MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

Although sales and profit margin remain generally robust for the six months ended 30 June 2006, the Group experienced credit problem with one customer which is undergoing financial restructuring. This customer accounted for more than 10% of our factory order volume in 2005. As a result, sales for the six months under review declined 6% overall, despite healthy growth of the manufacturing business with other customers. The Group has ceased to supply this defaulting customer, and is now conducting a review of its credit control policy and practice. A provision of $40 million has been made, so that operating income for the first half of 2006 declined by 56.6%. During the same period, an associate company received a capital payment as consideration of a buy-out of its China distributorship. After taking into account the amount accruing to the Group, profit attributable to equity holders for the first half of 2006 increased 16.0%.

As expected, cost escalation continued in many areas. All manufacturers face raw material price increases globally, as a direct result of run away oil and commodity prices. Additionally, labour cost in the Pearl River Delta area continued its upward trend. The Group is maintaining its policy of tight cost control, as well as diversifying into other manufacturing regions to maintain its low cost advantage. This year, the Group set up its first production facility in Vietnam, with four production lines to service the existing customers as well as to position ourselves to service other more cost-conscious customers. Despite fierce competition, we are proud to be able to maintain a gross profit margin of 22.6%.

Recently, an associate company was offered and agreed to a buy-out of its China distributorship, in return for a capital compensation in cash, to be paid in stages. In the first six months of 2006, the Company has recognised a gain of HK$93 million from this. The remaining gain will be recognised in the second half of 2006 and 2007.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Outlook

The outlook of the footwear manufacturing industry remains challenging, as it has been for several years. The industry will continue to face cost escalation and the EU anti-dumping ruling remains unresolved. We have been and will remain competitive through working closely with our key customers and maintaining tight control over cost. The new production facility in Vietnam represents our first venture into another low cost country and we expect it to maintain a low cost structure to better serve our customers. As it has done in the past, the Group is confident that it will be able to report robust sales and profits. However, due to the credit problem with one defaulting customer, as mentioned above, we expect the results will be moderated for the full year.

The Group seeks to invest in related businesses in the China market. We are planning to invest in retail assets in China to take advantage of the sustained retailing boom, as China's domestic economy and private sector consumption continues to grow at a rapid pace compared to the rest of the world.

Segment Information

Sales to North America had constituted approximately 67% (2005: 67%) of the Group's total turnover; Europe accounted for 17% (2005: 21%) of sales, and the remaining 16% (2005: 12%) sales were shared between Asia, Africa, Australia, Latin America and the Middle East.

Liquidity and Capital Resources

As at 30 June 2006, the Group had cash and bank balance of HK$592.0 million (31 December 2005: HK$740.4 million). The Group was offered banking facilities amounting to HK$117.0 million, of which none has been utilised, indicating a zero gearing ratio on the basis of total borrowings over shareholders' fund.

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Staff

The total number of employees as at 30 June 2006 has not changed materially compared to that of the last financial year. Employee cost (excluding directors' emoluments) amounted to approximately HK$170.7 million (2005: HK$179.0 million). In addition to competitive remuneration packages, discretionary bonuses and employee options are awarded to eligible staff based on the Group's performance and individual merits.

Our staff's well-being is one of the Group's top priorities. The Group will continue to improve and ensure that our staff members are 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.