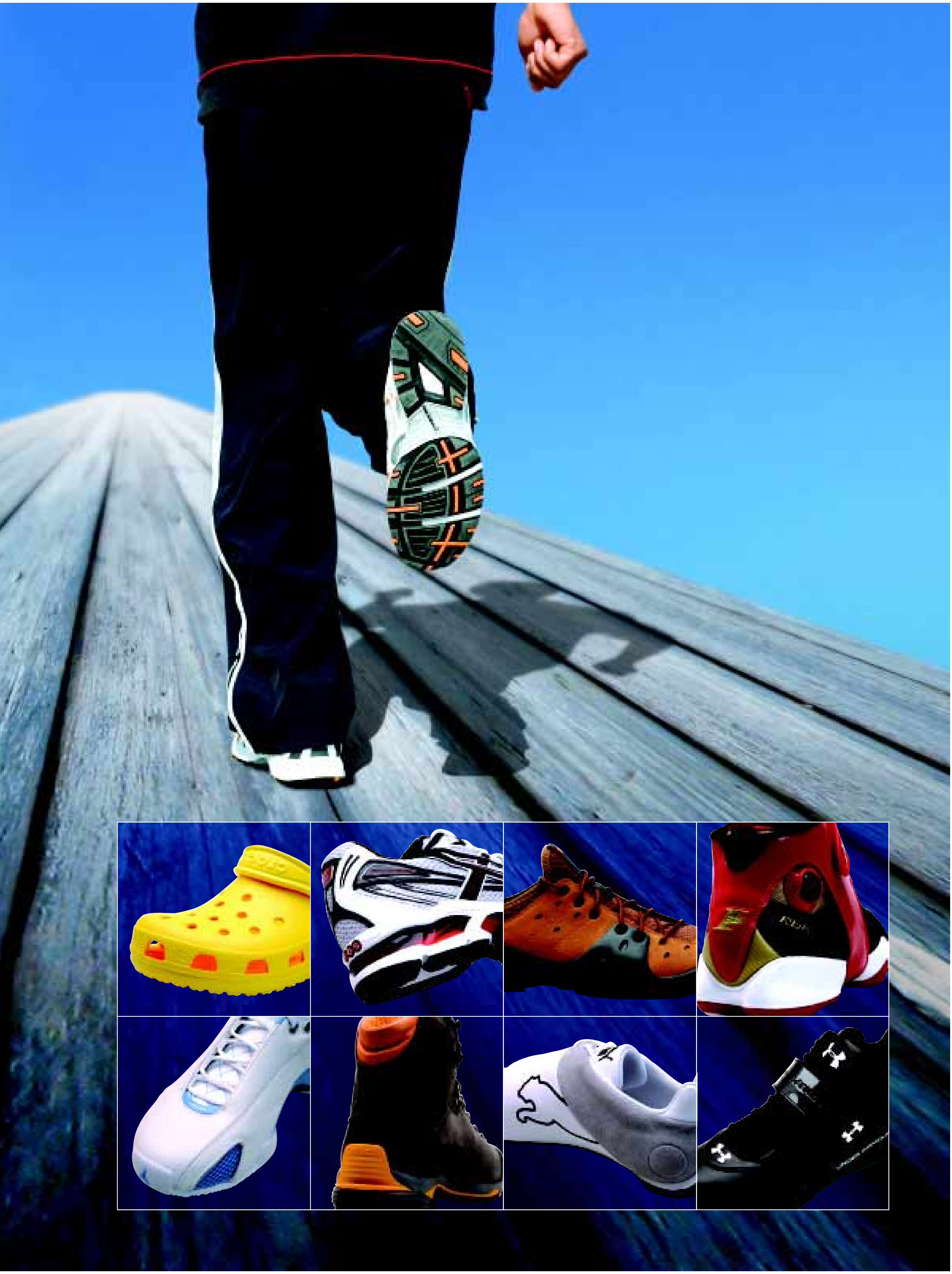
POWERING

INTO

THE FUTURE

Footwear Manufacturing

With the broadening of our footwear categories and the expansion of the customer base, we are well-positioned to enjoy continued growth.


RBK

It was the 14th consecutive rise in annual turnover since the Group listed on the Stock Exchange of Hong Kong.

15.9%

GROWTH IN TURNOVER

For the fiscal year ended 30th September, 2006, the Group recorded impressive turnover growth of 15.9% year-on-year to US$3,657.4 million. It represented the 14th consecutive rise in annual turnover since the Group listed on the Stock Exchange of Hong Kong in 1992. Growth was buoyed by an increase in the core footwear manufacturing business, as well as a sharp rise in contributions from the Greater China wholesale and retailing operations. Meanwhile, there was a balanced rise in sales by geographical area.

The year 2006 proved to be challenging for traditional manufacturers due to volatile crude oil prices and fluctuations in underlying petrochemical material prices. Nonetheless, the Group maintained its leading position in the branded footwear manufacturing business, and is set to deliver firm business growth ahead. We estimate that the Group accounted for about 17% of the combined wholesale value of the global branded athletic and casual footwear market. The rate of footwear sales growth for the Group continued to outpace the rate for the overall market, a testament to our success in broadening product categories and expanding the customer base. The support of existing customers was also key to the Group achieving this unparalleled level of growth.

As well as achieving good top-line growth, net profit attributable to equity holders of the Company increased 18.7% year-on-year to US$353.6 million. The phenomenal result was due to the efforts of a diligent and innovative workforce, as well as the Group's continuing quest for improved productivity. Enhancements in production efficiency combined with upgraded machinery to shorten the production cycle, allowing us to streamline supply chain management for our customers. Concurrently, the Group continued to invest in the research and development of new material components and improved production procedures. The implementation of production cost-saving measures at all levels of our operation was ongoing. Bulk purchases of materials and improved economies of scale supplemented bottom-line profit growth.

80.4%

JUMP IN THE TURNOVER OF THE GREATER CHINA WHOLESALE AND RETAIL OPERATIONS

640

SELF-RUN OUTLETS OPERATED IN THE MAINLAND

During the year, there was an increase in production input costs such as direct labor, utilities, waste treatment, land and machinery. The Group's revenue is mainly denominated in US dollars and the general depreciation in the US dollar against Asian currencies exerted further pressure on production costs, while anti-dumping duties imposed by the European Union on specific types of leather-upper footwear manufactured in China and Vietnam also had some impact. However, the Group made additional efforts to contain operating costs, resulting in a steady operating margin being maintained throughout the year. I regard this as a tremendous achievement, and would like to express my special thanks to our staff for their efforts in helping achieve this.

One notable change in our turnover breakdown was the increase in revenue from the wholesale and retail operations in the Greater China region, which climbed 80.4% year-on-year to US$305.0 million. By the end of September 2006, the Group operated about 640 self-run stores/counters and maintained about 270 franchised stores/counters in mainland China. In addition, there were 25 self-run stores/counters in Taiwan and two in Hong Kong. The total number of distribution points for our three exclusive license brands amounted to 1,200 in mainland China, 680 in Taiwan and 230 in Hong Kong. Rising consumption power in China and the upcoming Beijing Olympics should continue to boost retail sales, and provide us with an opportunity to extend our network and deepen its presence in a number of cities. The Group will therefore put additional resources into developing the wholesale and retail operations in Greater China.

Meanwhile, the Group continued its plan of horizontal expansion into sports apparel and accessory manufacturing through associates and jointly controlled entities. During the year, the combined contribution from associates and jointly controlled entities soared 98.8% to US$67.8 million from US$34.1 million one year earlier. The major contributors were Symphony, Eagle Nice, Hua Jian, Oftenrich and Ka Yuen.

Growth in turnover continued in the first three months of fiscal 2007.

LOOKING AHEAD

The Group's turnover growth momentum remained steady in the first quarter of fiscal 2007. For the three months ended December 2006, the Group recorded 9.6% year-on-year growth in turnover to approximately US$962.0 million. This was due to sustained volume growth in the core manufacturing business and an increase in the contribution of the China retail sales operation. The Group has diversified its product categories and increased its ability to cater to the changing requirements of customers. Our commitment to delivering quality products and offering flexible production schedules has met with customer approval, underpinning the surging order flow.

