

# Management

## Discussion and Analysis

teaming up with  
**CUSTOMERS**



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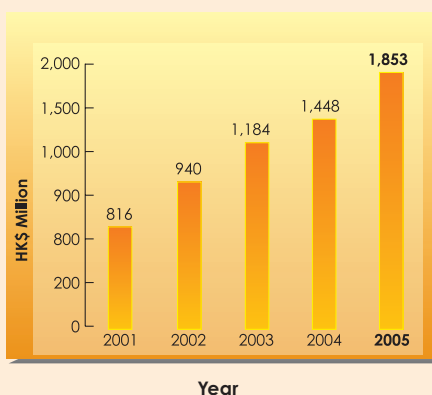
## GENERAL OVERVIEW

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 for 2005 was HK\$216.0 million, as compared with HK\$163.8 million for 2004.

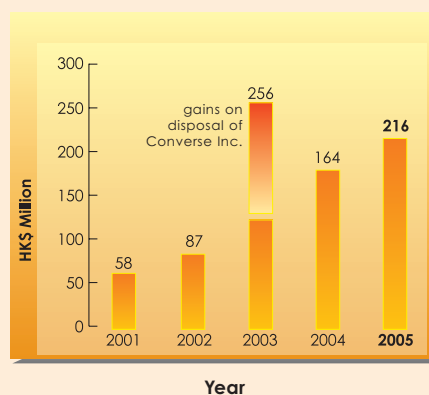
The largest markets for the Group in 2005 was North America and Europe. With the continual strength in the global economy, footwear sales had been strong. Our orders to North America grew 36.3% whilst orders to Europe grew 8.6%. Sales to North America comprised 66.2% and orders to Europe comprised 19.3% of total sales.

The following charts show the consolidated turnover and the consolidated profit attributable to the equity holders of the Company for the 5 years ended 31st December, and the turnover by geographical markets for the year 2005 compared to 2004.

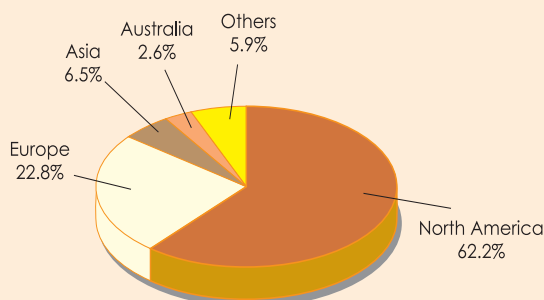
Consolidated Turnover



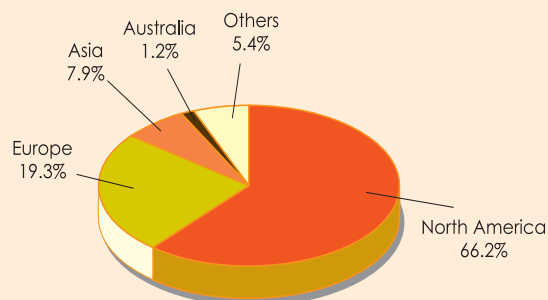
Consolidated Profit Attributable to the Equity Holders of the Company



Turnover by Geographical Market Year 2004



Turnover by Geographical Market Year 2005



The operating cost of the shoe manufacturing industry has been impacted by the surge in oil and commodity prices, increase in labour costs, rising utility costs and pressure of the appreciation of the renminbi. Due to gains in production efficiency and closer customer relationship, gross profit margin was able to be sustained at 22.9% during the year compared to 22.6% in 2004.

## **PRODUCTION FACILITIES**

The Group has a total of 30 production lines, of which 8 are in Panyu, 10 are in Zhongshan, 8 are in Dongguan and a further 4 lines in Fuzhou. In line with the Group's strategy of expansion by acquisition, the Group continues to look for suitable acquisition candidates. The Group will add post-acquisition value to acquired production facilities by installing our best practices and efficient work processes to increase their productivity and contribution to Group profits.

## **ACQUISITION**

In order to serve the needs of our customers, we acquired production facilities in Vietnam in March, 2006.

## **CUSTOMER RELATIONSHIP MAINTENANCE AND RESEARCH AND DEVELOPMENT**

Our extensive experience and working knowledge of each stage of the manufacturing process and production material use and procurement allows us to work closely with our customers to achieve quality, efficiency and low cost. Our close relationship with customers has helped to build deep understanding of their needs, so that we can anticipate their problems and help them resolve issues efficiently and effectively. Our research and development team helps customers to improve their design in order to maximize comfort, endurance and functionality of their products and, where necessary, introduce new technology to enhance their market appeal. Such value-added contribution to our customer's operations makes us their important long-term partner. Our research and development effort complements our aim to excel in this area.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at 31st December, 2005, the Group had bank balances and cash of HK\$740.4 million (2004: HK\$282.5 million). The Group was offered banking facilities amounting to HK\$117.0 million (2004: HK\$78.0 million), none of which had been utilised, indicating a nil gearing ratio on the basis of total borrowings over shareholders' fund. The banking facilities were secured by corporate guarantees from the Company and certain subsidiaries.

## **FOREIGN CURRENCY FLUCTUATION**

The Group does not have any significant exposure to foreign currency fluctuation.

## **CONTINGENT LIABILITIES**

The Company has made revolving stand-by letters of credit facilities amounting to HK\$30,000,000 to a subsidiary of a jointly-controlled entity, of which HK\$16,000,000 was utilized as at 31st December, 2004. The facilities were released during the year ended 31st December, 2005.

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## **STAFF, WELFARE AND SAFETY**

The total number of employees as at 31st December, 2005 was approximately 20,000. Employee cost (excluding Directors' emoluments) amounted to approximately HK\$342.4 million (2004: HK\$277.4 million). In addition to competitive remuneration packages, discretionary bonuses are awarded to eligible staff based on the Group's performance and individual merits.

## **OUTLOOK**

As the global economy shows no sign of slowing down, we expect demand for athletic shoes to remain strong for 2006. The Group's manufacturing division has been able to be a valuable partner to our clients, and we follow prudent currency hedging and cost control disciplines. Therefore, even though the manufacturing industry will remain challenging, the Board maintains a cautiously optimistic outlook for 2006.

On retailing, we are quite optimistic. The China market for athletic footwear, sports apparel and accessories will remain strong for many years. Along the way, the market will enjoy boosters such as the 2008 Beijing Olympics and the increasing number of sports events hosted in China. China is producing an ever larger number of sports stars. As they acquire higher celebrity profiles the supply of valuable advertising assets will increase. The Symphony group, with many years of business experience in China, its experience in China with the Reebok brand, and the support of its substantial manufacturing operations, is ideally placed to benefit from such phenomenal growth in the China market.