SEGMENTAL INFORMATION

The Group's determination to expand its client base by penetrating new and diverse markets has paid dividends, as witnessed by the steady increase in the number of new clients. Compared to last year's figures, our products now reach close to twenty more countries. Sales to North American markets have increased by approximately 10% to 66%, although sales to European markets came down by approximately 7% to 20%. The remaining 14% sales were shared by various markets in Asia, Africa, Australia, Latin America and the Middle East. The Group will continue to explore new markets so as to maintain an ever-more healthy order book. The Group expects to establish a marketing office in the United States.

MANUFACTURING

Leased in December 1999, two adjoining sites, with a total area of approximately 91,000 square metres in Zhangjiabian, Zhongshan, PRC, were converted into a new, state-of-the-art manufacturing complex. In less than a year, eight additional production lines, together with ancillary facilities, came into operation. The complex represents the culmination of the Group's search for new manufacturing facilities following the suspension of the previously planned industrial complex in Hengmen, Zhongshan, PRC, which resulted from uncertainty with regard to the joint venture partner.

Production of the new complex in Zhangjiabian has commenced prior to the end of the year under review. When the facility reaches its optimum level, the Group's total manufacturing capacity will have doubled to approximately 1 million pairs of shoes per month. Phase two, which will comprise a factory for the production of EVA midsoles (an essential component) and two blocks of staff quarters, is now under construction. It is anticipated that it will be completed by the end of year 2001. To satisfy 21st century international standards, whereby clients place great emphasis not only on price and quality but also on working environment and the welfare of their manufacturing partners' staff, the new complex reflects the Group's commitment to the requirements in the modern footwear industry. When completed, it will be the Group's manufacturing hub.

At the same time, the existing factory in Panyu, PRC, will maintain its tradition for producing quality products for strategic clients. It will also play a key supporting role when the new complex is at full capacity during peak periods.

In line with its commitment to "Quality, Efficiency and Management", the Group recently entered into an agreement with one of the leading Chinese computer software research & development companies to design and implement a custom-made "Enterprise Resources Planning System". This system will facilitate the smoother dissemination of management information, resulting in greater efficiency, improved running, and lower production costs. Greater emphasis is to be placed on quality control at each stage of production, including the assembly of the finished product, to ensure the Group's factories meet the standards expected by its clients. Also, the

Group is to adopt a "Customer Relationship Management" strategy that aims to foster closer links with its clients in every aspect of their business. In this way, the Group can be more responsive to customers' changing needs and so sharpen its competitive edge.

RESEARCH & DEVELOPMENT

Customer relations and customer satisfaction are key concerns. To meet the needs of its clientele and maintain competitiveness within the industry, the Group has allocated significant resources to research and development. As ever the aim is to both diversify and improve the finished product. Apart from sports shoes, casual footwear, snow boots, sandals, infant shoes and work-safety shoes, the Group is developing new products, such as riding boots, for selective clients. The Group employs advanced design tools, sophisticated ancillary computer software and an experienced team to create and mould new lines for its customers.

Through the application of a "value added" concept when developing high quality products at a competitive price, the Group seeks to attract still more customers and broaden its client base. In such a way will the Group's increased capacity reap maximum rewards.

SIGNIFICANT INVESTMENTS

Apart from its investment in the new industrial complex in Zhangjiabian, the Group acquired the entire tenth floor of Island Place Tower in North Point, Hong Kong, at a cost of approximately HK$60 million. This was entirely funded out of the Group's internal cash reserve. The property is located in the same building as the Group's principal office. The Board of Directors believe that it will yield sound investment returns plus it affords flexibility should additional accommodation be required due to future expansion.

LIQUIDITY AND CAPITAL RESOURCES

As at the year end date, the Group had cash and bank balances of HK$292.2 million (1999: HK$354.4 million). The Group had banking facilities amounting to HK$141.4 million (1999: HK$90.3 million), of which approximately HK$51.4 million (1999: HK$0.6 million) had been utilized as bank loan and overdrafts. Out of the HK$51.4 million bank borrowings, HK$50.7 million was a five year term loan. This produced a

low gearing ratio of 7.5% (1999: 0.1%) on the basis of total borrowings over shareholders' fund. Certain leasehold land and buildings and investment properties held by the Group with an aggregate net book value of approximately HK$139.2 million as at 31 December 2000 were pledged to secure these banking facilities. As the Group has a strong capital base, its funding requirement is mainly sorted out from the internal resources. Management also believes that the Group is in a good position to obtain financing on favourable terms, if required.

As at 31 December 2000, the Company had contingent liabilities of HK$40 million (1999: HK$90.4 million). The contingent liabilities comprised of guarantees given to banks in connection with facilities granted to its subsidiaries.

FOREIGN CURRENCY FLUCTUATION

Since the sale and purchase transactions of the manufacturing business and the borrowings of the Group mainly involve United States Dollars and/or Hong Kong Dollars, the foreign exchange fluctuations are narrow and the risk is minimal under the Linked Exchange Rate System for Hong Kong Dollar against United States Dollar.

SHARE PLACEMENT

In March 2000, the Group completed a placement and topping-up subscription of its shares, resulting therefrom a total of 828 million new shares were issued at the price of HK$0.133 per share. The net proceeds of approximately HK$109 million from the subscription will further strengthen the Group's liquidity and financial position.

STAFF

The total number of employees of the Group as of 31 December 2000 has increased to 12,200 as compared to 7,200 in 1999. This was due to the expansion of the manufacturing division. Employee costs (excluding directors' emoluments) amounting to approximately HK$132 million. In addition to competitive remuneration packages, discretionary bonuses are awarded to eligible staff based on the Group's performance and individual merits. During the year, share options to subscribe for a total of 128,000,000 shares of the Company were granted to the employees of the Company, forming a total of 250,816,207 outstanding share options as of the date of the balance sheet.

PROSPECTS

The construction of new manufacturing facilities, the adoption of modern management philosophy, the development of "Enterprise Resources Planning System", accompanied by greater emphasis on quality control and efficiency all contribute towards the future potential growth of the Group in its core business. The management will continue to improve the manufacturing process and adopt modern information and management technology to cater for the needs of the potential as well as established customers. With the resulting end product of customers confidence and satisfaction, the Group is optimistic of yielding satisfactory returns to the investors.

Besides manufacturing, the Group will maintain its alertness in seeking for suitable opportunities in diversifying its business in viable investment so that its income base can be enhanced. Barring unforeseen circumstances, the Board of Directors is optimistic in sustaining its profitability in the coming year.

We aim to apply the modern "Customer Relationship Management" strategy and expand the manufacturing complex and facilities to meet growing demand of product diversification and customer expectation.

Eye on the Future