

RESULTS

The Group's performance for 2001 is highlighted as follows:

- Turnover decreased by 26% to US\$127,838,000 (2000: US\$172,678,000)
- Net profit attributable to shareholders decreased by 54% to US\$7,511,000 (2000: US\$16,371,000)
- Operating profit (EBITDA) decreased by 30% to US\$19,364,000 (2000: US\$27,846,000)

INDUSTRY OVERVIEW

The business environment was unfavourable in 2001. The footwear market was affected by the global economic slowdown following the substantial decline of the US economy. The conservative spending attitude of consumers added pressure to retail prices, resulting in a sluggish market. In addition, footwear from China was subject to the European Union's import quota control, causing the Group's turnover on the decline.

BUSINESS REVIEW

Product mix

The Group's product mix for the year 2001 comprises sports sandals (26%), casual shoes (36%), athletic shoes (19%) and others (19%). The Group will stick to its strategy of diversifying the product mix.

Geographical market segments

In spite of the sluggish US economy, North America remained the largest export market of the Group, accounting for 57% of its turnover in 2001. Conversely, turnover attributable to the European market dropped from 25% last year to 14% this year. This was mainly due to the stringent quota system in the European countries, which prohibits European importers without import quota from purchasing footwear from the PRC. