

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

I am pleased to report that for the 6 months ended 30 June 2004, our Group enjoyed a 17.3% increase in sales. Gross profit margin remained steady and operating profits increased 27.9%, whilst profits after tax and minority interests increased 33%. The Dongguan factory, which was acquired in July 2003, contributed to the increase in sales and profits. In addition, we were able to record a modest increase in property value during the first half of 2004, compared to a provision for diminution in property value during the first half of 2003.

Outlook

Our strategy of growth by acquisition clearly has paid off. In addition to acquiring the Dongguan factory in mid-2003, we acquired another factory in Fuzhou in July 2004, which is expected to make substantial contribution to our growth in the second half of 2004. With our capacity expansion through acquisition, there now exists significant opportunities to achieve greater efficiency and costs savings through rationalization of operations.

We believe that our group is well positioned to benefit from two macroeconomic drivers. First, China is rapidly becoming the world's leading manufacturing center, and we believe that the manufacturing sector will continue to enjoy sustained growth. Second, China is the world's fastest growing major economy. Consumption demand will increase at a fast pace, with consumers developing a preference for higher priced athletic shoes and for major global brands. Being an experienced manufacturer in China with good working relationships with a number of global brands, we are well positioned to supply that market.

The acquisition of the Fuzhou factory is our first step in diversifying geographically outside Guangdong Province. Such geographic diversification will achieve significant labor cost savings. As the China market for athletic shoes grows, we aim to locate factories at strategic locations around the country so as to provide better logistic support to retailers.

Segment information

Sales to North America have increased by 11% and constituted approximately 59% (2003: 63%) of the Group's total turnover; Europe accounted for 27% (2003: 23%) of sales, and the remaining 14% sales were shared between Asia, Africa, Australia, Latin America and the Middle East.

There has been a shift in consumer tastes and lifestyles, particularly in the US where casual shoes and retro style have become very popular. The Group has been receiving more orders for casual styles and foresee that this trend will continue for the second half of the year. Orders for the coming months look promising.

Liquidity and capital resources

As at 30 June 2004, the Group had cash and bank balance of HK\$356.7 million (31 December 2003: HK\$364.7 million). The Group was offered banking facilities amounting to HK\$79 million, none of which had been utilised, indicating a nil gearing ratio on the basis of total borrowings over shareholders' fund.

There are currently no charges on group assets and the Group does not have any significant exposure to foreign currency fluctuation.

Staff

The total number of employees as at 30 June 2004 has not changed materially from that of the last financial year. Employee cost (excluding directors' emoluments) amounted to approximately HK\$116.7 million (2003: HK\$106.5 million). In addition to competitive remuneration packages, discretionary bonuses are awarded to eligible staff based on the Group's performance and individual merits.

Appointment/resignation of directors

At the annual general meeting of the Company held on 12 May 2004 ("AGM"), Mr. Sze Sun Sun, Tony and Mr. Ku Edward Y. retired as directors of the Company and offered themselves for re-election.

As from 12 May 2004 and up to the date of this report, the directors of the Company are:

Executive Directors

Mr. Li Kwok Lung,
Alfred Ronald (*Chairman*)
Mr. Sze Sun Sun, Tony
(*Deputy Chairman*)
Mr. Chan Ting Chuen
(*Managing Director*)
Mr. Ku Edward Y.
Mr. Chan Lu Min

Non-executive Director

Mr. Li I Nan

*Independent Non-executive
Directors*

Mr. Cheng Kar Shing
Mr. Feng Lei Ming

Our staff's well-being is one of the Group's top priorities. The Group will continually improve and ensure that our staff is provided with a safe and pleasant working and living environment. The Group will continue to honour its commitment on international environment and human rights standards.

Acquisition of Misto Worldwide Limited

On 12 July 2004, the Group acquired Misto Worldwide Limited ("MWL"), MWL is an investment holding company holding interests in four wholly-owned operating subsidiaries namely Grand Golden Enterprises Limited, Gold Loyal Enterprises Inc., Grand Galatica Limited and Fuqing Grand Galatica Footwear Co. Ltd. They are engaged in the business of trading, marketing and manufacturing of footwear in the People's Republic of China.

DIRECTORS' DISCLOSURE OF INTERESTS

As at the 30 June 2004, the interests of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors or the chief executive were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

Long Position in Shares

Name of Director	Notes	Nature of interests	Number of Shares	% of the issued share capital
Chan Ting Chuen	1	Corporate	704,903,240	63.52
Chan Ting Chuen		Personal	6,600,000	0.59
Sze Sun Sun, Tony	1	Corporate	704,903,240	63.52
Sze Sun Sun, Tony		Personal	3,300,000	0.30
Li Kwok Lung, Alfred Ronald		Personal	11,659,945	1.05