FINANCIAL RESULTS

For the year ended 31 March 2006, revenue recorded a decline to HK$1,278 million (2005: HK$1,432 million) and profit from ordinary activities attributable to equity holders of the Company decreased to HK$60 million (2005: HK$88 million), representing an decrease of 10.74% and 31.59% respectively from last year.

As Europe has become one of a major export market for the Group after years of strategic development and penetration, it is inevitable that we are more susceptible to policies and measures adopted by the European Commission (EC). Anti-dumping allegations and investigations by the EC on China-manufactured products which first emerged in the early 2005 continued to gain momentum and the uncertainties created had deterred customers from placing orders with the Group. The drop in orders from Europe had hindered the Group's further business expansion in Europe and also shrunk the total turnover for the year ended 31 March 2006.

Further affecting the profit margin were the higher operating costs in China for wages, electricity, transportation and material costs. While crude oil price has stabilized recently, it remains at high levels and the risk of volatility cannot be underestimated. High crude oil prices have helped sustain the cost of petrochemical materials such as outsoles and also the transportation cost, affecting the overall profit margin.

The year in review was a difficult one for the Group. Turnover dropped 10.74% to HK$1,278 million compared with the previous year. However, the Group managed to improve the average selling price (ASP) slightly by 3% through a more defensible product mix strategy of increasing the share of premium casual footwear with higher ASP, while continuing to grow the traditionally strong baby and children shoes category.

In respect of the US market, revenue fell 5.6% largely because of the RMB appreciation. The latest weakening of Euro and the export-hindering trade disputes between China and the EC have made the US a more promising market for the Group.

Conservative cash-flow management has strengthened the Group's cash position. Administrative and finance costs remained under control. Profit from operating activities attributable to equity holders of the Company fell 31% year on year to HK$60 million. Earnings per share were HK9.18 cents, as compared with HK13.42 cents last year.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING PERFORMANCE

During the year in review, the Group was under great pressure to control cost increases arising from higher materials costs especially outsoles, rising inward freight and transportation costs initiated by rising fuel prices. Erratic electricity supply in China that often caused production disruptions also added to operating costs, while insufficient skilled labor in the Pearl River Delta also impeded production and cost efficiency.

The Group is pleased with the successful introduction of the lean manufacturing system that continues to improve production flow and efficiency and has helped reduce the overall labor cost in China despite increases in individual salaries and wages.

Other cost factors of the Group came from continued research and development in marketable new styles for premium casual products and also ongoing upgrades in facilities and the working environment to retain the more experienced and skillful workers to ensure continuity in manpower resources.

The development of premium casual products as a strategic diversification remained on course despite slower than expected progress. While the core category of baby and children products still stands at 53.39% of the total turnover, new customers for niche products of higher margin are being negotiated and the Group is confident that the efficient development of premium casual products for existing customers under separate brand names and also for potential new customers will become a major growth driver.

The previously planned addition of two production lines in the Zhongshan plant, China, has been suspended, given the changed business environment in the country and uncertainties arising from the EU anti-dumping allegation which led to the cessation of a major customer relationship. At present, the Group has a total of 37 production lines - 12 in Vietnam, 9 in Zhongshan and 16 in Zhuhai.

FUTURE PLANS AND PROSPECTS

The Group is actively reviewing and reconstructing its marketing strategy to rebuild its presence in Europe. It is hoped that customer apprehension arising from the EC anti-dumping allegations will soon be resolved. Meanwhile, the Group believes in the long term strategic values and enhanced flexibility of further diversifying its production bases geographically.

As the production output of the Group's manufacturing plant in Vietnam is below expectation, partly as a result of sluggish orders from EU customers, the Group has decided to shelve the third phase expansion temporarily until the market prospect improves. However, the Group remains optimistic as to the long term development potential of the plant in Vietnam for existing and new customers.

FUTURE PLANS AND PROSPECTS *(continued)*

The Group is looking into the possibility of opening a new factory in Cambodia at a location close to the existing plant in Vietnam for efficient logistical support and arrangements of orders to Europe. The Group plans to invest HK$30 million in the first phase development of the Cambodia factory with 3 production lines. Other than the planned Cambodia plant and continuous upgrade, repair and maintenance of production lines, the Group expects no other major capital expenditure in the next few years. Apart from enhancing the hardware of manufacturing plants and improving the capabilities of the sample centers in Zhongshan, Zhuhai and Taiwan, the Group will continue to enforce the lean manufacturing system to further bolster production efficiency and reduce operating cost.

Encouraged by the higher average selling price achieved from the strategy of developing new premium products for new and existing customers, the Group believes that this product diversification approach will help bolster the profit margin in the long run, especially when the anti-dumping and trade disputes are resolved.

The target product mix of 4:4:2 for premium casual, baby and children, and rugged footwear remains. While the baby shoes category of more moderate margin continued to account for more than 40% of total turnover in the year under review, the Group firmly believes in the tremendous growth potential of premium casual products as a major revenue contributor in the next few years.

FINANCIAL REVIEW

Financial and Liquidity Resources

The Group's operation is generally financed by its internal cash generation from operation and banking facilities supplied by various banks. As at 31 March 2006, the Group continued its conservative and healthy cash position and maintained a strong liquidity position which included cash and bank deposits of approximately HK$240 million (2005: HK$185 million). 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 obtained its short-term bank loan of HK$20 million which was charged at floating interesting rate.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(continued)*

Financial and Liquidity Resources *(continued)*

As at 31 March 2006, the Group had aggregate banking facilities of approximately HK$291 million (2005: HK$195 million) with approximately HK$270 million (2005: HK$193 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.

As at 31 March 2006, the current ratio was approximately 1.9 (2005: approximately 1.9) based on current assets of approximately HK$498 million and current liabilities of approximately HK$261 million and the quick ratio was approximately 1.3 (2005: approximately 1.1).

The Group has put in place of maintaining a prudent gearing ratio. As at 31 March 2006, despite the Group obtained a short term bank loan and increased its bank borrowings to approximately HK$20 million, the gearing ratio resulted at 2.9% (2005: 0.25%) which was calculated based on the total bank borrowings over total shareholders equity.

Foreign Exchange Risk Management

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, if consider necessary. As at 31 March 2006, 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.

EMPLOYMENT, TRAINING AND REMUNERATION POLICIES

The Group, including its subsidiaries employed approximately 12,000 employees as at 31 March 2006. 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.