



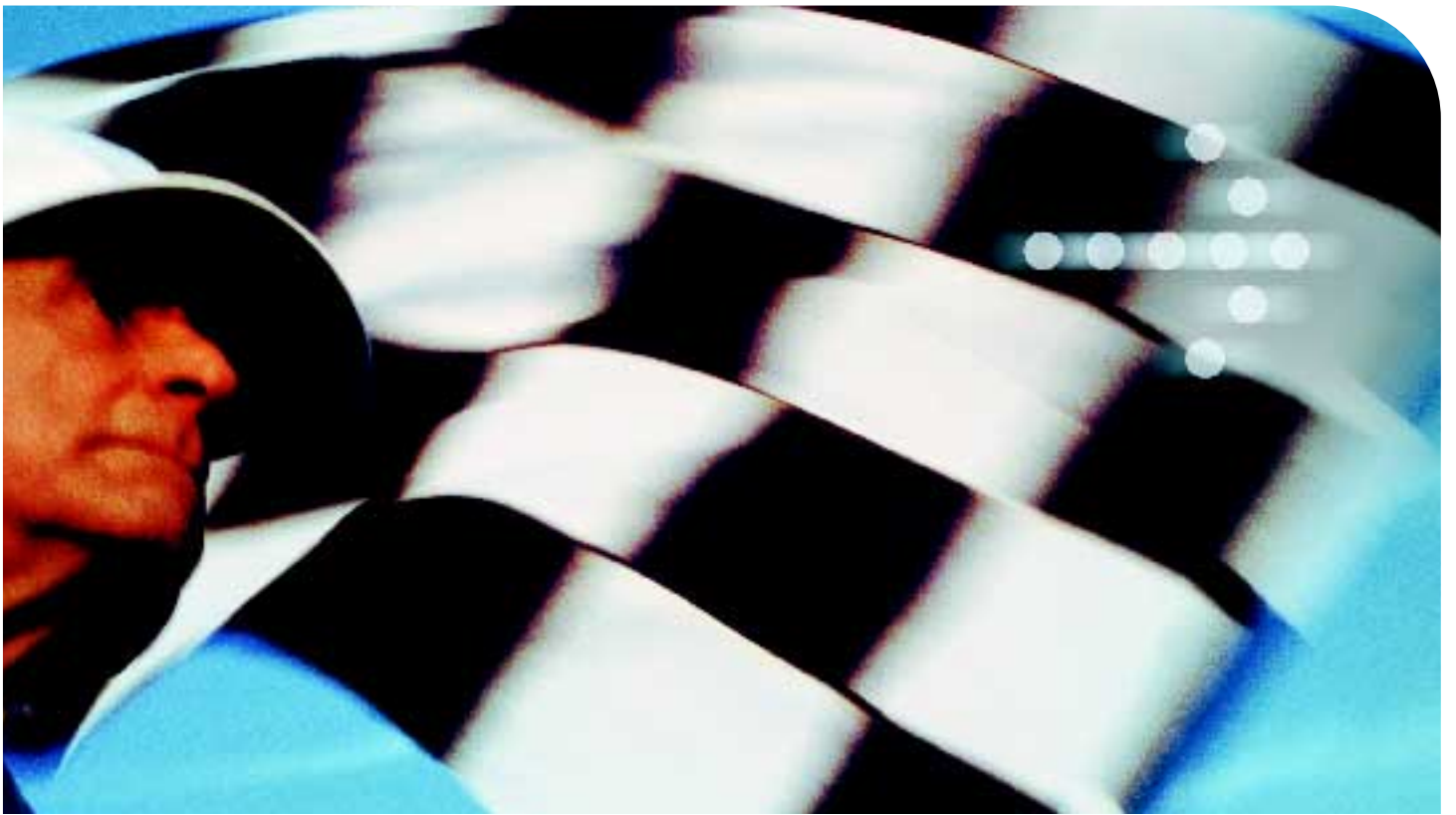
A Leader in

FOOTWEAR MANUFACTURING



- Broadened product categories into various market segments
- Continued our vertical integration strategy to enhance the efficiency of raw material supplies
- Expanded production facilities throughout the region





Chairman's Statement

The Group has achieved satisfactory results over the last 12 months despite the challenging operating environment resulting from rising raw material and labor costs. Although growth in the first half of fiscal year 2004 was unexciting, turnover gradually picked up in the second half, with the result that we posted record annual revenue for the twelfth consecutive year. Turnover rose by 8.4% to US\$2,720 million. However, the operating environment remained difficult throughout the year and there was a decline in profitability. The Group's net profit declined by 1.6% year-on-year to US\$303.3 million in fiscal year 2004.

