Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

- Turnover remained stable with a modest increase of 0.9% to US$116 million from last year of US$115 million;
- Operating profit decreased by 28% to US$5.3 million from last year of US$7.3 million; and
- Profit attributable to shareholders decreased by 24% to US$5.3 million from last year of US$6.9 million.

BUSINESS REVIEW

The past year was a difficult year with high oil price and material prices. In pursuit of sales growth in the highly competitive footwear market, the profit margin had inevitably been affected. However, the Group being benefited from the implementation of " Value Creation" Strategy, which strived for quick response and quality, was able to maintain the order product mix that offered higher average selling price. As a result, the turnover of the Group for the year remained stable with a modest increase of 0.9% to US$116 million from US$115 million in the prior year.

Geographically, sales to North America, which increased by 7% to US$78 million, still accounted for the largest portion of the segment sales while sales to Europe decreased by 28% to US$14 million. As for the other markets, the sales remained comparatively steady.

Overall, the Group's gross margin declined from 11.4% to 8.8%. It was mainly due to an increase in material price and the investment cost in production process streamlining and re-structuring. We expect the subsequent enhanced production process, with a direct focus on flexibility and responsiveness, will increase our production efficiency. Besides, continuous emphasis has been placed on research and development ("R&D") to strengthen the "Value Creation" Strategy. In the past year, the Group invested more than US$2.5 million for R&D expenses.

The increase in other revenues by 7.6% or US$0.1 million was the result of the disposal of plant, machinery and tools. General and administrative ("G&A") expenses decreased significantly by 12% to US$5.3 million. It was the

result of the management's effort to implement a number of cost control measures, which effectively lowered the level of G&A expenses from 5.2% of sales in 2003 to 4.5% of sales this year.

Operating profit was US$5.3 million, decreased by 28% from last year's US$7.3 million. The Group continued to be essentially debt-free with minimal interest expense incurred for small balances of temporary overdrafts. The profit attributable to shareholders, as a whole, decreased from US$6.9 million to US$5.3 million.

DIVIDENDS

An interim dividend of US$0.4 million (HK$0.01 per ordinary share) for the financial year 31st March 2004 was approved and paid during the year and the directors proposed a final dividend of HK$0.03 per ordinary share, totaling US$1.3 million, representing a total dividend of US$1.7 million or HK$0.04 per ordinary share.

The dividend payout ratio for current year was approximately 33.2% of the profit attributable to shareholders.

FINANCIAL AND LIQUIDITY RESOURCES

As at 31st March 2004, the Group continued to maintain a strong financial position with the cash and bank balances of US$10 million, as compared to US$4.9 million as at 31st March 2003. Included in the bank balances and cash of the Group were Renminbi deposits and cash of approximately US$2.7 million (31st March 2003: US$0.3 million) kept in Mainland China. Renminbi is not a freely convertible currency. The Group had no bank borrowings except for a small balance of bank overdraft of US$0.2 million (31st March 2003: US$0.1 million) and bills payable of US$0.1 million (31st March 2003: US$0.3 million). The Group's current ratio and the total liabilities to shareholders' fund ratio improved considerably from 2.0 and 60.2% respectively as at 31st March 2003 to 2.4 and 47% respectively as at 31st March 2004.

Trade receivables decreased 11% from last year's US$15.9 million to US$14.2 million. Inventories also decreased to US$14.2 million by 13% as compared to US$16.2 million last year. It was a result of the improvement of the manufacturing process. In the future, we expect the overall inventory turn of the Group will keep on improving.

There are no present plans for material capital expenditures and investments except for the Group's regular annual capital expenditures required to maintain its growth in sales.

The Group generally relies on its internally generated cash flow and the existing banking facilities to finance its day to day operations. We believe that the Group has adequate financial resources to meet its funding requirement for our future business development.

RISK OF CURRENCY FLUCTUATION

The Group's sales are transacted in US Dollars and the purchase of raw materials and manufacturing expenses are mainly in US Dollars, Renminbi and Hong Kong Dollars. As the pegged exchange rate system between Hong Kong Dollars and US Dollars persists and Renminbi is relatively stable, the Group should have no significant exposure to foreign exchange fluctuations.

PROSPECT

Our strength is our total commitment to providing high quality and reliable products that meet market demands and requirements of our customers. We are positive about the years ahead as we will continue to strive for providing highest quality of products, thus enhancing profitability and returns to our shareholders.