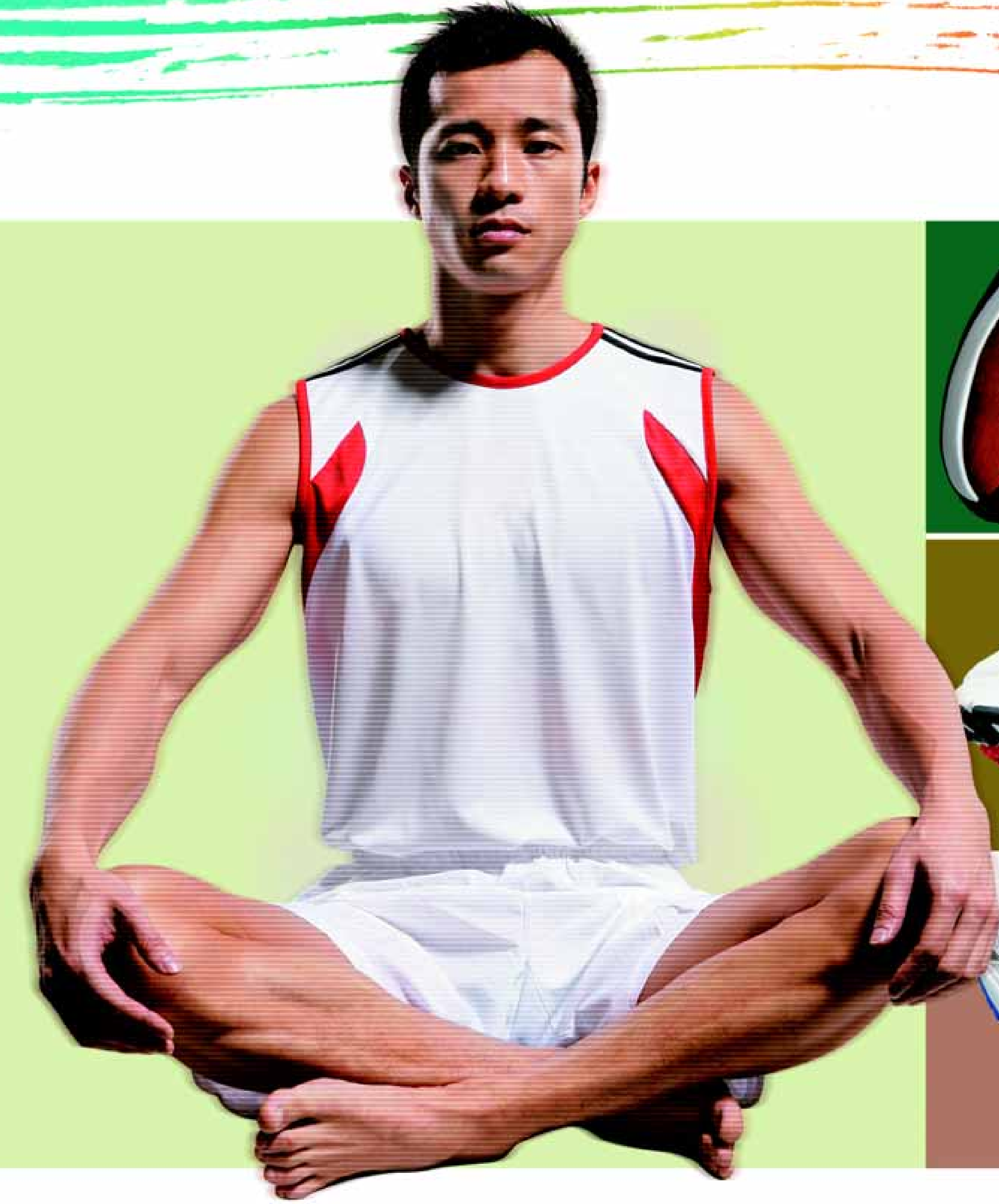

Enhancing

› OUR POSITION

Footwear Manufacturing

- Improved operational efficiency and upgraded manufacturing facilities
- Broadened product categories into safety and working shoes

Chairman's Statement

I am pleased to report that the Group achieved encouraging results in the fiscal year ended 30th September 2005 despite a challenging and increasingly demanding operating environment. Group turnover rose 16% year-on-year to US$3,155 million, making it the 13th consecutive year in which we have achieved an increase in turnover since listing on the Stock Exchange of Hong Kong. Underpinning the rise was a sustained increase in orders from existing customers and the addition of some new accounts. The surge in the contribution from the China retail operation, meanwhile, was the driver behind the phenomenal top-line growth.

The Group maintained its dominant position in the branded footwear manufacturing sector, and we estimate that the Group accounts for 17% of the combined wholesale value of the world's athletic and casual shoes market. Growth in sales of athletic shoes, the Group's major product category, remained strong throughout the year. Our turnover growth rate continued to outpace that of the global market and so our market share should rise gradually.

The Group's net profit increased by 2.2% year-on-year to US$310.1 million. Excluding a one-off US$26.2 million contribution from the disposal of securities investments in fiscal 2004, net profit would have increased by 11.9%.

