"I take pride to report that, in recognition of our corporate governance initiatives, the Group received not one but two coveted corporate awards in the past year, including being voted among the "Rising Star in Best in Corporate Governance in Hong Kong" by The Asset Magazine and also named for the second consecutive year, one of "The World's 200 Best Small Companies" by Forbes Global."

REVIEW OF OPERATIONS

Faced with soft consumers sentiments, the Group and its customers have continued to work on developing new designs for the mid-range market. Footwear brandnames also picked up the prevailing casual trend in fashion, with the Group helping them interpret into a new "athleisure" footwear line featuring athletic look, non-performance fashion and comfortable, modern styles. The Group's capability to re-organize product development and production swiftly to adapt to fashion changes has placed it advantageously as a production partner of choice for a growing list of prestigious footwear brands in the world.

Revenue growth was mainly driven by robust performance in the European market and casual footwear lines. European labels, such as Geox, Impronte and Stonefly were added to the Group's customer portfolio, and previous market development efforts in Europe have begun to crystallize into more significant orders from new customers like Elefanten. While the Group was tapping further into the potential of these two new growth areas, it had continued to derive steady revenue streams from the maturing rugged and baby footwear segments in the US market.

Nautica

In step with customers' order forecasts, the Group has added 5 more production lines during the year to a total of 30 as at the end of the reporting period, including 17 lines in the Zhuhai main facilities, 6 lines in the new Zhongshan plant, 6 in Vietnam and 1 in Macau. The new plant in Zhongshan commenced operations only in October 2002, and was still undergoing trials and fine-tuning production procedures before the end of the period in review. It was therefore not yet making contributions to the Group as at the year ended 31 March 2003.

Additional contribution was recorded in the Vietnam plant. After two years of operation, this new production base has become a fully-fledged operation with 6 dedicated production lines for European customers. It accounted for 20% of the Group's total output and became profitable last year. Construction of new premises adjacent to existing facilities has already been completed. Equipment installation and trial run is scheduled for the end of this year.

FUTURE PLANS AND PROSPECTS

Our niche market position and production competence, together with our financial strength, prudence and our hands-on management style stood us in good stead.

Capacity expansion will continue at a controlled pace with management's continuing to stay alert to make timely adjustments to our master plan in response to market and industry developments. The Vietnam operation plans to add 2 to 3 lines in its new premises. Other plans include the adding of new production lines in Zhuhai and 2 to 3 lines in Zhongshan premises.

With the gradual easing off of growth momentum of the baby footwear line and the continuing growth of the baby boomers looking for comfort, the Group is focusing on the growing casual sector for special and additional impetus. It is currently working with Cat, Skechers, Timberland and other new customers such as Nautica, Diesel and Pony to develop new fashionable ideas to extend the potential of casual footwear. The Group targets to maintain a balanced portfolio of about 40% of baby footwear, 40% casual footwear, and 20% of rugged and other items.

In common with the past years, visibility of business orders for coming months remains low. We are confronted by a high degree of economic instability, compounded by political uncertainties in our core markets. This will inevitably result in additional pressure on our margin. To cope with mounting difficulties, we pledge to redouble our management enhancement and production optimization efforts in the coming year. To defend our competitive position, we will also continue to pursue our policy of diversification, both geographically and by line of business. We expect to emerge from this process an even stronger producer, better able to serve the world's premium footwear brands and effectively compete in the increasingly challenging operating environment.

In a subdued environment, we will continue to strengthen the extent and foundation of our revenue generating strength to sustain our ongoing resilient performance. We remain cautiously optimistic of our outlook in the coming year and look forward to increased growth momentum as economic recovery takes hold in 2004.

APPRECIATION

I would like to take this chance to express my appreciation to our Board of directors and staff for their hard working especially in this challenging period, and to our customers, shareholders and bankers for their continuing support.

Chen Ming Hsiung, Mickey
Chairman

Hong Kong, 17 July 2003