MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULT AND REVIEW

For the year ended 31 March 2004, turnover has a growth to HK$1,361 million and profit attributable to shareholders decreased to HK$103 million, representing an increase of 9.69% and decrease of 14.75% respectively from last year. Overall gross margin dropped by 3.9 percentage points to 17.5% due to a number of factors. Firstly, materials costs, including those for leather, outsoles and other key materials, increased slightly during the year. Labour costs also surged as a result of a rather abrupt shortage due to growing manufacturing activities in China in particular in the Guangdong region. The launch of new product lines such as premium casual footwear has also called for more specialised training for staff and increased R&D expenses. Depreciation increased by HK$9 million in the year for new factories in Zhongshan, China and newly added production lines in Vietnam.

The Group continued to strengthen its balanced portfolio in terms of geographical spread and product categories. Contribution to turnover from US and European countries are 61.09% and 29.94% respectively. The product mix continued to be strengthened into three main product categories – baby and children, casual and rugged footwear, contributing 42.66%, 31.68% and 24.66% respectively of group total turnover.

To uphold the Group's core manufacturing competence, expansion has been continued in China and Vietnam. In the year, the group has added 5 lines with 1 of which in Zhongshan, China and 4 in Vietnam, bringing the capacity to a total of 35 production lines. The Vietnam production base increased to approximately 30% of the Group's turnover as its operation began to run smoothly. Also, the Group's main facilities in China were upgraded and re-organized for the newly developed product such as premium casual footwear. The group has implemented strict adherence to overtime restrictions and minimum-wage requirement in accordance with international standard. Continuing strict and effective cost control kept the administrative expenses in a stable and reasonable level.

Our distribution operation in China still faces immense competition, but we have managed to narrow its losses to approximately HK$7 million. The Group will continue to act prudently in managing the risk exposure of this business line.

Basic earning per share for the year decreased to HK15.74 cents from HK18.53 cents last year representing a 15.06% of drop but the net assets value per share has been increased to HK$1.01 representing a 5.4% growth over last year.

Having long relationship with the existing top customers caused the Group to change its term to account credit but with the effort in improving the cash flow and the good relationship with the customers, the debtors turnover dropped to 28 days (2003: 37 days) this year. Inventories turnover has slightly decreased to 65 days from 70 days last year as a result of the Vietnam factory began to run smoothly and causing shorter lead-time.

Together with the proposed final dividend of HK7 cents per share, the full-year payout amount per share amounted to HK10.5 cents or a payout ratio of 66.7% in the year.

BUSINESS DEVELOPMENT

The growing trend for the EU market to outsource from Asia will continue opening new opportunities to the Group. Although China will be able to export footwear quota free to the ECC by January 2005, strong international brands will continue to balance their order placements between China and Vietnam. The Group has prepared for continued customer driven capacity expansion in both of these geographical locations.

The Group is now striving diligently to improve efficiencies by adopting proven total quality system operations throughout the factories. This system will focus on detailing responsibilities, improving accountability, implementing operational action plans, and strengthening core competencies.

FINANCIAL POSITION

As at 31 March 2004, the Group remained a healthy cash position which included cash and bank deposits of approximately HK$180 million after the capital expenditure spent in the Zhongshan and Vietnam projects. Most of the cash and bank deposits were denominated in US dollars as the denominated currency of the Group's trading activities was US dollars. As at 31 March 2004, the Group had aggregate banking facilities of approximately HK$372 million (2003: HK$486 million) with approximately HK$365 million (2003: HK$444 million) being unused. Based on the cash and bank deposits and the unused banking facilities, the Directors are of the opinion that the anticipated capital investments in the coming years should be contentedly met.

The Group's current information has not changed materially from the information disclosed in the most recent published annual report, including exposure to fluctuation in exchange rates and contingent liabilities.

During the year, the Group repaid the long-term bank loan of approximately HK$21 million (2003: approximately HK$20 million), resulting in a drop of the gearing ratio of approximately 1.11% (2003: 6.66%) which was calculated based on the total bank borrowings over total shareholders equity.

EMPLOYMENT, TRAINING AND REMUNERATION POLICIES

The Group, including its subsidiaries employed approximately 20,000 employees as at 31 March 2004. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Fringe benefits which include provident fund, medical insurance and training are provided. In addition, share options may also be granted in accordance to the terms of the Group's approved share option scheme.

AUDIT COMMITTEE

The Company has an Audit Committee (the "Committee") which has established in accordance with the requirements of the Code, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Committee comprises the two independent non-executive directors of the Company. The Group's financial statements for the year ended 31 March 2004 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.