Financial highlights

1. Turnover decreased by 26% to HK$713.9 million from last year of HK$967.1 million;

2. Operating profit before finance cost decreased by 39% to HK$31 million from last year of HK$50.8 million; and

3. Profit attributable to shareholders decreased by 54% to HK$23.4 million, or HK$0.07 per share from last year of HK$50.5 million or HK$0.15 per share respectively.

Business review

The Group's turnover was HK$713.9 million, down 26% compared to prior year's HK$967.1 million. As mentioned in our 2001 interim report, the Group's sales have been adversely affected by the weakening economy of our major markets. The negative economic impact of the 911 incidence in the US last year accelerated the downturn of the US economy, which further impacted the already weakened global economy. Geographically, business from the US, being the largest market of athletic shoes suffered the largest decline, a drop of 39% whereas sales to Europe decreased 36%. Sales to Asia, however, increased 15% as a result of sales generated from our new Japanese customer.

Overall gross profit margin decreased from 12% to 11%. This decrease was mainly attributable to the costs associated with the expansion and restructuring of production lines recognized during the year. Margin expansion is anticipated in the coming year as a result of the improvement in production efficiency following such restructuring. Other cost of sales, including the cost of materials remained relatively stable in these two years.

Other revenues increased from HK$13 million in last year to current year's HK$17 million, which was primarily due to the increase in HK$2 million scrap and unused mould sales and HK$1 million income from rental of mould shop during the year.

General and administrative ("G&A") expenses for 2001/2002 decreased 17% to HK$63.1 million. In the past few years, the Group has tightened the control over expense management and implemented a number of cost control measures, which effectively lower the level of G&A expenses from 12% of sales in 1999 to 8% and 9% of sales in last year and current year respectively. The slight increase of the G&A expenses, as a percentage of sales of 1% to 9% this year was mainly attributable to the increase in severance payments and compensation pay to staff this year as the Group had streamlined its management and operational team and reduced the staff headcount by 18%.

The Group recorded an operating profit before finance cost of HK$31 million, decreased by 39% from last year's HK$50.8 million. Interest expenses remained minimal, as the Group is essentially debt-free except for interest payments incurred for bank overdrafts. Profit attributable to shareholders decreased from HK$50.5 million to HK$23.4 million. During the year, the Group made a provision of HK$7.5 million for its investment in an Indonesian company, which is 35% owned by the Group, due to its poor performance and unfavorable business conditions in Indonesia. Excluding the provision of HK$7.5 million mentioned above, profit attributable to shareholders would have been HK$30.9 million.

Indonesian subsidiaries

The Group's two Indonesian subsidiaries, namely PT Kong Tai Shoes Indonesia Manufacturing and PT Worldbest Raya Industry have ceased operation since October 1999 and January 1998 respectively and full provision had been made against the Group's total investment exposure in these two companies in prior years. We do not expect any significant liabilities will arise in respect of the Group's investments in these subsidiaries for which additional provision would be required.

We have an intention to wind up or dispose of these two companies when suitable opportunities arise, however, considering the current economic situation in Indonesia and the loss of control of these companies, we are not optimistic that these two companies can be successfully dissolved or sold in a short period of time.

Distributions to shareholders

The board of directors recommended a final dividend of HK$0.03 per ordinary share for the year ended 31st March 2002, which together with the payment of the first and the second distributions ("Distributions") out of the Company's contributed surplus account of HK$0.3 and HK$0.15 per ordinary share respectively declared during the year, representing a total distributions of HK$0.48 per ordinary share.

Liquidity and financial resources

As at 31st March 2002, the net cash and bank balances of the Group were HK$32.4 million as compared to HK$108.5 million in 2000/2001. The decrease was mainly due to the payment of the abovementioned Distributions, totalling HK$153 million during the year.

The Group continues to have strong financial and liquidity position. Net cash inflow from operating activities during the year was HK$77 million, which enabled the Group to finance its operation with internal resources. As in the past, the Group had no bank borrowings except for small balances of bank overdrafts of HK$1 million and bills payable of HK$4 million and the total liabilities to shareholders' fund ratio was 56.6% as at 31st March 2002. The working capital position of the Group remained healthy, the current ratio was 1.89 as at 31st March 2002.

The Group will continue to follow its prudent financial policy and maintain a high level of liquidity. We believe that, with the strong operating cash inflow and the available trade financing facilities provided by the Group's relationship bank, the Group has adequate working capital to sustain its daily operation and meet its future capital investments.

Risk of currency fluctuation

The Group's major revenue generating currencies continue to be US dollars, whereas its purchase commitments and manufacturing expenses are in US dollars and Renminbi. As Hong Kong dollar is pegged to US dollar and Renminbi is relatively stable, the Group considers the foreign exchange risk continues to be immaterial.

Prospect

In view of the generally unfavorable market conditions, the global footwear business will remain challenging in the coming year.

Notwithstanding the difficult market environment ahead, we are pleased to notice an increase in orders placed by our customers in the first quarter of 2002/2003. We believe that, with greater sales velocity and our relentless efforts on controlling costs, we will be able to achieve more satisfying results in the coming years.