

# Chairman's Statement



expanding  
**GLOBALLY**

I am pleased to report that the Group has achieved satisfactory results over the past 12 months notwithstanding a challenging operating environment.

For the year ended 31st December, 2005, turnover increased 27.9% to HK\$1,852.5 million (2004: HK\$1,447.9 million) and profit attributable to equity holders of the Company increased 31.9% to HK\$216.0 million (2004: HK\$163.8 million).

A final dividend of HK\$0.073 per share has been recommended (2004: HK\$0.072).

## Manufacturing

Competition in the manufacturing sector in China will remain keen as industry capacity increases. Protectionism is raging in the European Union ("EU"). However, as our export to the EU in those affected categories is not significant, the Board is of the opinion that any EU protectionist moves will not have a major adverse effect on the Group's business. Upward pressure on the renminbi will mean slight cost increase for us. Hedging and cost control remain key disciplines which we have kept up. Whilst many in the manufacturing industry are affected, the Group has been successful in sustaining both sales and profit growth and maintains our profit margin. This is possible because the Group adds value for our customers, through tight integration and cooperation to ensure cost control, quality and timely supply chain. Therefore, despite the challenging environment, the Group is able to retain pricing power to achieve profit increase for its manufacturing division.

## Retailing

China's retail market in athletic footwear and sports apparel is huge and rapidly growing. Industry growth estimates exceed 30% per year in the run up to the 2008 Beijing Olympics and beyond. This is due mainly to a large Chinese population and their rising disposable income under sustainable economic growth. The Board intends that athletic footwear and sports apparel retailing shall in due course become a significant part of the Group's operation.

Whilst a huge opportunity for the Group, the Chinese retailing market presents many challenges. The Chinese consumer is both brand conscious and price conscious. The geographic spread of the regional markets requires skilful management of distribution channels of different retail formats, as well as costly marketing, particularly in celebrity sponsorship and national media advertising. On top of all that, China's consumers are culturally different, so that international retail practices and strategies serve as guidelines at best.

The Group has two key strategic advantages in retailing in China: our manufacture base provides the best supply guarantee in footwear products to retail operations; retail operations provide more businesses to our factories. In terms of retailing of apparel and accessory products, the Group has been implementing a strategic sourcing & merchandising system which produces a cost-effective environment to enhance the quality of our commodities and maximize the efficiency of our product launching process.

The Group has been participating in retailing for some years. The Group first participated in the buyout of the Converse brand from Bankruptcy Code Chapter 11 in the United States. This company was rapidly turned around and returned to profitability. It was then profitably sold.

Today, Converse remains an important customer of our manufacturing operations, because of our unique value added and support to client operations.

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For over two years, the Group has been a significant shareholder in the exclusive China licensee of Reebok. We are playing a key management role in the revitalization of the brand, and also supported the retail operations of Reebok in China through our factories. There were many challenges, including the re-establishment of a weak and discouraged distribution network, re-branding, and managing and sustaining rapid sales growth that resulted from our efforts. Reebok sales have grown at rates in excess of 40% per year in China, with over 500 points of sales established over that period. The Group gained branding and retailing experience in China.

With our experience and reputation with Reebok, the Group is finalizing distributorship agreements for other global brands in China.

Meanwhile, we are also participating as a significant shareholder in Aee, which is building a new brand of ladies shoes. This is a completely different challenge than the representation of an already well known global brand. After two years, the brand is gaining significant recognition and sales growth is gaining traction. The success of this brand will bring higher reward for the Group.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22nd May, 2006 to 24th May, 2006, both dates inclusive, during which period no share transfers will be effected. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 19th May, 2006.

## AMENDMENTS OF BYE-LAWS

In line with new regulatory requirements, a special resolution will be proposed at the forthcoming annual general meeting to be held on 24th May, 2006 for the Company to adopt new bye-laws to reflect changes to the recent amendments to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

## APPRECIATION

On behalf of our 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.

**Li Kwok Lung, Alfred Ronald**  
*CHAIRMAN*

Hong Kong, 11th April, 2006