The year also saw the Group's commitment to explore a retail sales operation in China and to expand horizontally into sports apparel and accessory manufacturing become a reality.

The Group maintained its dominant position in the branded footwear manufacturing sector, and we now account for an estimated 17% of the combined wholesale value of the world's athletic and casual shoes market. There was stronger growth in the casual/outdoor shoes category as we continued to add more brands to the Group's portfolio.

Following the acquisition of a 92% interest in Pro Kingtex in 2003, the Group expanded further into sports apparel manufacturing with new acquisitions and joint ventures in 2004. In April, we acquired a 30.88% stake in Eagle Nice (International) Holdings Limited ("Eagle Nice"), which specializes in sports apparel manufacturing. In addition, the Group subscribed to a convertible note issue by Eagle Nice; upon full conversion, the Group's stake in Eagle Nice will rise to 44.96%.

In January 2004, the Group and Luen Thai Holdings Limited ("Luen Thai") formed an equally owned joint venture, Yuen Thai Industrial Co. Ltd, to focus on development of sports apparel for the global market. The Group went on to acquire 89.1 million shares in Luen Thai in its IPO in July 2004. This strategic investment demonstrated our dedication to sports apparel manufacturing and our commitment to establishing a long-term partnership with Luen Thai.

To strengthen our position as a fully fledged supply chain solutions provider for our customers, the Group acquired a 30% stake in Prosperous Industrial (Holdings) Limited (PI), an OEM/ODM of sports bags, backpacks, luggage and travel accessories for major international brands.

Our acquisition in 2003 of a 50% interest in a joint venture, Hua Jian Industrial Holdings, an OEM/ODM of ladies' shoes for export, bore fruit. Turnover at Hua Jian increased exponentially over the year following the start of operations at the new production plant in Jiangxi. The expansion of the production facilities into inner Mainland China provinces such as Jiangxi, where production costs are lower, should enhance the competitiveness of Hua Jian.

In keeping with our vertical integration strategy, the Group set up a joint-venture company with Yuen Foong Yu Paper Manufacturing and Taiwan Pulp and Paper Company in Vietnam to manufacture paper boxes and carton paper. In addition, our subsidiary, Prime Asia, built a new leather processing facility in Vietnam, strengthening our raw material supply chain there.



The Group holds exclusive licenses for four international brands in China: Converse; Asics; Wolverine and Hush Puppies. In addition, we have about 850 distributors and operate over 300 shops and counters in the country's major cities, including Beijing, Guangzhou, Shanghai, Chongqing and Fuzhou.

Over the last year, total turnover from our China wholesale and retail operations rose to US\$74.2 million. The increase in revenue buoyed bottom-line profit growth for the operation. At the same time, the Group remained committed to growing its logistic operations.

The Group was honored with an International Certificate of Excellence at the 2004 Hong Kong Business Awards, organized by DHL and the *South China Morning Post*. The award recognizes the Group's efforts in exploring new markets around the globe.

CORPORATE GOVERNANCE

The Group is strongly committed to enhancing corporate governance in all our operations through effective communication and transparent practices. As part of that commitment, three independent directors and an audit committee have been appointed to monitor the Group's development in this area.

CORPORATE SOCIAL RESPONSIBILITY

The Group fully recognizes the responsibilities placed upon it as a global company, and takes these seriously. Social responsibility is an integral part of our corporate development strategy, and is supported by the Board of Directors. Through our corporate social responsibility programs we aim to provide working conditions of a higher standard and to contribute to the communities where we have a presence. Building on the solid foundations we already have in place, the Group will work further to enrich the working environment of our staff and to offer them a comprehensive range of services. We do this because we appreciate that our success depends on the invaluable service of a dedicated team of employees.

Throughout the year the Group launched initiatives and programs designed to promote the welfare, safety, health and personal development of our staff. Comprehensive training and educational sessions are part of our philosophy of enhancing workplace safety and the personal and professional development of individuals. Going beyond this, we ensure that our staff have access to counseling services and professional medical facilities, when necessary, such as hospitals and clinics. It is our belief that only by operating a responsible business can we make the best possible products.

