

SEGMENTAL INFORMATION

FOOTWEAR PRODUCTS

The major markets for the Group are North America and Europe.

Despite a sluggish retail market and uncertainties over its economic recovery, the United States remains the world's largest single consumer market, and the Group achieved healthy growth in sales of footwear to North America during the year.

Meanwhile, the European markets remains strong. The Group stepped up its marketing efforts and achieved significant growth in sales to Europe.

Sales to North America comprised 70% (2001: 72%) and European sales comprised 18% (2001: 15%) during the year. The Group has a healthy order book for the coming year.

The Group is diversifying its product range with a wider range of casual footwear. As consumer spending shifts from higher-priced shoes to good quality mid and lower-priced shoes, the Group will stand to benefit.

The Group is undertaking a program to expand its capacity in China, as China rockets to become the world's leading manufacturing centre. The Group expects continual growth in sales from its marketing efforts and also from the sustained quality of its products and its manufacturing expertise. The Group has been able to reduce operating expenses significantly during the year, and expects that a higher capacity will bring corresponding economy of scale and cost efficiency. Meanwhile, United States and European brands are consolidating their global logistics and are withdrawing manufacturing activities from peripheral regions whilst increasing orders for manufacturers in China.

CAPITAL EXPENDITURE

In later 2002, the Group agreed to purchase the Zhongshan factory complex which it previously rented. Under the agreement, all rental pre-payments were deemed partial payment of the purchase price of RMB108,000,000, so that the cash payment required was only RMB48,300,000, payable by instalments. A balance of only RMB7,969,100 now remains to be paid.

The acquisition includes four lots of land which together comprise 108,171 square metres, together with the footwear factory, staff dormitories and other ancillary buildings thereon, consisting of a gross floor area of 81,242 square metres.

With this acquisition, the Group now owns this major factory, adding to its long-term operational stability.

Management Discussion and Analysis

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 much quicker and more effectively. Our research and development team helps customers to improve their design in order to maximise comfort, endurance and functionality of their products and, where necessary, introduce new technology to enhance their market appeal. Such value-added contributions to our customers' operations make us their important long-term partner. In line with our plan to expand our customer base, we intend to allocate further resources to strengthen our R&D department.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2002, the Group had cash and bank balances of HK\$127.0 million (2001: HK\$100.7 million). The Group was offered banking facilities amounting to HK\$39.0 million (2001: HK\$90.7 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 of its subsidiaries.

FOREIGN CURRENCY FLUCTUATION

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

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities at 31 December 2002 (2001: Nil).

STAFF

The total number of employees as at 31 December 2002 has not changed materially from that of the last financial year. Employee cost (excluding directors' emoluments) amounted to approximately HK\$194.2 million (2001: HK\$165.2 million). In addition to competitive remuneration packages, discretionary bonuses are awarded to eligible staff based on the Group's performance and individual merits. During the year, all share options outstanding under the share option scheme adopted on 9 February 1995 (as amended on 9 December 1997) were cancelled. No share options were granted under the new share option scheme adopted on 22 October 2001.

The Group is committed to being an employee-benefits conscious employer, doing our best to ensure a pleasant and safe working environment and living conditions for our employees. The Group will continue to honour our commitment on international environmental and human right standards.

OUTLOOK

Despite a prolonged recession in global economies, the Group has achieved significant growth in both sales and profits. Our cost savings program has been very successful. Given intense international competition and continual uncertainty to global economic recovery, we constantly monitor credit risks and other operational risks. We remain committed to investing to increase our competitiveness and operational efficiency and to maximise shareholders' return on investments through prudent expansion.

With its recent WTO membership and the upcoming Beijing Olympics in 2008, China is fast becoming one of the world's most exciting markets. The Group is well placed to benefit from these exciting opportunities. With the recent acquisition of the Zhongshan factory, our manufacturing base is strong, and our commitment to invest to improve our competitiveness, the Group is well positioned to benefit from growth in the Chinese domestic market.