

## INTERIM DIVIDEND

The Directors do not propose an interim dividend for the six months ended 30th June, 2005 (2004: HK 1 cent per ordinary share).

## BUSINESS REVIEW AND PROSPECTS

For the six months ended 30th June 2005, the Group's turnover was US\$70,711,000, and the Group's net profit attributable to shareholders was US\$1,212,000.

During the first half year, the Group recorded similar turnover as compared with that of the same period last year. However, owing to the fact that the soaring price of crude oil led to larger rise in the prices of petroleum-derived shoe components, and that the increase in labor costs in Pearl River Delta region resulted in the hike in shoe-making costs, the net profit margin dropped as compared with that of the same period last year.

Facing up to such difficult economic situation, the Group has formulated respectively the short-term, mid-term and long-term operation strategies. In the short run, the strategy was focused on creating quality product and services, that is, to strengthen the customers' confidence in the Group by providing superb product and services. In respect of mid-term, the strategy was centered on exploring new production management, that is, spreading the lean production concept, intensifying production line remodeling and production management personnel training, improving effectiveness, eliminating wastage and shortening delivery lead time. Up to 30th June 2005, of the total 40 production lines in the plant, 16 of them have been transformed into production line with lean production concept, with marked improvement of production effectiveness achieved. By the end of October, the number of lean production lines will be increased to 18. In the long run, the strategy was to consolidate corporate internal governance, that is, to promote construction of corporate core value and corporate culture, to cultivate internal talents, to establish efficient and stable management system and to create an united and aggressive working atmosphere. With the implementation of such short-term, mid-term and long-term operation strategies, we are convinced that we can create our unique operation model, under which the Group's business will forge ahead in the direction of healthy and steady development.

## **BUSINESS REVIEW AND PROSPECTS** *(Continued)*

Starting from last year, the Group has been actively developing business relationship with customers having self-owned sales channel. After more than one year's effort, business with such customers has won initial success. Based on the upward trend of sale orders and the new models being developed, it is expected business with such customers will see remarkable growth from next year on.

During the period, the Group has conducted an all-out strategic realignment on the retail and wholesale operations of own brands and licenced brands in the PRC, and has intensified the construction of sales channels. Spurred by the increasing consumption power in China and the Group's ripening domestic sales network, coupled with the effect of the opening of the Disneyland in Hong Kong, it is expected that the sales income generated from domestic sales will post robust growth too.

We will be more active, centered on talent-training and committed to quality and services to strengthen the Group's internal governance, to focus on enhancing effectiveness and cost control, serving our existing brand customers better and securing more business. Meantime, we will also strive to identify more new OEM customers and to explore the Chinese market, so as to increase sales income, to improve profit margin and to reward our shareholders.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th June 2005, the Group's total net assets was US\$104,409,000, comprising mainly current assets of US\$73,196,000, non-current assets of US\$81,242,000, current liabilities of US\$33,918,000 and non-current liabilities of US\$16,111,000. The current ratio was approximately 2.16 times and the ratio of net bank borrowings to shareholders' fund was approximately 20.9%. The Group services its debts primarily through cashflow generated from its operation. The Directors believe that the Group has maintained sufficient working capital for its operation and future expansion.