

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2006, turnover of the Company maintained at HK\$1,861.6 million (2005: HK\$1,852.5 million). Profit attributable to equity holders of the Company for 2006 was HK\$207.3 million, as compared with HK\$216.0 million for 2005.

The largest markets for the Group in 2006 were North America and Europe. With the continual strength in the global economy, footwear sales had been strong. Sales to North America and Europe comprised 63.3% and 18.9% of the total sales respectively.

PRODUCTION FACILITIES

The Group has extended its production facilities to Vietnam during the year. The aggregate number of production lines of the Company has increased to 34, of which 8 are in Panyu, 10 are in Zhongshan, 8 are in Dongguan, 4 are in Fuzhou, and a further 4 are in Vietnam.

CUSTOMER RELATIONSHIP MAINTENANCE AND RESEARCH AND DEVELOPMENT

Our extensive experience and working knowledge of each stage of the manufacturing process and production material used and procurement allow us to work closely with our customers to achieve quality, efficiency while maintaining effective cost control. Our close relationship with customers has helped to build an in-depth understanding of their needs so that we can anticipate and resolve their problems efficiently and effectively. Our research and development team helps to improve customers' design so as to maximise comfort, endurance and functionality of their products and, where necessary, introduce new technology to enhance their market appeal. Such value-added contributions to our customers' operations enable us to become their long-term partner.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2006, the Group had bank balances and cash of HK\$627.7 million (2005: HK\$678.4 million). The Group was offered banking facilities amounting to HK\$117.0 million (2005: HK\$117.0 million), none of which had been utilised, indicating a zero gearing ratio on the basis of total borrowings over shareholders' fund. The banking facilities were secured by corporate guarantees from the Company and certain subsidiaries.

STAFF WELFARE

The total number of employees of the Group as at 31 December 2006 was approximately 22,000. Employee cost (excluding directors' emoluments) amounted to approximately HK\$353.2 million (2005: HK\$342.4 million). In addition to competitive remuneration packages, discretionary bonuses and employee options are awarded to eligible staff of the Group based on their performance and individual merits.

As an incentive, stock options were granted to out-performing employees in 2006. Pursuant to the relevant accounting regulations, a charge of HK\$29.9 million was made accordingly for those stock options granted.

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LOOKING AHEAD

The outlook for manufacturing business remains competitive. Our manufacturing division has always performed well under adversity, and we expect to see healthy growth of profits from the manufacturing division again in 2007.

North America is our major export market. Although there are concerns over the United States economic outlook due to problems in the sub-prime mortgage sector, retailing growth will continue to be healthy there. We remain cautiously optimistic.

It is because of the intensifying competition in the manufacturing sector that over the past few years we have taken steps to diversify into apparel related fields. We believe that we have proven skills in the retail markets in China, as evidenced by the amount of premium paid to buy out our China distribution business, which reflects well on the value we built. We intend to devote more of our team effort and resources towards further development of our retail business in China. However, we must anticipate significant investment in the near term to support such ambitious retail development programs. Success in branding and retailing will bring significant profits in the longer term. The Board believes that it is a worthwhile core business to add to our manufacturing business.