

MANAGEMENT DISCUSSION AND ANALYSIS



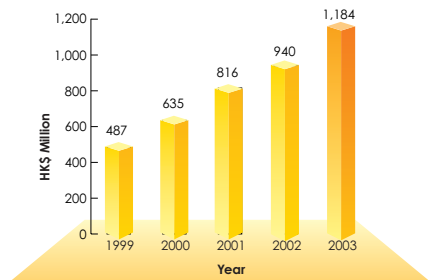
GENERAL OVERVIEW

The major markets for the Group are North America and Europe. Turnover increased 26.0% in 2003 to HK\$1,183.6 million (2002: HK\$939.5 million) and net profits from operations increased 50.9% to HK\$138 million. In addition to that, our disposal of the Group's interest in Converse Inc. gave rise to an exceptional gain of approximately HK\$134 million for 2003.

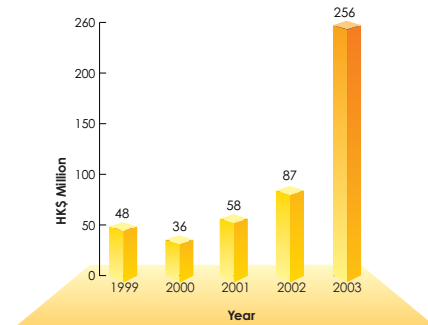
Turnover increased significantly for 2003, driven by a global economic recovery, led by the USA. Whilst North America remained the largest market for the Group, with orders to North America growing 11.4%, sales to Europe grew at a much faster pace at 74.8%, and sales to Asia also surged 67.1%. Sales to North America comprised 61.8% (2002: 69.9%) and European sales comprised 24.8% (2002: 17.8%) of the turnover. The Group has a healthy order book for 2004.

The following charts show the consolidated turnover and the consolidated net profit for the 5 years ended 31st December, and the turnover by geographical markets for the year 2003 compared to 2002.

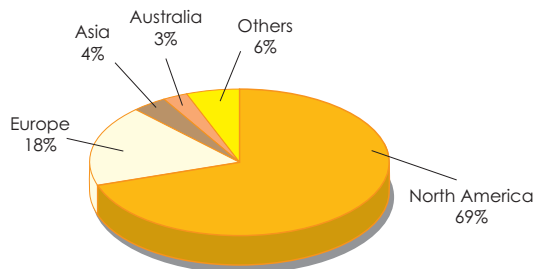
Consolidated Turnover



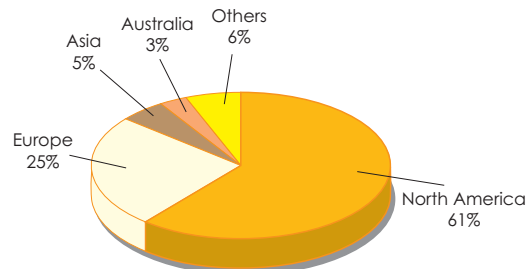
Consolidated Net Profit



**Turnover by Geographical Market
Year 2002**



**Turnover by Geographical Market
Year 2003**



PRODUCTION FACILITIES

The Group has a total of 24 production lines, of which 8 are in Panyu, 8 are in Zhongshan and a further 8 lines are in Dongguan. Although the Group has an 80% interest in the production lines in Dongguan, all production capacity is devoted to serving our customers. In line with the Group's strategy of expansion by acquisition, the Group continues to look for suitable acquisition candidates. The Group will add post-acquisition value to acquired production facilities by installing our best practices and efficient work processes to increase their productivity and contribution to Group profits.

Management Discussion and Analysis

CAPITAL EXPENDITURE

In early 2003, the Group completed the purchase of the Zhongshan factory complex, which it had previously rented. The acquisition included four lots of land which together comprise 108,171 square meters, together with the footwear factory housing 8 production lines, staff dormitories and other ancillary buildings thereon, consisting of a gross floor area of 81,242 square meters.

In July 2003, the Group completed the acquisition of an 80% interest in production facilities in Dongguan, comprising a further 8 production lines. The cost of acquisition amounted to HK\$20.4 million.

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 maximize comfort, endurance and functionality of their products and, where necessary, introduce new technology to enhance their market appeal. Such value-added contribution to our customer's operations makes us their important long-term partner. Our research and development effort complements our aim to excel in this area.

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2003, the Group had cash and bank balances of HK\$364.7 million (2002: HK\$127.0 million). The Group was offered banking facilities amounting to HK\$39.0 million (2002: HK\$39.0 million), none of which had been utilized, 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 does not have any significant contingent liabilities as at 31st December, 2003 (2002: nil).

STAFF, WELFARE AND SAFETY

The total number of employees as at 31st December, 2003 was approximately 17,000. Employee cost (excluding director's emoluments) amounted to approximately HK\$222.4 million (2002: HK\$194.2 million). In addition to competitive remuneration packages, discretionary bonuses are awarded to eligible staff based on the Group's performance and individual merits.

Our management team firmly believes in the value of a modern, healthy work and living environment for our workforce, as this is directly reflected in increased productivity and quality, factors which are vital to our continual growth. Our factories and dormitories are built, equipped and maintained to very high standards. Safety and hygiene are among our top priorities. During the SARS outbreak in southern China, we implemented early and comprehensive measures for prevention and detection. Workers were provided with the

latest information on the epidemic, as well as free surgical masks even when supplies were short. Mandatory body temperature checks were enforced. As a backup measure, our Group also formulated contingency plans for production. We are pleased that there had not been any incidence of the disease among our workforce. In recent months, there has been growing political concern in North America about the lack of new jobs created there and about outsourcing of manufacturing jobs to Asia. Given the tremendous cost discrepancy with manufacturing in the US, we believe that there will not be any significant impact on our operations and order book.

OUTLOOK

We believe that the global economic recovery will continue amidst an environment of low interest rates. This has fueled and will continue to fuel demand for branded athletic footwear into 2004. Meanwhile, rapid economic growth in China and the hosting of many international sports events in China, such as the 2008 Olympics, will boost domestic demand for branded athletic shoes.

As more global brands are stepping up their market penetration into China and needing more manufacturing support, the Group will strengthen our competitive advantage to maintain our position as the preferred manufacturing partner for the China market. Under our "local-to-local" business model, we will bring unique value to global brands, including reliable quality, the ability to provide feedback in changing tastes and trends in China, and helping to design the best production process and materials usage to meet the unique consumer preference of quality and price and the unique challenges in the Chinese market place.

The Company will pursue three key growth strategies. First, we will remain focused on our core business of manufacturing of athletic and casual shoes. Second, we will expand our production capacity in a well planned manner, making sure that we can create extra post-acquisition value by installing our proven best practices and efficient production processes. Third, we will continue to improve our performance, quality and reliability.