OPERATING AND FINANCIAL REVIEW

During the financial year under review, the Group recorded a turnover of approximately HK$137.0 million, representing a decrease of around 54% as compared to the previous period HK$297.3 million, because of the significant price pressure on the products. This price pressure is attributable to the keen competition amongst market players under an adverse over-supply business atmosphere around the world. Amongst the turnover under the footwear portion, European market which participated 68% of sales was still the largest contributor.

In response to this adverse situation in the footwear business, the Group has been diversifying into the information technology business during this financial year. Although this business section is undergoing its initial stage of development, it contributed a turnover of HK$31.1 million, whereas it was underlying an around 23% of the Group's turnover.

The following table provides analysis of the Group's revenue by geographical market and business segmentation

	For the financial year ended 30 Sept. 2004		For the financial year ended 30 Sept. 2003		Percentage of change Yr. to Yr.
	HK$'000	**%**	HK$'000	%	%
Europe	**72,169**	**68**	230,590	77	(69)
United States of America	**6,563**	**6**	20,403	7	(68)
PRC	**16,766**	**16**	17,233	6	(3)
Others	**10,386**	**10**	29,110	10	(64)
Sub-total	**105,884**	**100**	297,336	100	(64)
IT Business	**31,105**		—		
TOTAL	**136,989**		297,336		(54)

The gross profit margin dropped from 6.7% to -15.0% in reflection of an exceptional volatile raw material price environment and inflation of direct labor cost in footwear industry. Throughout the year, an unprecedented challenges were faced by the Group in an exceptional fluctuation of cruel oil price that was rarely experienced by the industry over the last decade. It escalates the price of petrochemical related products which in turn to the essential raw material cost of our core business in making of athletic and leisure shoes. On the other hand, the overheating economy of the PRC induced a continuously soaring of the labor cost. Coupled with these two factors, they inevitably stimulated a rise of our cost of good sold ("COGS") and deteriorated the gross profit substantially.

As the volatility of the commodity incurred uncertainty, the Group had implemented a conservative policy in the footwear division during the year. In order to minimize the risk, the Group slowed down its marketing activities in promotion and penetration of the market until verifying stable COGS. As a result, the Group sold out two footwear trading subsidiaries and gained a profit of approximately HK$20.5 million.

Regarding the IT division, it stated a positive gross profit margin during the year. Since it was going through its development stage and lack of economies of scale, it generated a net loss of approximately HK$1.5 million. Taking advantage of the active equity market during the latest financial year, the Group exercised a rights issue of approximately HK$61.8 million. This fund was raised for working capital and the purpose of potential strategic acquisition to enhance its IT business.

Due to the shrinkage of sales volumes in footwear business and increase of selling and general administration costs, especially in the IT business stream with respect to the diversification of our revenue sources, the net profit margin gave a figure of negative 15.7% (2003: 1.4%). Nevertheless, the Group had implemented a tight cost control policy while approximately 50% of operating expense (i.e. HK$10.5 million) was non-cash expenditure items. These items represented the provision, depreciation and amortisation of both tangible and intangible assets including the new subsidiary, Chinaway Network Technology Limited.

The Group has recorded a loss attributable to shareholders amounted to approximately HK$21.5 million because of the significant price pressure on the product, the increase of cost of raw materials and direct labour cost and the expansion of the IT business division.

NEW BUSINESS

As disclosed in the post balance sheet events of the financial statements, the Group has used the proceeds from the rights issue to acquire two IT companies, Excel Star Technology Limited ("Excel Star") and Popular Asset Limited ("Popular Asset") after the financial year end.

Excel Star holds 51% interest in a Sino-foreign equity joint venture enterprise, Jiaxing Easeful Communication Co., Ltd. ("JV Company"), established in the PRC. The JV Company is principally engaged in the provision of system integration, telecom-related and software development services in the PRC. Details of this acquisition was disclosed in the Company's circular dated 14 October 2004.

Popular Asset is principally engaged in the business of the provision of information technology and telecommunication facility management services. Details of this acquisition was disclosed in the Company's circular dated 28 January 2005.

By means of these acquisitions, it is expected to strengthen the IT business platform of the Group and facilitate ourselves towards the imminent IT business opportunities in Hong Kong and the PRC. The management anticipates that IT business arm will broaden the revenue base of the Group and enhance the Group's profit margin in the long run.

OUTLOOK

After having diversified into information technology business since the financial year 2003, the IT division is still undergoing its development stage. Meanwhile, the Group will implement an inorganic growth strategy in acquisition of potential business opportunities with good prospect to enhance its IT business in the short run.

The Group will be very cautious in allocating its resources and will keep on exploring other suitable business opportunities and diversifying its investment to other potential industries with favorable investment return and prospect.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2004, the Group maintained cash and bank balances of approximately HK$54.9 million (30 September 2003: HK$48.8 million) and total borrowings of approximately HK$3.2 million (30 September 2003: HK$3.3 million) that are repayable within one year.

The gearing ratio of the Group as of 30 September 2004 was 2.8% (30 September 2003: 4.6%) stemming from the Group's total borrowings of approximately HK$3.2 million (30 September 2003: HK$3.3 million) and the shareholders' fund of approximately HK$112.4 million (30 September 2003: HK$71.9 million). During the year under review, the Group has exercised a rights issue of approximately HK$60 million for future potential acquisitions and working capital. As a result, the gearing ratio was improved from 4.6% to 2.8% after the rights issue.

As of 30 September 2004, the Group's working capital (i.e. net current assets) and current ratio were approximately HK$75.5 million (30 September 2003: HK$25.1 million) and 3.4x (30 September 2003: 1.3x) respectively. In terms of the quality of current assets, over 51.1% of current assets were cash at banks. The Group preserves a prudent policy of liquidity.

The available cash and bank balances augmented by existing banking facilities are considered sufficient to adequate liquidity and capital resources for the Group's operating requirements.

TREASURY POLICY

The Group generally finances its operations with internally generated cash flows and short-term loans. As at 30 September 2004, all of the Group's short-term loans of approximately HK$3.1 million (30 September 2003: HK$3.1 million) were interest bearing at fixed rates and were denominated in Renminbi. The total indebtedness was accounted for 2.7% of the total assets. The directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditure.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 30 September 2004, certain of the Group's land and buildings with an aggregate carrying value of approximately HK$1.9 million (30 September 2003: HK$2.8 million) have been pledged to a bank for securing bank loan granted to the Group.

The Group had no significant contingent liabilities as at 30 September 2004 (2003: Nil).

FOREIGN EXCHANGE EXPOSURE

The Group has limited exposure to fluctuation in foreign currencies as most of its transactions are denominated in US dollars and Renminbi. Exchange rates between these currencies with Hong Kong dollars were relatively stable during the year under review. The Group has not entered into any foreign currency forward exchange contract for the purpose of hedging against foreign exchange risks involved in the Group's operations.

STAFF AND REMUNERATION POLICY

The Group determines staff remuneration in accordance with market terms and individual qualifications and performance. Staff recruitment and promotion is based on individuals' merit and their development potential for the positions offered. As at 30 September 2004, the Group employed approximately 330 employees.

The Company maintains a share option scheme (the "Scheme"), pursuant to which share options are granted to selected directors or employees of the Group, with a view to attract and retain quality personnel and to provide them with incentive to contribute to the business and operation of the Group.

During the year, no share option was granted or exercised.