Among the initiatives that were warmly received by staff in the year were: evening high schools in Dongguan, China as well as Indonesia and Vietnam; a variety show co-organised with the Dongguan government; an open forum held on International Women's Day; and computer training courses.



In addition, the Group acknowledges its responsibilities in the communities where we operate. Among the causes and organizations that we supported during the year were the Community Chest of Hong Kong, Save the Children Hong Kong, World Vision and Sower Action. In Vietnam, the Group co-sponsored the "Operation Smile Vietnam" program, which provides medical services to correct children's cleft lips and cleft palates. Also, the Group made donations in Vietnam for the construction of houses for the needy in the areas around our factories. In the immediate aftermath of the 26th December South Asia tsunami, the Group made donations to relief organizations working to alleviate the suffering of those affected by the tragedy, especially in Indonesia and Sri Lanka, the two countries worst affected.

Our efforts in the area of community responsibility and good corporate citizenship were, I am proud to note, recognized by The Hong Kong Council of Social Service, which awarded the Group its Caring Company Logo 2004/05.

We also continued to nurture the spirit of community involvement in our staff, actively encouraging participation in events with a social dimension, such as the Slam Dunk for Youth, a basketball challenge for youngsters. Employees also actively participated in outings organized by the Group and sports events such as the Hong Kong Marathon.

We were honored that basketball star Michael Jordan spent half a day touring our Nike factory that manufactures the shoe line that bears his name. He also visited support facilities, such as the dining room, dormitory and kindergarten within the industrial park of which he was very impressed. Other visitors to our manufacturing facilities in Dongguan included the Chief Executive of the Hong Kong SAR Government, Tung Chee Wah, together with members of Hong Kong's international advisory group.

LOOKING AHEAD

The coming year is not without challenges for the Group. We remain focused on our core manufacturing business, seeking opportunities to diversify horizontally and add new product categories, and expand vertically to provide a fully integrated supply chain service to our customers. The Group will put additional resources into developing the wholesale and retail sales operation in the Greater China region to strengthen our network there. We shall, at the same time, expand the network in individual cities there to promote our corporate identity following the further opening of the retail market in China to international companies.

The Group invested in several projects last year and will work harder to expedite growth there. There are tremendous synergy opportunities for the Group from expanding into sports apparel and accessories manufacturing, among which would be leveraging on relationships with major international brands that have been long-time customers of our footwear operation.



So far, there has been an encouraging flow of orders for our newly invested joint ventures and growth should accelerate following the completion of new production facilities. Although the contribution level is low at this time when compared with our core business, these will account for a growing proportion of the Group's bottom-line profit in a longer-term. While this is occurring, the Group will continue to actively seek new joint-venture opportunities that fit with our horizontal-expansion and vertical-integration strategies.

Our business continues to grow, recording a 15% year-on-year increase in sales in the first quarter of fiscal year 2005. However, raw material prices are expected to continue to fluctuate, and so the Group will monitor the situation closely. In the meantime, we shall work to improve production efficiency to mitigate part of the impact of these fluctuations.

Labor costs in the Pearl River Delta area should rise in tandem with living standards and minimum wage requirements set by the government. However, production costs remain competitive given the superb infrastructure and material supply network in the area. Even so, the Group continues to develop its production base in Vietnam.

This year, we expect to provide more value-added services along the supply chain to our customers. Our objective, therefore, remains unchanged: to maintain our position as the world's leading shoe manufacturer through continuous improvement in operating efficiency. At the same time, the Group is well prepared for the removal of global quotas on garment and textile products and the potential imposition of trade safeguards on export garments from China.

The surge in spending power on sporting goods in China will provide a golden opportunity for us to extend our retail network there. It is expected that there will be more sponsorship of international sports events in China, and that international brands will put more effort into exploring the country's retail market. The Group has built up one of the largest sporting goods retail networks in Beijing ahead of the 2008 Olympic Games there. Currently, we have more than 300 shops/counters in China and plan to have more than 1,000 in operation by the time the Olympic torch is lit in Beijing.

I also believe the Group is well prepared to meet the keen competition we will face in both our core manufacturing sector and the new business segments. We see the coming year as the time for us to consolidate existing operations and to expand our horizons in order to build a solid platform for future growth. The Group shall strive to deliver continued growth and enhanced value for shareholders in 2005.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I wish to thank all our customers, suppliers and shareholders for their continuous support. We would also like to thank our team of dedicated staff for their invaluable service and contribution throughout the year.

Tsai Chi Neng

Chairman

Hong Kong
18th January, 2005