

## RESULTS

The Group's performance for 2006 is highlighted as follows:

- Turnover was US\$141,465,000 (2005: US\$141,242,000)
- Profit for the year was US\$3,120,000 (2005: US\$2,467,000)

During the year, the Group continued its lean management system and readjusted its business focus. As a result, turnover for 2006 has slightly improved as compared with that of 2005, however, profit for the year increased by 27%.

## BUSINESS REVIEW

### Product Mix

In 2006, the Group's product mix comprised sports sandals (12%), casual shoes (26%), athletic shoes (56%) and others (6%).

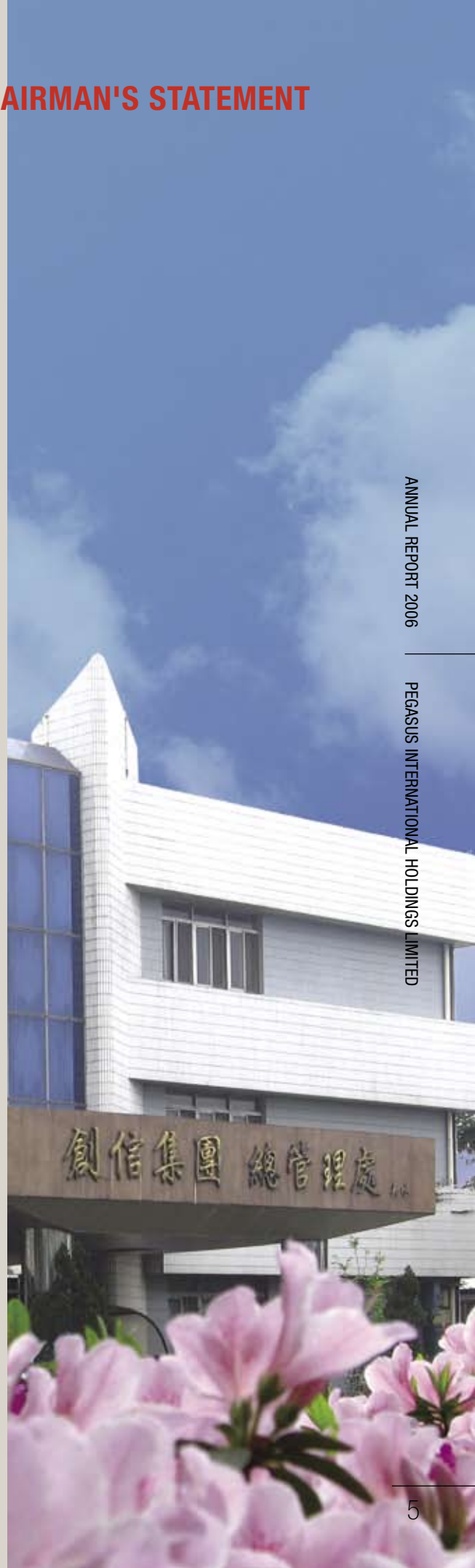


### Geographical Market Segments

North America remained the largest export market of the Group, accounting for 53% of its turnover for 2006. Turnover contribution from the European and Asian markets were 27% and 15% respectively.

### Domestic Sales Market in the PRC

Domestic sales of shoes are vast and important. Therefore, the Group has been seeking golden opportunities to tap the domestic market of the PRC since it relocated its production base to the Mainland in 1991. Starting from 1998, the Group initiated its domestic sales business, which recorded steady growth year by year through integration of resources, segmentation of markets, and the establishment of multi-brands, product diversification and multi-channel operation model, as well as a market-oriented management system. In early 2006, the merchandizing group was initially set



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up. By the end of 2006, the Group has established the following structure in respect of sales channels, brand-name and product range:

Channels	Brand-name	Product Range
Speedwell Counter/ Shop-in-shop/ Specialty Store	Speedwell	Fashionable Leisure Shoes, accessories, hand-bags
魔術屋(Magic House) Counter/Shop-in- shop/Specialty Store	Disney	Shoes for Children
	多啦A夢 (Doraemon)	Shoes and school-bags for Children
	魔術屋(Magic House)	Shoes and school-bags for Children

By then there are 51 agents, 30 franchisees and 728 points of sales.

## BUSINESS DEVELOPMENT FOCUSES

### A. Manufacturing Business

We specialize in strengthening process management, applying new technology and new management concepts to improve production efficiency and product quality, reduce wastage and achieve timely delivery for the purpose of further enhancement of corporate competitiveness. Meanwhile, we also make closer cooperation with customers, maintain and expand our business relationship with our major customers to increase revenue. Our continued effort has won high recognition from our customers, as reflected in our high ranking on the integrated grading table of Nike in terms of product quality, lead-time, human resources and social responsibility. Encouragingly, we were the only factory to be granted the



Special Recognition Award by Nike for our outstanding performance product quality and manufacturing excellence.

