MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULT AND REVIEW

As a result of the exceptional or unexpected mad-cow disease and September 11th events, both turnover and profit attributable to shareholders decreased to HK$1,036 million and HK$111 million, representing a decrease of 2.07% and 25.48% respectively from last year.

Despite the sluggish market after the September 11th incident, baby and children's footwear was continuing the growth engine of the Group as it occupied 40.44% of the total turnover, an 20.61% growth compared to last year. With the Vietnam factory being fully operated, the percentage to European branded customers further increased to 27.84% in the turnover representing an increase of 26.82%.

The basic earnings per share for the year decreased to HK17.43 cents from HK23.52 cents (after adjusting for the bonus share issue during the year) last year. Net assets value per share has been increased to HK90.63 cents (2001: HK83.29 cents after adjusting the bonus shares issued during the year).

As a result of the operation in Vietnam factory started, inventories were increased to HK$134 million of which 76.75% (2001: 67%) were raw materials and work in progress. Finished goods of HK$31 million were equivalent to less than half-month sales. Management will keep the inventories low to cope with the changing environment and maintain the Group's flexibility.

FINANCIAL POSITION

As at 31 March 2002, the Group still maintained a strong cash position of approximately HK$303 million after the capital expenditure spent in 1st phase projects of the Zhongshan and Vietnam. The Board is of the opinion that with the current cash position and available banking facilities of approximately HK$460 million (2001: HK$249 million), the anticipated investments in the coming two years could be met comfortably.

During the year, the Group repaid bank loan of approximately HK$20 million (2001: HK$39 million) resulting in a gearing ratio, represented by the interest-bearing borrowings to shareholders equity, of 3.4% (2001: 7.4%).

The Group does not have any significant exposure to foreign currency fluctuation and contingent liabilities.

CAPITAL INVESTMENT AND INVESTMENT PLANS

Fixed assets additions (including additions by acquiring a subsidiary) in the year amounted to HK$115 million which were mainly for the factory project in Zhongshan. The total capital expenditure budget for the Zhongshan project will be around HK$200 million to HK$250 million.

6 production lines in Zhongshan were completed and started production. It was scheduled that the 1st phase of Zhongshan factory would be fully operated in 4th quarter of 2002. With the satisfactory penetration to the European market, management had initiated the plan of the 2nd phase in the Vietnam factory to cope with the growth in European market and new European customers. Another piece of land is also under negotiation for the further expansion. It is anticipated that 2nd phase of the Vietnam factory will start its trial operation in 1st half of 2003. These projects will be financed by internal source of fund.

EMPLOYMENT AND REMUNERATION POLICIES

The Group, including its subsidiaries employed approximately 13,000 employees as at 31 March 2002. 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 with the terms of the Group's approved share option scheme.

AUDIT COMMITTEE

The Audit Committee ("Committee") has reviewed with management, the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters including a review of the audited results for the year.

The members of the Committee included the two independent non-executive directors of the Company.