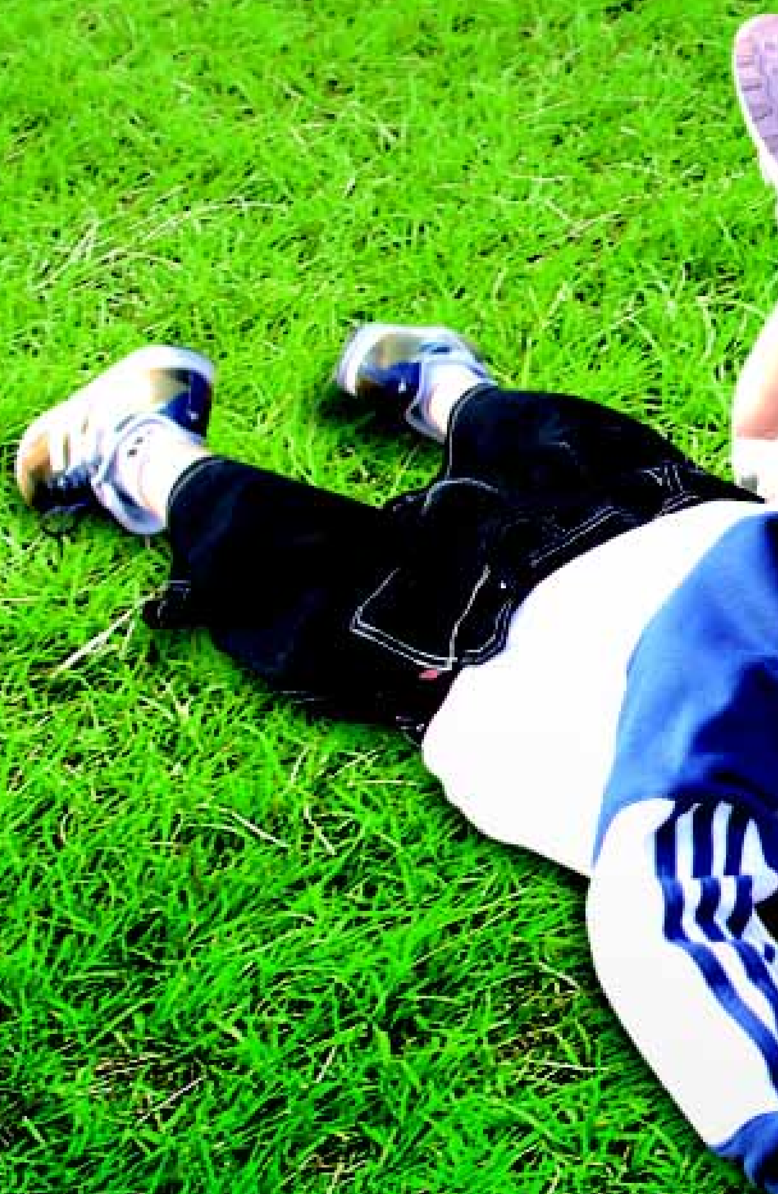


BURSTING

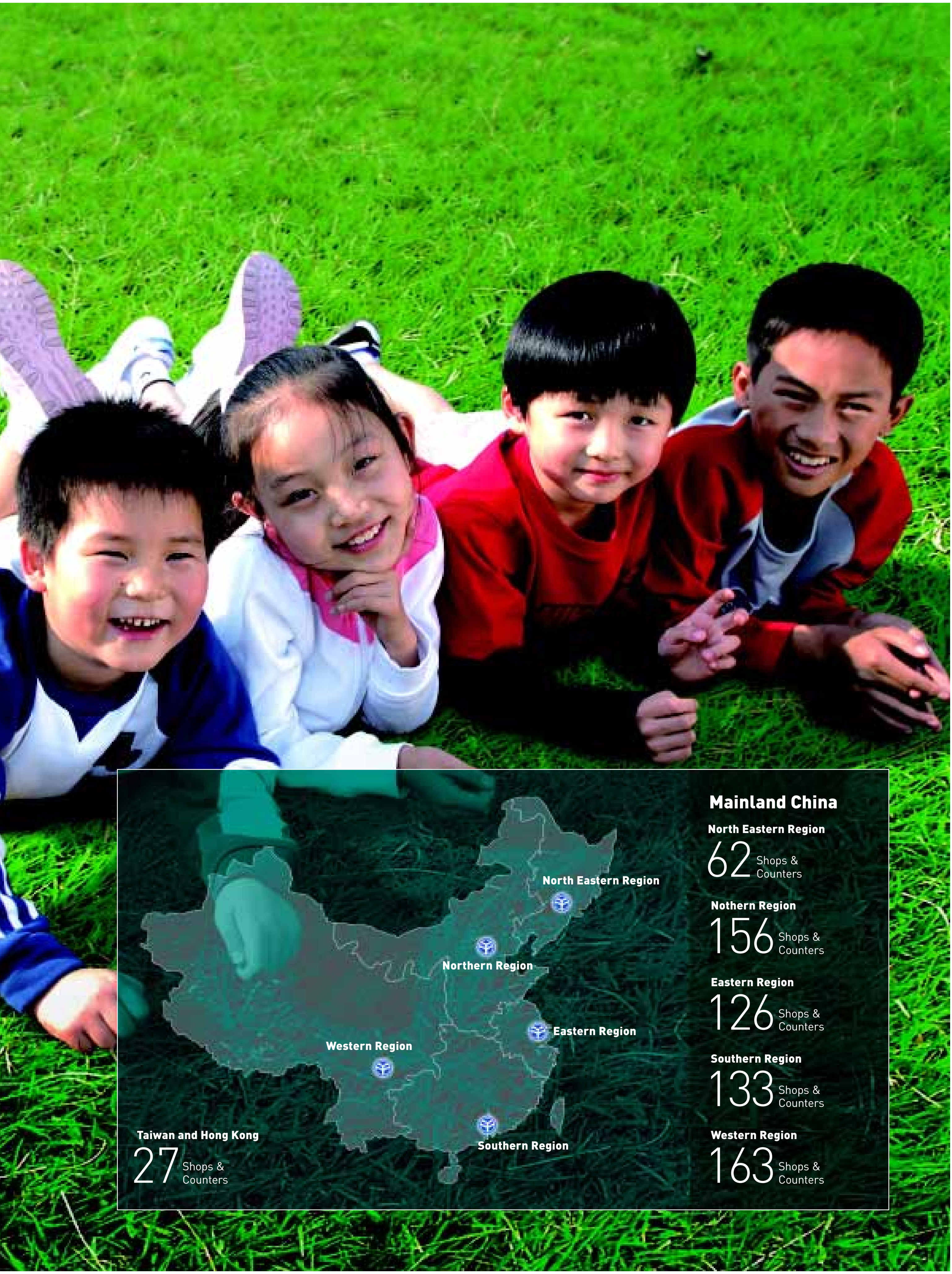
WITH

POTENTIAL

胜道

China Business Opportunities

Our commitment to the Greater China market is exemplified in the expansion of our retail network, the Chinese name for which represents a call to always compete to the best of one's ability and at the same time embodies a spirit of harmony stemming from co-operation with each other.


North Eastern Region
Northern Region
Eastern Region
Western Region
Southern Region
Taiwan and Hong Kong
27 Shops & Counters
Mainland China
North Eastern Region
62 Shops & Counters
Nothern Region
156 Shops & Counters
Eastern Region
126 Shops & Counters
Southern Region
133 Shops & Counters
Western Region
163 Shops & Counters

An encouraging year for the Group despite the tough operating environment.

REVIEW OF OPERATIONS

General Overview

It was an encouraging year for the Group. For the year ended 30th September, 2006, turnover jumped 15.9% year-on-year to US$3,657.4 million. Net profit attributable to equity holders of the Company grew by 18.7% year-on-year to US$353.6 million, while basic earnings per share increased 18.5% year-on-year to US21.8 cents. The surge in turnover was due to the expansion of the core manufacturing footwear operation, and the strong growth in the China wholesale and retail sales operations. The contribution from associates and jointly controlled entities increased on the back of the Group's vertical and horizontal expansion strategy.

During the year under review, the Group booked an aggregate profit of US$11.3 million from increase in fair value of investment properties and the net gain on derivatives and modification/redemption of convertible bonds. Excluding these non-recurrent profits, net profit attributable to equity holders of the Company would have increased by 14.9%.

The operating environment in 2006 was tough due to volatile crude oil prices, which surged to more than US$80 per barrel in the third quarter of 2006. Crude oil prices subsequently dropped and the volatility in material prices has declined recently. However, challenges on the manufacturing side remain in the form of currency fluctuations, rising labor costs, strict environmental regulations and trade disputes. The Group recognized these challenges and took steps to mitigate their impact. Overall, operating margins were relatively stable throughout the year.

There was a general increase in labor costs in all three of our Asian production bases. The trend is expected to continue in 2007. The Group implemented measures to improve staff productivity and to streamline manual working procedures on production lines. This partially helped offset rising labor costs. Meanwhile, we invested more on enhancing workplace and living conditions to provide a more pleasant environment for staff. As a result, our factories in the Pearl River Delta were not affected by the general tight labor conditions in the region.

Significant increase in contribution from associates and jointly controlled entities.