### B. Domestic Sales Market

Considering the high potential for our business growth, the construction of the domestic sales market has become another operation focus of the Group. The Group intensifies its input to the building-up of brand-name, marketing and sales channels construction by means of all-round integration of resources and, directed against features of brand-name and products, the establishment of effective sales market channels and creative practicing lean management system. While refreshing results of our self-owned points of sales, we also take the initiative to expand regional agency and franchising business, resulting in rapid increase in the number of agents and franchisees.

## LEAN PRODUCTION MANAGEMENT SYSTEM

To further promote the concept of lean management for enhancement of overall operation efficiency, the Group has, from 2003 to the end of 2006, invested US\$6 million to transform all 40 traditional production lines to lean production lines, and have witnessed a leaner management and a leap in efficiency and quality. For the latest three years, the total number of staff has decreased from 21,000 to 16,000, with the turnover



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remained at a similar level. Meanwhile, the enhancement in productivity has offset the increase in labor costs recent years. As a result of the implementation of lean production management, the Group's productivity has increase by 25%, which, has provided room for improvement of our revenue without addition of production equipment.

## SOCIAL RESPONSIBILITY

The Group regards the performance of corporate social responsibility as its unshirkable task, and is committed to be an outstanding corporate citizen since its inception.

The Group continues to push forward and reinforce corporate governance. We have established a transparent management system for the shareholders and the staff, fortified construction of corporate culture, and created a harmonic work environment. The Group takes the lead in the shoe-making industry to implement 5-working day/week system, and boosts unit working time income by continuous upgrading of management efficacy. We are also devoted to talent cultivation, retaining and recruiting talents through comprehensive examination, training and promotion mechanism. As for contribution to the community, the Group has not only offered employment opportunities for the disabled, but also made donations to those in flooded areas, primary schools in poverty-stricken areas and to charity hospitals.

Starting from November 2006, the Group has been embarking on the preparation work for ISO14001 and OHSAS18001 certification, with an aim to set up a more effective environment, and a better vocational health and safety management system.

## FUTURE PROSPECTS

### A. Manufacturing Business

The Group expects that turnover from export sales to North American market will grow steadily. However, the shoe-making industry is still confronting the challenges of rising labor costs, lack of labor force and price fluctuation of raw materials.

The Group will carry through the business focus of growing with its customers; continue implementation of lean management system; strengthen internal governance; exploring new sources and economize on consumption; and maintain reasonable growth of profits.

### B. Domestic Sales Market

In light of the huge potential of the domestic sales market, the merchandizing group is, after proper marketing preparation, expecting a real leap and bounce in 2007.

- a. At the end of 2006, the Group entered into a contract with Slazenger in respect of the exclusive agency right for production and sales in the PRC. In fourth quarter 2007, a number of sales counters, shop-in-shops and specialty stores specialized in selling shoes, accessories and sports equipment under the brand-name of Slazenger will commence trial operation, and the operation will be officially launched from 2008.
- b. At the beginning of 2007, the Group entered into children's shoes distribution agreements with internationally renowned brand-names like Nike, Adidas, New Balance and Ecco, pursuant to which, exclusive counters "Kid's E-look" will be launched in high-class department stores in China from fourth quarter in 2007. Sales will be commenced in 2008.
- c. Starting from fourth quarter of 2007, sales counters, shop-in-shops and specialty stores selling "IF" men's formal leather shoes and Projekt4 men's leisure leather shoes will be launched.

The above mentioned three sales targets will enrich the Group's brand-name series and product lines, and will facilitate establishment of sales channel, expansion of market share and increase of revenue.

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The Group will sure to establish its leading position in wholesale and retail of shoes and accessories with leaner integration of resources, more accurate segmentation of market, as well as a merchandizing strategy emphasizing multi-brands, product diversification and multi-channel.

## CONCLUSION

The Group will continue to gain confidence from our business partners in long-term cooperation with its faith and pioneering spirit, and will strive to enhance the Group's competitiveness with its lean operation and resources integration, with a view to realizing its objective of long-term development.

On behalf of the Board, I would like to express my deepest gratitude to the staff for their dedication and diligence, and our business partners for their continued support.

By Order of the Board  
**Wu Chen San, Thomas**  
*CHAIRMAN*

Hong Kong, 17th April, 2007