.

During the year, we have added such new labels as Pony, Nautica to our growing list of branded customers. Active business negotiations are ongoing with a view to soliciting more new labels from this region. In this regard, we have prepared expansion plans to cater for further growth generated by the European market.

### Future Plans and Prospects

To maintain our resilience, we will continue to manage our business growth prudently but will still make rational and market-driven investments in order to maintain our prowess and leadership in actual production capabilities. In fiscal 2004/05, the Group plans to invest HK\$50 million by adding four lines in Vietnam to handle the European business and two lines in Zhongshan, China, giving us a total of 40 lines, or over 10% increase in capacity compared with 2003/04.

It is also one of our management priorities to drive our growth in as balanced and healthy a manner as possible. In terms of product portfolio, our mission is to maintain a 40-40-20 split between casual, baby and rugged lines. The baby and children lines are expected to register mild growth while the new growth driver for our Group will come from the premium casual line with orders from both existing and new European customers.



As a niche brown-shoe producer, the Group enjoys a natural advantage thanks to its strong R&D and ODM capabilities. To fully develop the potential of this emerging market segment, the Group will continue to invest in R&D for new fashionable designs and functions.

Due to the general lack of transparency in market trends, most customers have revamped their supply-chain management systems requiring even shorter order lead-times at the manufacturers' end. Thanks to its ongoing programs of upgrading production facilities and its strong financial background, the Group commands a distinctly competitive advantage.

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As part of our customer servicing initiatives, our Group has established a number of dedicated customer sample rooms within our premises. This initiative received an excellent customer response and a further five customer sample centres were therefore added in Zhongshan and Zhuhai. In addition to shortening the production development time, this has also given the Group an edge in cementing working relationships with customers and in soliciting new business.

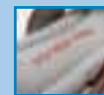
While continuing to progress with justifiable confidence, the Group is nevertheless closely monitoring the latest market and industry developments in order to be fully prepared for emerging opportunities and challenges.

### APPRECIATION

Over the past decade, we has gone through good times as well as quiet times, but it is important to note that we have always maintained a basic resilience and strength thanks to core competences and strong financials. Indeed, we also owe much of our past decade of success to the consistent and highly valued support of our shareholders, staff and business partners.

**Chen Ming Hsiung, Mickey**  
*Chairman*

Hong Kong, 19th July 2004



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