MANAGEMENT DISCUSSION AND ANALYSIS

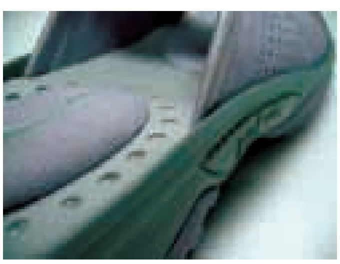
FINANCIAL REVIEW

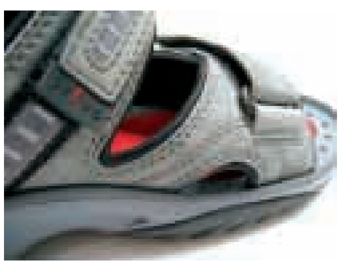
For the period under review, turnover increased by 5.26% to HK$1,432 million as greater concerns over trade protectionism created pressure on volume growth. Nevertheless, profit attributable to shareholders decreased by 14.73% to HK$88 million.

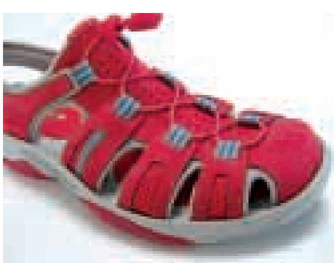
Insufficient labour in the Guangdong region, PRC confronted the Group not only in its expansion plan but also its operation. Although the Group managed to retain skillful workers by increasing wages and allowances, facilities provided and better enhancement of working environment, insufficient skillful labor still caused interruption in the Group's step of expansion. During the year, wages and salaries including allowance to labour amounted to HK$226 million (2004: HK$213 million), a 5.88% increase compared to last year. Electricity outrage posted further pressure on the routine operation especially the sudden stop in supply which caused the Group incurred additional freight expenses in order to maintain the on-time delivery to our branded customers. Together with the increase in transportation cost due to the high oil price, in the year ended 31st March, 2005, distributing and selling expenses increased to HK$47.1 million (2004: HK$34.7 million), representing an increase of 35.53%.

The Group maintained its focus on strengthening its balanced portfolio in terms of geographical spread and product categories, and its efforts to increase its penetration of the European market achieved some notable successes during the period. Contribution to turnover from the US and European markets were 57.73% and 33.02% respectively. The three main product categories – baby and children, casual, and rugged footwear – still maintained a healthy balance, contributing 47.11%, 28.04% and 24.33% of group total turnover respectively.

Currently, the Group maintained a total of 37 production lines of which 25 lines are in China and 12 are in Vietnam. The Group will still insist to its expansion plan to a total of about 40 lines. In view of the current environment in PRC, product lines will be mainly added in Vietnam in the response of the







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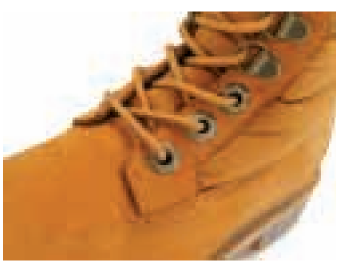
customer's request. The management expected with the strong net cash position and available facilities provided by banks, the estimated capital expenditure of HK$40-50 million for the last phase of expansion in Vietnam factory would be comfortably met.

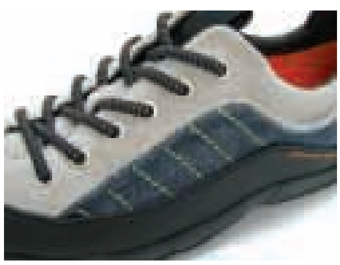
Basic earnings per share for the year decreased to HK13.42 cents from HK15.74 cents last year representing a 14.74% drop but the net assets value per share has been increased to HK$1.04 representing a 2.97% growth over last year. Debtors' turnover decreased to 18 days compared with last year 28 days and the inventory turnover decreased to 59 days from 65 days as a result of the dropping of output especially in the January to March 2005.

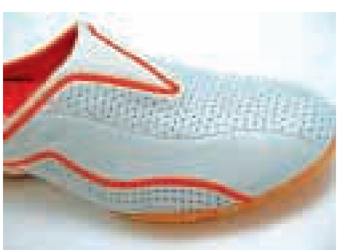
The Group maintained a stable dividend policy. In view of the major expansion plan has been almost completed and the expected stronger cash flow in the next few years, a final dividend of HK7 cents per share was proposed by the Directors, together with the HK3.5 cents interim dividend paid, amounted to HK$10.5 cents or a dividend payout ratio of approximately 77.25%.