The Group's efforts to expand horizontally into different footwear product categories, sports apparel and accessories manufacturing began to bear fruit. Contributions from associates and jointly controlled entities last year amounted to US$67.8 million, up from US$34.1 million in the corresponding period in the previous year.

Hua Jian, a 50%-owned associate engaged in the manufacture of ladies footwear, produced 12.0 million pairs of shoes and generated turnover of approximately US$200 million for the year ended 30th September, 2006. Oftenrich, a 45%-owned joint venture that manufactures outdoor and safety footwear, produced 14.7 million pairs of shoes and recorded a turnover of approximately US$300 million during the period under review.

196.4 MILLION
PAIRS OF SHOES MANUFACTURED

373
PRODUCTION LINES IN THREE COUNTRIES

Production Review

There was a balanced increase in the production of athletic shoes and casual/outdoor shoes, which grew by 11.1% and 12.0% respectively in fiscal 2006. As a percentage of turnover, casual/outdoor shoes and sports sandals accounted for 17.8% and 1.3% respectively. Sales of athletic shoes made up 57.7% of total sales, compared with 60.2% in the previous year. The decline in contribution from the core manufacturing operation was mainly due to accelerating sales from the Group's wholesale and retail operations, which accounted for 8.3% of total sales, up from 5.4%. The Group produced a total of 196.4 million pairs of shoes, a rise of 5.6% compared with the previous year. The average selling price continued its upward trend, reflecting the product mix change and the increase in underlying material costs.

Turnover at the soles and components category rose 16.5% year-on-year to US$483.5 million. This was the result of increased efforts in soliciting new customers in the upstream business and material supplies segments. There was continued improvement in the sole manufacturing and packaging operations. However, overall profitability was still undermined by fluctuations in material prices.

Environmental protection and workplace safety are the Group's top priorities with regard to production facilities, and we continued to invest in new equipment to comply with new environmental regulations. Our efforts were recognized by the local environmental protection authorities and independent accrediting agents.

Retail sales in the Greater China region rose 80.4% year-on-year to US$305.0 million. This was due to the increased contributions from the wholesale operations in Taiwan and Hong Kong, and the strong growth in the retail sales operation in mainland China. There was a double-digit increase in same-store sales in most of the shops operated for more than one year. The performance of multi-brand stores and mega-stores was encouraging. The sports apparel and accessories manufacturing operation under the "others category" recorded a 34.2% increase in turnover to US$61.7 million in fiscal 2006.

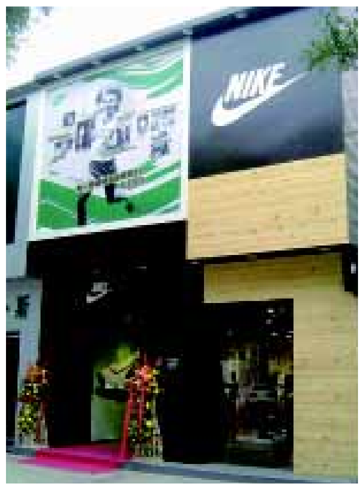
During the year under review, the Group installed an additional 31 production lines, evenly spread among the three production bases, and taking the total number of lines to 373 (193 in mainland China, 114 in Vietnam, and 66 in Indonesia).

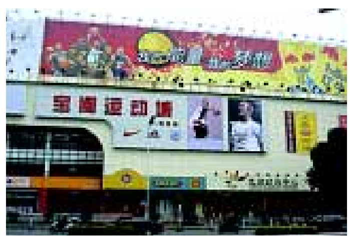
Retail sales of shoes and apparel accounted for 8.3% of total turnover.

Total Turnover by Product Category

	2006 US$ millions	**%**	2005 US$ millions	%	y-o-y % change
Athletic Shoes	**2,109.7**	**57.7**	1,899.0	60.2	11.1
Casual/Outdoor Shoes	**651.6**	**17.8**	581.8	18.4	12.0
Sports Sandals	**45.9**	**1.3**	43.9	1.4	4.6
Soles & Components	**483.5**	**13.2**	415.0	13.1	16.5
Retail Sales — Shoes & Apparel	**305.0**	**8.3**	169.1	5.4	80.4
Others	**61.7**	**1.7**	46.0	1.5	34.2
Total Turnover	**3,657.4**	**100.0**	**3,154.8**	**100.0**	**15.9**

Turnover distribution among the three major markets — the US, Asia and Europe — became more balanced. Strong growth in Asia was mainly due to the surge in China retail sales and the increase from the sole and component operations. Europe recorded an 8.4% rise year-on-year despite the imposition of anti-dumping tariffs on leather-upper shoes exported from China and Vietnam. The Group's largest market, the US, achieved 10.8% growth on the back of sustained demand for athletic shoes.





Turnover was more balanced among geographical markets.