During the year, the Group made progress in improving production efficiency as well as in achieving economies of scale from continued sales growth. At the same time, our commitment to research and development investment remained firm, while stringent cost-control measures were implemented, yielding satisfactory results. Our quest for LEAN production management proceeded well, leading to an improvement in overall productivity from the streamlining of production procedures and the shortening of transport times for various components. An innovative production line layout has been introduced, which provides us with greater flexibility when handling changes in order size and in meeting demanding delivery schedules.

Nonetheless, the operating environment during the year remained uniquely challenging, due to the surge in oil and petrochemical prices, increases in labor costs, higher utility costs and the appreciation in the Chinese yuan. As a consequence, the Group's gross profit margin contracted by 0.82 percentage points year-on-year to 23.05% in fiscal 2005. Production costs could not have been contained at the current level without the dedication and hard work of our staff as well as much closer working relationships with our customers.

The Group focused not only on the manufacturing end of the supply-chain, but also on the retail end. The move into China retail sales has borne fruit, resulting in a 128% jump in turnover for that business during the year. The horizontal expansion into sports apparel and accessories manufacturing, meanwhile, remained on track, with satisfactory contributions from Eagle Nice (International) Holdings Limited and Prosperous Industrial (Holdings) Limited, the Group's two associate companies. The Group's stake in Eagle Nice increased to 45% from 31% following the early conversion of the convertible note in March 2005.

The Group's 50%-owned joint venture, Hua Jian Industrial Holding Co., Ltd., an OEM/ODM of ladies' shoes, delivered solid results during the year. Hua Jian reported double-digit growth in turnover on an annual output of about 10 million pairs of shoes. Hua Jian will diversify its production base into Macau while maintaining its existing facilities in Dongguan, in China's Guangdong province, and in the province of Jiangxi. The new production base in Jiangxi has proved to be very cost efficient and plans are already in hand for the next phase of expansion there. During the year Hua Jian added several new customers, broadening its client base and facilitating future growth.

Following the extension of our wholesale operation into Taiwan and Hong Kong during the year, the Group's wholesale business now encompasses the Greater China region. The Group holds exclusive licenses for Converse, Wolverine and Hush Puppies in Mainland China, Converse and Hush Puppies in Taiwan, and Converse in Hong Kong. The total number of distribution points amounted to about 1,000 in the mainland, 400 in Taiwan and 200 in Hong Kong.

In addition, the Group's retail operation maintained about 520 shops/counters in the Mainland. The shops/counters are distributed evenly over five regions, located in both the major metropolises and secondary cities. The outlets are mainly single-brand stores carrying international brands, such as Nike, adidas, Reebok, Converse, Puma and Asics. Over the last fiscal year, total turnover from our Greater China wholesale and retail operations rose to US$169 million.

Horizontal diversification remains the Group's core expansion strategy. In October 2005, we teamed up with Golden Chang Group to form a joint venture called Oftenrich Holdings Limited, which manufactures safety and casual shoes. The combination of expertise and production resources from two market leaders creates a company that can delivery high-quality products and contribute to both parties immediately. Through this 45%-owned joint venture, the Group is able to further broaden its product categories. The annual production of the joint venture is about 12 million pairs of shoes.

Looking Ahead

The year 2006 is likely to be demanding. The outlook for material prices is uncertain, while labor and energy costs are still on a rising trend. The yuan strengthened against the US dollar by 2.1% in July 2005 after the mainland currency was revalued against a basket of currencies, and it has been strong ever since. The rise in the value of the yuan is certain to increase operating costs for manufacturers with production bases in China. Meanwhile, ongoing anti-dumping investigations and trade disputes between the Mainland and other countries should continue to overhang the operating environment.

However, the Group is well positioned to face the challenges ahead, and to deliver sustained business growth. Continuous investment in R&D and the upgrading of production facilities will enhance our cost efficiency and competitiveness. The Group is also a leader in adopting innovative production methods to deliver high-quality products in shorter lead times. This enables us to meet the more demanding requirements being seen along the length of the footwear supply chain.

The Group is optimistic about business growth in the current fiscal year. In the first quarter of fiscal 2006, turnover rose by about 17% year-on-year to US$869 million. Again, there was an increase in the contribution from the China retail operation, as well as sustained organic growth in the core manufacturing business. Continued sales growth demonstrates the confidence of our customers in the Group's ability to provide a total solution and to deliver high-quality products.

Our focus on the core manufacturing business remains, and we shall continue to invest in suitable projects that diversify our product categories and allow us to tap into a variety of market segments. The capacity expansion plan demonstrates our commitment to customers and our confidence in raising annual output. On the production side, the rationalization of various functions in our vertically integrated structure and a closer co-operation among various business divisions within the Group should improve overall production efficiency.

Following efforts over the past few years, the Group has built up an extensive wholesale and retail network for sporting goods in the Greater China region. Growth momentum remains robust and we shall continue our program of opening shops/counters in Mainland China. In addition to self-run shops we plan to franchise the operation to expedite growth in the retail network. Other than traditional shops, the Group has opened several mega-stores, and the response to these has been encouraging.