We expect the footwear-manufacturing sector to continue facing market pricing pressure, as there is constant demand for value-added services and cost savings along the supply chain, particularly on the manufacturing front. Oil prices have dropped from their peak in the third quarter of 2006 but there is continued rising pressure on wages, as well as currency fluctuations and trade disputes. The Group has experienced a tough operating environment since mid-2004 and has demonstrated its ability to weather challenges. Indeed, the Group has consistently gained market share in the last three years. Further consolidation in the footwear-manufacturing sector will provide an opportunity for the Group to expand production capacity.

Capacity expansion is planned in all three countries where we operate.

There has been a balanced addition of production lines in the Group's three manufacturing bases, in China, Vietnam and Indonesia over the last year. Production line expansion will continue in the current fiscal year in light of the demand from our customers. Our production facilities in the Pearl River Delta mainly focus on products for export, while those in Taicang, Jiangsu province, serve the China domestic market and expansion of the latter facilities is being expedited. We also plan to diversify our production facilities in China, establishing bases north of Guangdong to particularly serve the demands of domestic sales.

We have been investing in Vietnam since 1995 and now operate three industrial estates there. Our early commitment to Vietnam will bear fruit with the country's entry into the World Trade Organization (WTO) in January 2007.

The rationalization of production procedures and administrative processes will continue at the Group. The soles and components business division should perform better given subdued oil prices and increased sales. Additional facilities will be built for making shoe materials and components such as paper boxes and fabrics. The Group will also co-operate closely with material suppliers to raise the sales contribution of soles and components and ensure steady supplies.

The Group has had a presence in the China wholesale market for more than 10 years now. We accelerated retailing operations in early 2000, building up an unparallel distribution network across the country. We believe domestic consumption will continue to be robust and that the 2008 Beijing Olympics will be a catalyst for increased sporting goods sales in China. The Group will earmark more resources to expand its market share. We will unify the corporate identity of our retail network under the new retail chain name of "YY SPORTS", creating a single and powerful nationwide retail chain.

On track to have a network of 1,000 stores in China by 2008.

At present, most of our self-run stores/counters serve individual international brands. Over the last year, we have broadened the scope of operation to include franchise stores, multi-brands stores, mega-stores and factory outlets. The results have been encouraging and we will open more large-scale multi-brands stores in strategically selected cities. To expedite growth, the Group made two strategic acquisitions in the last quarter of 2006, consolidating our position as one of the leading sporting goods retailers in China. More acquisitions are in the pipeline, with the aim of extending our network among secondary cities.

Our goal of opening 1,000 stores/counters by 2008 is on track. However, the sporting goods retail sales business remains very competitive, with new stores opening every day. This will affect the overall operating margin in the retail sales industry. Despite this, we believe we are well-placed to face the competition due to our experience and commitment. Also, the capital base of the China retail sales was recently enlarged to facilitate rapid expansion. On the wholesale side, we raised our stake in Selangor Gold, which focuses on wholesale operations in China, to 70% from 51%.

Our relationship with key clients is expected to grow closer in light of the latest consolidation in the industry and the shortening of the product cycle. Through co-operation with customers and suppliers the Group will continue to provide efficient and value-added services.

Growth momentum expected to be maintained in 2007 on the back of a continuing improvement in our operations.

The Group recorded steady growth amid a competitive operating environment last year, and we expect the momentum to continue. Our commitment to delivering high-quality services has been recognized and the investment in production line expansion bodes well for further volume growth. In the meantime, the Group will accelerate its investment in the China retail sales operation with the aim of increasing market share. Riding on the back of surging China domestic consumption, we will also seek more strategic investment opportunities. The Group's flexibility during three years of volatile material prices leaves us well-placed to benefit from the consolidation in the industry. We are also looking to expand our business horizons, aiming for continued improvement in our operations. We expect to maintain our business growth in 2007 and will work hard to enhance shareholder value.

ACKNOWLEDGEMENTS

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

Tsai Chi Neng
Chairman

Hong Kong
18th January, 2007