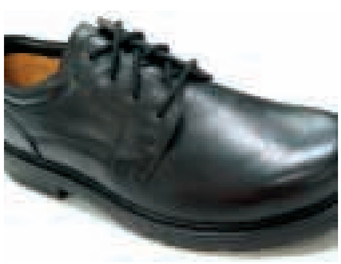
“The year ended 31st March 2005 did not see overall improvement in market sentiment. It was still a difficult year for shoe-manufacturing companies and the Group experienced pressure on its profit margin from cost factors in China ...”

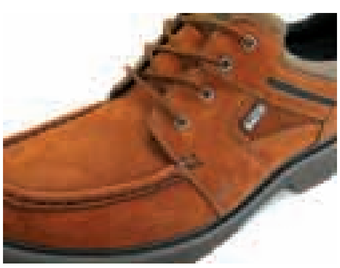
REVIEW OF OPERATIONS

The year ended 31st March 2005 did not see overall improvement in market sentiment. It was still a difficult year for shoe-manufacturing companies and the Group experienced pressure on its profit margin from cost factors in China such as wages, electricity, transportation, more stringent social responsibility standards as well as the cost of materials. In view of this the Group has been changing the product mix to more premium-grade products in order to have greater pricing flexibility in face of these challenges.

Labor and electricity shortages in China continued to present problems as the Group’s production capacity is mainly located in the Guangdong region. Tight labor supply in Guangdong Province was a concrete hindrance to our expansion program. Wages and benefits needed to be increased in order to retain skilled workers. The labor issue remained one of the main concerns for the Group, compounded by the new concerns for working, living and safety standards for workers.

Electricity outages in China causing disruptions to production added to these challenges. In order to maintain customer driven on-time delivery, additional airfreight costs were created. The increasing





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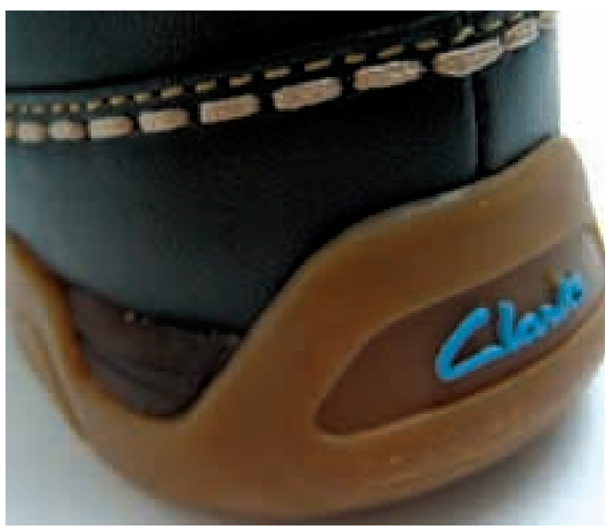


CHAIRMAN'S STATEMENT

price of oil also imposed additional pressure on the profit margin due to extra transportation expenses and material costs, especially for certain outsoles with petrol chemical bases. During the year our overall net margin dropped by 1.44 percentage points to 6.14%.

Though our expansion plan in China was on hold due to the difficult manufacturing environment, four production lines in Vietnam were completed as planned to help fuel exports to European markets. Demand from European customers, however, proved softer than expected. As one production line in Macau was closed down with the Vietnam factory coming on stream, Group manufacturing capacity now consists of a total of 37 production lines. Approximately one-third of Group turnover was generated by Vietnam in the year.

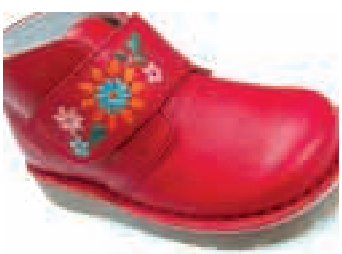
Our distribution business in China continues to face keen competition and a loss of HK$8.9 million was recorded for the period under review. The Group is now realigning its operations and rescheduling its future development.

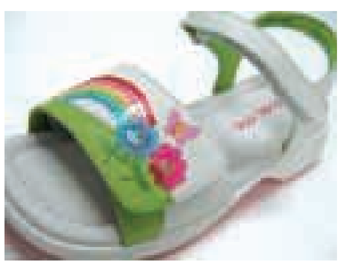
During the year, sustained, stringent and effective cost controls were successful in keeping administrative expenses at a stable and reasonable level.

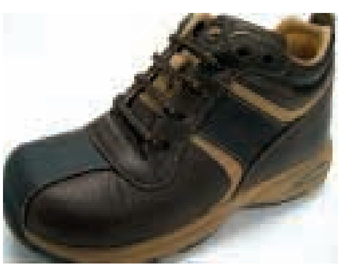
FUTURE PLANS AND PROSPECTS

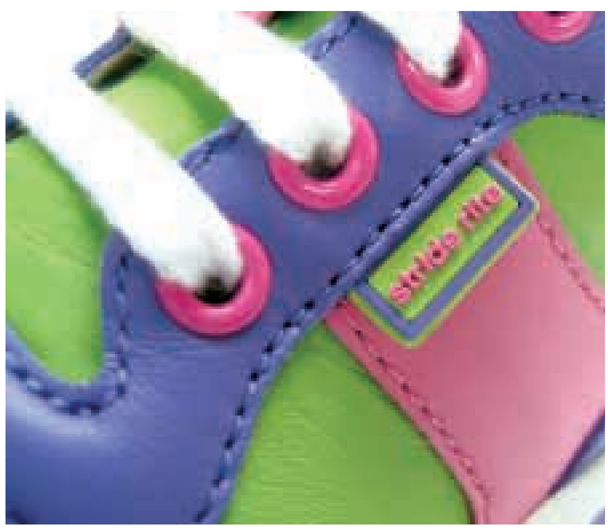
The trade dispute between China and the EC may cause some uncertainties. However, our plan for further penetration of the European market is still being implemented, as the Group believes that the European outsourcing trend will continue, and diversity of production base coupled with strong expertise will provide the Group with enhanced export flexibility. Our existing European customers are expected to experience growth this year, and negotiations with new European customers are in progress.

The third phase of expansion of the Vietnam site will be implemented under a time frame determined by customer expectations. Continuous improvement of market and product should also help moderate pricing pressure.









Stride Rite

At the same time, the Group will devote increased efforts to the focused development of new premium casual products which should help improve profit margins. The target product mix for baby and children, casual, and rugged footwear is still 4:4:2. The Group expects that adjustments to the product mix should make the casual premium product the major category for the next two to three years. Furthermore, the initial beginnings of "lean manufacturing" has already been begun in a controlled setting in PRC. Over the next few years, this will be extended to cover all other production facilities and should help strengthen the profitability momentum of the Group.

APPRECIATION

I wish to express my sincere appreciation to all the staff of the Company for their continuing dedication and the enduring support from shareholders, suppliers, bankers and also our customers.

Chen Ming Hsiung, Mickey
Chairman

Hong Kong, 11 July 2005

Skechers