The Group has thus established and developed a retail chain with its own corporate identity, called Footzone, which carries a range of brands and is located in several major cities. We plan to expand the chain quickly so as to capitalize on the booming sporting goods retail market in China ahead of the Beijing Olympics in 2008. Our goal to open 1,000 shops and counters by that year remains intact. At the same time, we will work hard to strike a balance between opening new shops and improving the bottom-line contribution.

The Group has been prudent and selective in seeking investment projects or joint ventures to fit with our horizontal-expansion and vertical-integration strategies. We believe the projects we have invested in over the last couple of years will mature gradually and that their contribution will accelerate. Future investments will still concentrate on our core manufacturing business and China retail operation. Management culture, return on equity and earnings accretion will be the key criteria used in our decision process.

This year, we will focus on providing all-round service and on continuing to deliver high-quality products to our customers. We believe our relationship with key customers will continue to flourish. We will leverage on our leading position to foster relationships with both brand-name customers and suppliers. It is our belief that only by co-operating with all participants along the supply chain can we meet the challenges from rising material prices and trade disputes.

In the last two years, the Group has delivered sustained turnover growth despite the challenging environment. I believe we are in a position to face new competition and to continue to see strong business growth. We have a visionary development strategy to expand our business from the core manufacturing operations into the retail and wholesale segments in the Greater China region, while leveraging on the Group's strength on the manufacturing side, which will compliment and collaborate with our branded customers' efforts in developing the China consumer market.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is an integral part of the Group's development strategy. We fully recognize and accept the responsibilities placed upon a multi-national company with products marketed around the world and in touch with people from almost every country. Continued investment in CSR is one of the key reasons behind our ability to deliver excellent services to our customers, and has the full and unreserved support of the Board of Directors. To help guide employees and management in this area, a "Code of Conduct" was adopted in October 2005 that outlines the CSR principles they should follow. It is our belief that only by being socially responsible, and treating all the individuals who comprise the Group with respect and openness, can we make the best possible products and achieve true customer satisfaction.

The Group's CSR program can be broadly classified into services extended to the wider community and services provided to our staff. The former mainly comprises philanthropic donations, social services and voluntary work in the local communities where we have a presence. The CSR programs provided to staff are more comprehensive, and range from organizing leisure-time activities to enhancing the living and working environment. Special emphasis has been placed on providing a healthy and safe workplace. A wide variety of classes, lectures and recreational activities are organized to enrich the lives of our staff and nurture personal development.

The Group also highly values the social welfare, safety and personal health of its staff. In light of the threat posed by avian influenza, for example, the Group has proactively appointed a special team to draw up preventative measures and a contingency plan to be implemented in the event of an outbreak. A series of classes and lectures has been held in factories in China, Vietnam and Indonesia to educate workers on the precautions they should take. Menus in canteens and cooking methods have been adjusted as a precaution. And measures have been implemented to prevent staff from coming into contact with birds within our industrial parks and the surrounding areas.

During the year, the Group launched numerous initiatives and programs designed to promote the welfare, safety, health and personal development of staff. The major CSR programs are outlined below.

In China, individual factories have set up their own voluntary social work teams to serve their local communities, with activities including visits to nursing homes and orphanages. Among the initiatives for staff, we launched classes on personal health and workplace safety, which targeted employees of all levels. Funds were invested in upgrading a staff recreational center, dormitories, wastewater treatment and workplace air quality. Hospitals and clinics within the Group's industrial parks were also revamped as part of ongoing enhancement plans.

In Vietnam, the Group's involvement in the community included providing scholarships and free meals to children from needy families nearby and the donation of about US$20,000 to those affected by flash floods. We also organized free medical consultations for people in the neighborhood of our factories twice during the year, providing services to a total of 1,200.

In Indonesia, we contributed to a philanthropic program that is actively involved in providing food to those in need. The scheme benefited a total of 450 families in the areas around our production facilities. Occupational health specialists and doctors were stationed in the factory to provide sickness prevention advice and treat any work-related illnesses. In December 2005, the State Ministry of Women's Empowerment and the Governor of Banten Province jointly awarded the Group the honor of "Best Factory in Caring for Female Employees", in recognition of our efforts and achievements in providing support programs for our female staff.

In Hong Kong, we continued to support Slam Dunk for Youth, a program that combines a basketball competition with social service initiatives for youngsters. Our commitment to the community and our staff was recognized by The Hong Kong Council of Social Service, which awarded the Group its Caring Company Logo 2005/06.

The Group's commitment to CSR is rooted in its corporate culture, while the programs and initiatives that come under it will continue to evolve to ensure that our staff, and the communities which they live in, participate and benefit from our success.

Acknowledgements

On behalf of the Board of Directors, I wish to thank our customers, suppliers, business associates and shareholders for their continuous support. I would also like to offer special thanks to our dedicated staff for their invaluable service and contribution throughout last year.

Tsai Chi Neng
Chairman

Hong Kong
17th January, 2006