

CHAIRMAN'S STATEMENT



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The Group's resilience to adverse operating environment and challenging changes were put to arduous test in the 2005-6 financial year changes. In addition to the persistently high costs in materials and transportation, the unanticipated sprouting of anti-dumping allegations and investigations by the European Commission ("EC") on China-manufactured products in early 2005 became a major stumbling block to the Group's business development and market expansion in Europe.

Against all odds, the Group was able to improve its performance through prudent cash-flow management. We are fully aware of the importance of a sound financial position to finance future expansion initiatives. To express our appreciation to the continued support pledged by our shareholders, we recommend the payment of a special dividend for the year under review.

Our manufacturing operation in the Mainland continues to be undermined by the minimum wages requirements in the Pearl River Delta, electricity shortage and stronger Renminbi. Effective cost control has become more important than ever and topping the agenda is without doubt the continued implementation of the lean manufacturing system to optimize production facilities, procedures and efficiency.

Active consolidation of the Group's production facilities is in process. The planned expansion for facilities in Cambodia will help ease the inroads into the European market but the Group will continue to adopt a prudent approach as to the timing and pace of such plan. It is hopeful that the anti-dumping allegations and investigation by the EC would be resolved by the end of this year.



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Clarks



On product development front, the Group will further step up its efforts to broaden product categories to achieve a more versatile premium product portfolio of higher Average Selling Prices. This approach not only helps cater to changing market demand, but is also effective to mitigate increasing costs. The implementation of the strategic sourcing & merchandising system also strengthens the Group's ability to stay competitive and efficient.

In respect of the US market, the Group actively develops and markets new premium products to existing customers. This is a market of great potential and also competition that the Group will continue to cultivate with greater product appeal.

While the operating environment remains tough and under the influence of various external elements, we are cautiously optimistic as to the Group's future development and prospects. We believe that the strong teamwork among different units within the Group, the ingenious creativity of our marketing teams and the staunch support from our business partners and customers will enable the Group to build success upon success.



Stride Rite



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Finally, I would like to extend my sincerest appreciation to our shareholders for their continuous support and the Board members for their valuable strategic vision. Last but not least, I would also like to thank all management and staff members for their dedicated efforts and contributions.

Chen Ming Hsiung, Mickey
Chairman

Hong Kong, 10 July 2006



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