INTERIM DIVIDEND

The Company recently completed a rights issue. As a result, the number of issued shares increased from 1,109,803,182 to 1,664,704,773 shares by the creation of 554,901,591 new shares. However, the rights proceeds did not contribute to the Group's operations for the period ended 30 June 2005. Therefore, the Board has decided that instead of paying an interim dividend for the period under review, only a final dividend will be declared and paid in respect of the whole financial year 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

I am pleased to report that for the 6 months ended 30 June 2005, our Group enjoyed a 55.3% increase in sales, whilst profits after tax and minority interests increased 56.3%.

Over the past few years, the Group has devoted a great deal of efforts to raise the overall productivity of its factories and to control manufacturing cost effectively. The fruit of these efforts is now reflected in the gross margins, which are in line with the top shoe factories in China. For the period under review, gross profit margin increased to 24.3% and, despite increase in oil and commodity prices, raw material cost as a percentage of sales remained steady.

The sizeable increase in revenue reflects continual strength in shoe retailing in the United States, which in turn reflects continual economic strength in the face of uncertainties such as high oil prices and currency exchange volatilities. The Group has been able to increase business volume with existing customers as well as securing significant new customers.

The Fuzhou factory, acquired in July 2004, increased the Group's production capacity significantly. However, due to rapid increase in orders, the Group is again operating at near capacity. In view of this, the Group needs to invest in new production facilities to accommodate future demand. The rights issue which was completed recently increased the Group's available resources for expansion of production capacity, which may or may not involve acquisition and/or construction of production facilities.

Outlook

Given the strong growth in the first half of the year, the Board is cautiously optimistic about the second half of 2005. Much of the growth in the first half of 2005 came from skilful and prudent management by our team, in a challenging environment where many manufacturers are suffering. Despite many shocks, we believe the economies in our key markets such as the US and Europe remain robust.

Crude oil prices remain stubbornly high. Currencies are more volatile than ever and so are commodity prices. Depending on how these factors play out, they may have significant effect on our performance.

From the strong sales growth and sustainable gross margin in the first half of 2005, the Board is of the opinion that our major customers are enjoying strong sales and pricing power. This in turn will benefit the Group.

International trade is increasingly political and not just about economics. The US Administration and European governments will come under increasing pressure from lobbyists and interest groups to impose trade sanctions on manufacturers in China. It is not possible to predict the risks which any manufacturer like our Group may face. However we believe that the Group conducts business fairly when it comes to terms of trade, export pricing and employee relationship.

Segment information

Sales to North America have increased by 75% and constituted approximately 67% (2004: 59%) of the Group's total turnover; Europe accounted for 21% (2004: 27%) of sales, and the remaining 12% 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 popular dress code from formal dress shoes to fashionable athletic shoes and casual shoes. Consumer preferences also favour innovative shoe designs, new materials, new shoe technologies, newly colours and strong brands.

Liquidity and capital resources

As at 30 June 2005, the Group had cash and bank balance of HK$412.3 million (31 December 2004: HK$282.5 million). The Group was offered banking facilities amounting to HK$116.6 million, of which HK$77.7 million has been utilised, indicating a 8% 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 2005 has not changed materially from that of the last financial year. Employee cost (excluding directors' emoluments) amounted to approximately HK$179.0 million (2004: HK$116.7 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 10 May 2005 ("AGM"), Mr. Chan Lu Min, Mr. Li I Nan and Mr. Chan Ting Chuen retired as directors of the Company and offered themselves for re-election.

As from 10 May 2005 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 and Managing Director)*
Mr. Chang Tsung Yuan *(Deputy Chairman)*
Mr. Ku Edward Y.
Mr. Chan Lu Min

Non-executive Directors
Mr. Li I Nan
Mr. Chan Ting Chuen

Independent Non-executive Directors
Mr. Cheng Kar Shing
Mr. Feng Lei Ming
Mr. Ho Shing Chak

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.

Rights Issue

Subsequent to the balance sheet date, the Company raised approximately HK$349,600,000 before expenses by a rights issue of 554,901,591 rights shares, at a subscription price of HK$0.63 each payable in full on acceptance. Details of the rights issue are set out in the Company's circular dated 16 August 2005.