Management Discussion and Analysis

SEGMENTAL INFORMATION

Despite the global economic downturn and weak customer sentiment, the Group continued to sustain its steady growth. Sales to North American market have increased by 40% and constituted approximately 72% of the Group's total turnover; Europe accounted for 15% of sales, while the remaining 13% sales were shared between Asia, Africa, Australia, Latin America and the Middle East. The Group will continue to broaden the client base by seeking for new markets and establishing contacts with new potential clients. Currently the Group has a healthy order book for the coming half of the year.

MANUFACTURING

With the expansion of the manufacturing facilities, the production capacity of the Group had been increased. Construction of phase II of the Group's industrial complex at Zhangjiabian, Zhongshan has been completed.

In addition to the capital expenditure spent last year of approximately HK$74.7 million on the production facilities, the Group continue to expand its manufacturing ability in which approximately HK$34.5 million has been injected into the production and manufacturing plant. The Group will strive for the corporate commitment of "Quality, Efficiency and Management" with the injection of financial and human resources in manufacturing.

One of our factories in Zhongshan was awarded with ISO 9001:2000 certification granted by China Quality Certification Centre for Import and Export, The International Certification Network and DQS Deutsche Gesellschaft zur Zertifizlerung von Managementsystemen mbH. Our Panyu factory had recently renewed the ISO 9002:1994 by China Quality Certification Centre for Import and Export. These accreditations have further enhanced the high level of confidence and quality assurance the Group enjoys with its global customers.

MATERIAL ACQUISITION AND DISPOSAL

In April 2001, Union Overseas Holdings Limited ("Union Overseas"), a wholly-owned subsidiary of the Company, subscribed for approximately 17.15% in the common stock and 23.65% in the preferred stock of Converse Inc. ("Converse" which was formerly known as Footwear Acquisition Inc.), one of the Group's major clients at an aggregate consideration of approximately US$13.9 million. By investing in the equity of Converse, the Group expects to strengthen its relationship with the client as well as improve the prospects of its future earnings. In August 2001, Converse partially redeemed its preferred stock held by Union Overseas at the consideration of approximately US$2.8 million.

In August 2001, the Group disposed of half of its equity interests (together with 50% of the outstanding shareholder's loan) in Union Overseas at an aggregate consideration of approximately US$7.0 million.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2001, the Group had cash and bank balances of approximately HK$100.7 million (2000: HK$292.2 million). The Group was offered banking facilities amounting to HK$90.7 million (2000: HK$141.4 million), none (2000: HK$54.1 million) of which had been utilized, indicating a nil (2000: 7.5%) gearing ratio on the basis of total borrowings over shareholders' fund. The banking facilities were collateralized by the Group's leasehold land and buildings and investment properties with an aggregated net book value of approximately HK$105.5 million (2000: HK$139.2 million) as at 31 December 2001.

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

CAPITAL REDUCTION, CAPITAL RETURN AND SHARE CONSOLIDATION

In October 2001, the shareholders of the Company had approved the capital reduction, capital return and share consolidation of the Company resulting therefrom the returning to shareholders approximately HK$308.1 million in November 2001 and the adjustment of par value of the issued shares of the Company from HK$0.10 to HK$1.00 each. At the same time, the board lot size of shares had been changed from 50,000 shares to 2,000 shares.

STAFF

The Group had employed similar number of staff in year 2001 as compared with last year. Employee cost (excluding directors' emoluments) amounted to approximately HK$165.2 million (2000: HK$131.6 million). In addition to competitive remuneration packages, discretionary bonuses are awarded to eligible staff based on the Group's performance and individual merits. Due to the amendment of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited relating to share option scheme, the Company had adopted a new share option scheme which replaces the existing share option scheme in October 2001. After adoption of the new share option scheme, no further share options can be granted under the old scheme.

UNCONDITIONAL CASH OFFERS

In February 2002, Anglo Chinese Corporate Finance, Limited on behalf of Well Success Investment Limited ("Offeror") made a general offer (the "Offers") to acquire all the issued shares (and for cancellation of options to subscribe for shares) in the Company other than those already owned by the Offeror.

According to an announcement made by the Offeror dated 9 April 2002, the Offeror and parties acting in concert with it owned (subject to verification) in aggregate 121,678,321 shares, representing 58.45% of the issued share capital of the Company.

The present Board of Directors noted the intentions of the Offeror regarding the Company and considers that, in view of the past performance of the Group, it will be beneficial to the Company and its shareholders for the Group to continue its existing business in manufacturing and trading of footwear and property and investment holding upon completion of the Offers.