Total Turnover by Geographical Market

	2006 US$ millions	%	2005 US$ millions	%	y-o-y % change
U.S.A.	**1,391.2**	**38.0**	1,255.2	39.8	10.8
Canada	**67.3**	**1.9**	58.7	1.9	14.7
Europe	**904.5**	**24.7**	834.6	26.4	8.4
South America	**94.4**	**2.6**	65.0	2.1	45.2
Asia	**1,097.0**	**30.0**	862.4	27.3	27.2
Other Areas	**103.0**	**2.8**	78.9	2.5	30.5
Total Turnover	**3,657.4**	**100.0**	**3,154.8**	**100.0**	**15.9**

US$99 MILLION

SPENT ON R&D

Cost Review

Total operating costs increased 16.5% year-on-year to US$3,453 million, while cost of sales rose 16.0% to US$2,816 million for the year ended 30th September, 2006. The percentage of materials to sales edged up due to higher material prices. A general increase in wages in our three production bases led to a marginally higher percentage in direct labor costs to total sales. Rationalizing of administrative operations kept the percentage of administrative expenses to total sales well under control. The sharp rise in China retail sales operations, meanwhile, contributed to the proportional increase in selling and distribution expenses. The rise in other operating expenses was largely due to higher utility and environmental protection costs. A number of items under "other operating expenses" were related to corresponding items in "other operating income", such as electricity generation and sample sales.

The Group's healthy financial position was maintained.

Research and Development

The Group is committed to investing in research and development (R&D) in order to provide customers with advanced technical support from mold shops and custom R&D centers. R&D efforts focused on the development of raw materials and the streamlining of production processes, with the aim of developing advanced footwear and shortening production cycles. In 2006, the Group invested US$99 million in R&D, a 5% increase over 2005.

FINANCIAL REVIEW

Liquidity

The Group maintained a stable financial position. As at 30th September, 2006, the Group had cash and cash equivalent of US$235 million (2005: US$405 million) and total borrowings of US$722 million (2005: US$744 million). The gearing ratio (total borrowings to total equity) was 34% (2005: 38%) and the net debt to equity ratio (total borrowings net of cash on hand to total equity) was 23% (2005: 17%). The increase in gearing ratio was due to a rise in capital expenditure.

A final dividend of HK$0.51 per share recommended for 2006, up from HK$0.48 per share in 2005.

Capital Expenditure

During the period, the Group incurred the following capital expenditure in the total amount of US$292.1 million (2005: US$224.9 million) which composed of: a) Property, Plant and Equipment US$287.5 million, mainly for the construction of new factory building, dormitories and staff quarters in the amount of US$74.7 million, acquisition of new land and building US$28.6 million and acquiring new machinery and leasehold improvements for production facility expansion US$165.3 million, etc.; b) prepaid lease payment, mainly for the long term lease of land in China and Vietnam in the amount of US$4.8 million. In addition, about US$14.2 million was spent on investment properties.

Dividends

A final dividend of HK$0.51 per share (2005: HK$0.48) has been recommended, making the full-year dividend per share HK$0.80 (2005: HK$0.75).

The Group's operating cash flow remained strong, and a suitable level of cash holdings will be maintained. The policy of upholding steady growth in the normal dividend payment each year remains intact. The dividend payout ratio for 2006 is 47%, which compares with 50% as originally stated in 2005.

Employees

As at 30th September, 2006, the Group employed 280,000 staff, up from 265,000 in 2005. The Group adopts a remuneration system based on an employee's performance throughout the year, and offers equal opportunities to all staff. There are incentives in the form of discretionary performance bonuses to those who make creative suggestions that improve productivity.

Subsequent Events

On 20th October, 2006, the Company issued the Convertible Bonds due November 2011 in aggregate principal amount of HK$1,800 million and there was an option to require the Company to issue an additional HK$300 million. The option to require the Company to issue an additional HK$300 million Convertible Bonds due 2011 has been exercised in full in November 2006. The aggregate HK$2,100 million Convertible Bonds due 2011 are convertible into ordinary shares of HK$0.25 each in the share capital of the Company at an initial conversion price of HK$26.75 per share.

On 20th October, 2006, the Company, Wealthplus Holdings Limited ("Wealthplus") and Merrill Lynch Far East Limited entered into the Placing Agreement and the Company and Wealthplus entered into the Top-up Subscription Agreement. Pursuant to the Placing Agreement, Wealthplus has agreed to place an aggregate of 43,880,000 existing shares through Merrill Lynch Far East Limited at the Placing price of HK$23.05 per share. Pursuant to the Top-up Subscription Agreement, Wealthplus has conditionally agreed to subscribe for the new shares representing an aggregate of 43,880,000 new shares at the price of HK$23.05 per share.