

FINANCIAL RESULTS

Despite the uncertain global economic environment, the Group continued to sustain its growth in turnover by about 40% to HK\$433.5 million. Sales to European market increased by approximately 41% and constituted approximately 80% of the Group's total turnover. The US market accounted for approximately 8% of the Group's total turnover, representing about 89% increase as compared with the previous year. The increment in turnover within these markets is mainly attributable to the Group's effort in expanding its range of products and placing more emphasis on design and manufacturing of footwear following closely the fashion trend in Europe. Besides, the slight recovery of customers' hesitation in placing orders as a result of the global economic downturn and the replenishment of inventory level after clearing most of the stock on hand by customers also contributed to the increase in turnover.

Sales to the PRC market represented approximately 3% of the Group's total turnover while the remaining 9% of sales was shared between Asia, Australia and South America. The Group has faced a very competitive environment in the PRC market and increasing pressure on prices that led to the reduction in turnover in the PRC market.

Gross profit of the Group dropped slightly from about 12% to 11% as a result of the keen competition within the industry that pressurised on the prices of products.

Selling and distribution costs of the Group decreased by approximately 23% as no staff bonus was paid during the year under review. Administrative expenses of the Group rose by approximately 8% following the expansion of the Group's business.

OUTLOOK

Looking ahead towards the coming year, the global economic atmosphere will remain highly competitive and challenging. The European market will continue to constitute a high portion in the Group's total turnover. The Group will continue to broaden the client base by seeking new markets and customers. Corporate image and promotion of products will be strengthened by engaging in more promotional and marketing activities such as advertising in magazines and participating in trade fairs and exhibitions.

The Group will expand its production capacity in the coming year by constructing new production facilities adjacent to the existing factory premises. The production capacity is expected to be increased by 50% when the new production facilities commence its operation.

In light of the impact of the sluggish global economy, the Group will be very cautious in allocating its resources in order to strive for its commitment to efficient production and maintaining a consistently high level of product quality to satisfy the needs from customers in every aspect.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2002, the Group had cash and bank balances of approximately HK\$44.9 million (2001: HK\$3.6 million) and total borrowings of approximately HK\$3.1 million (2001: HK\$3.4 million) that are repayable within one year.

The gearing ratio of the Group as at 30 September 2002 was 0.04 (2001: 0.13) which was calculated based on the Group's total borrowings of approximately HK\$3.1 million (2001: HK\$3.4 million) and the shareholders' funds of approximately HK\$75.5 million (2001: HK\$27.2 million).

As at 30 September 2002, the Group's net current assets and current ratio were approximately HK\$59.0 million (2001: HK\$12.7 million) and 2.0 (2001: 1.3) respectively.

The cash and bank balances together with available banking facilities are considered sufficient to provide adequate liquidity and capital resources for the Group's ongoing operating requirements.

The Group's inventory as at 30 September 2002 amounted to approximately HK\$22.4 million (2001: HK\$19.3 million). The inventory turnover on cost of sales was 21 days (2001: 26 days) for the year under review.

Capital expenditure amounted to approximately HK\$0.6 million which was mainly for the payment of land premium in the PRC.

TREASURY POLICY

The Group generally finances its operations with internally generated cash flows and short-term loans. As at 30 September 2002, all of the Group's short-term loans of approximately HK\$3.1 million (2001: HK\$3.4 million) were interest bearing at fixed rates and were denominated in Renminbi. The directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditure.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 30 September 2002, certain of the Group's land and buildings with an aggregate carrying value of approximately HK\$3.2 million have been pledged to a bank for securing bank loan granted to the Group.

The Group had no significant contingent liabilities as at 30 September 2002 (2001: Nil).

FOREIGN EXCHANGE EXPOSURE

The Group has limited exposure to fluctuation in foreign currencies as most of its transactions are denominated in US dollars and Renminbi. Exchange rates between these currencies with Hong Kong dollars were relatively stable during the year under review. The Group has not entered into any foreign currency forward exchange contract for the purpose of hedging against foreign exchange risks involved in the Group's operations.

APPLICATION OF PROCEEDS OF NEW ISSUE

The Group raised approximately HK\$24 million net of related expenses from the issue of 60 million new shares in connection with the listing of the Company's shares on the Stock Exchange on 3 July 2002. Approximately HK\$0.5 million was used for marketing and promotion of the Group's products. The balance of the proceeds of about HK\$23.5 million has been placed on short-term interest-bearing deposits with banks.

STAFF AND REMUNERATION POLICIES

The Group continued to follow a prudent approach towards the size of the workforce and mainly determines staff remuneration in accordance with market terms and individual qualifications and performance. Staff recruitment and promotion is based on individuals' merit and their development potential for the positions offered. As at 30 September 2002, the Group employed approximately 730 employees.

The Company maintains a share option scheme, pursuant to which share options are granted to selected director or employee of the Group, with a view to attract and retain quality personnel and to provide them with incentive to contribute to the business and operation of the Group.

During the year, no share options have been granted under the Share Option Scheme.