MANAGEMENT DISCUSSION AND ANALYSIS

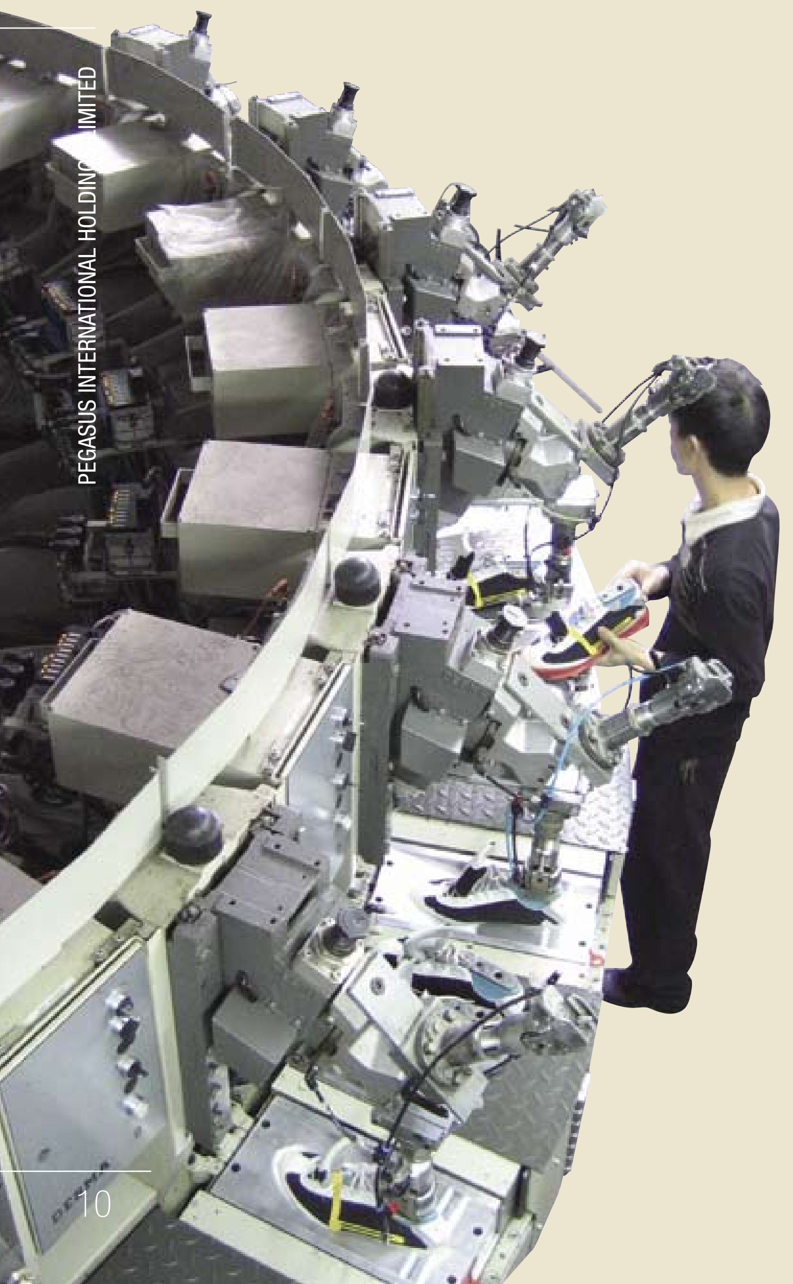
FINANCIAL REVIEW

During the year ended 31st December, 2006, the Group continued to concentrate on the manufacture and sales of footwear products. It was an encouraging year for the Group. For the year ended 31st December, 2006, the Group achieved a turnover of US$141,465,000 (2005: US$141,242,000) despite the tough operating environment. Compared with 2005, the turnover maintained at a similar level.

Profit of the Group for the year ended 31st December, 2006 grew by 26.5% to US$3,120,000. Basic earnings per share for the year ended 31st December, 2006 was 0.43 US cents (2005: 0.34 US cents). Due to the continued surge of labor cost which is reflected by the slight decrease in gross profit margin from 16.49% in 2005 to 16.35% in 2006. Despite the fact, the Group had exercised very tight cost control over the selling and distribution costs and administrative expenses.

The mild growth of the economy in the United States and Western European countries, coupled with protectionism measures as adopted by some of these countries towards China, did not lead to a strong market

MANAGEMENT DISCUSSION AND ANALYSIS

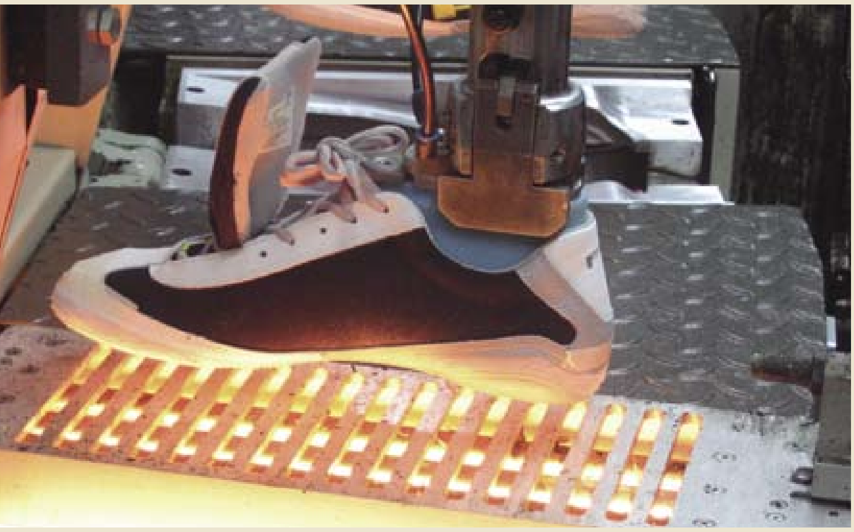


demand. The appreciation of Renminbi, rising labor costs, strict environmental regulations and trade dispute all are the challenges facing by the Group. The Group recognized these challenges and took steps to mitigate their impact.

Labor cost was gradually increased year by year and this trend is expected to continue in 2007. The Group implemented measures to improve staff productivity and to streamline manual working procedures on production lines in order to improve the efficiency of the labor.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its business needs with internal cash flows. The Group maintained a stable finance position. As at 31st December, 2006, the Group had cash and cash equivalent of US$7,129,000 (2005: US$12,525,000) and total borrowings of US$25,751,000 (2005: US$29,813,000). The ratio of net bank borrowing to total equity remained at a healthy level of approximately 17.9% (2005: 16.9%). As at 31st December, 2006, the Group had a strong financial liquidity position as revealed by a current ratio of 2.8 (2005: 2.6) times.



CAPITAL EXPENDITURE

For the year ended 31st December, 2006, the Group incurred US$4,471,000 in capital expenditure, of which 67% was used in acquisition and replacement of plant and machinery.

DIVIDEND

A final dividend of Hong Kong 1.5 cent (2005: 1 HK cent) per ordinary share has been recommended, making the full-year dividend of Hong Kong 2.5 cents per ordinary share.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2006, the Group employed a total of approximately 16,000 employees in China. The Group adopts a competitive remuneration package for its employees. Promotion and salary increments are assessed based on performance related basis. There are incentives in the form of discretionary performance bonus and offers equal opportunities to all staff.