FINANCIAL AND LIQUIDITY RESOURCES

As at 31st March 2005, the Group continued its healthy cash position and maintained a strong liquidity position which included cash and bank deposits of approximately HK$185 million after the capital expenditure spent in the 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. During the year, the Group repaid all its short-term bank loan of HK$5.9 million which was charged at floating interesting rate. As at 31st March 2005, the Group had aggregate banking facilities of approximately HK$195 million (2004: HK$372 million) with approximately HK$193 million (2004: HK$365 million) being unused. Based on the cash and bank deposits, the unused banking facilities and the completion of the major expansion plan up to 2005, the Directors are of the opinion that either the cash or liquidity position will be further strengthened in the coming few years.







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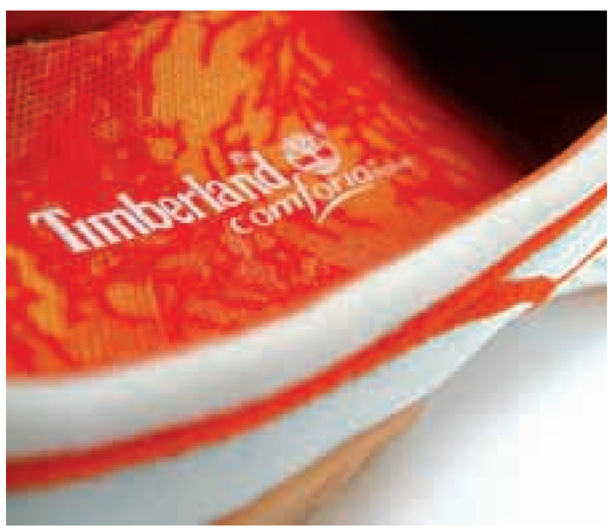


MANAGEMENT DISCUSSION AND ANALYSIS

After the repayment of the short-term bank loan, the total bank borrowing of the Group as at 31st March, 2005 was HK$1.7 million (2004: HK$1.5 million) causing a drop in gearing ratio to 0.25% (2004: 1.11%) which was calculated based on the total bank borrowings over total shareholders' equity.

FOREIGN EXCHANGE EXPOSURE

Since all short-term bank loans had been repaid during the year, the exposure to foreign currency of the Group mainly arose from the net cash flow and the net working capital translation of its PRC and Vietnam factories. The Group will actively hedge the foreign currency exposures through natural hedges, forward contracts and options. As at 31st March 2005, there was no outstanding forward contract in place to hedge against possible exchange losses from future net cash flows. Speculative currency transactions are prohibited. The management of currency risk is centralized in the Hong Kong office of the Group.

CAPITAL COMMITMENTS AND CONTINENT LIABILITIES

There was no significant change in capital commitments and contingent liabilities compared to last year.

EMPLOYMENT, TRAINING AND REMUNERATION POLICIES

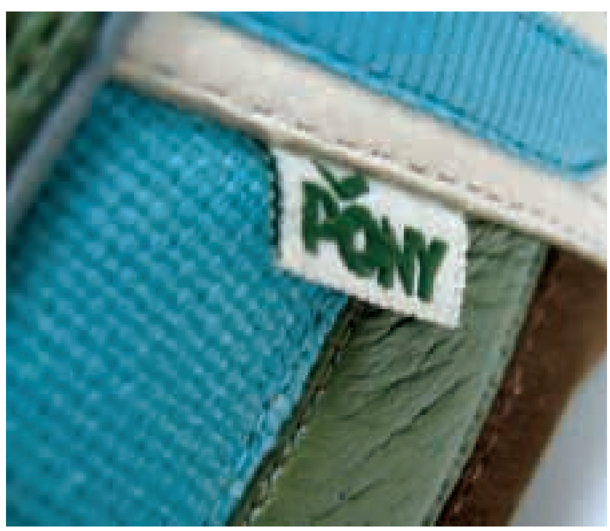
The Group, including its subsidiaries employed approximately 20,000 employees as at 31st March 2005. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. Fringe benefits which include provident 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.

Caterpillar

CORPORATE GOVERNANCE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong throughout the year ended 31st March 2005, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the bye-laws of the Company.

The Code was replaced by the Code on Corporate Governance Practices (the "Code on CG Practices") which has become effective for accounting periods commencing on or after 1st January 2005. Appropriate actions are being taken by the Company for complying with the Code on CG Practices.



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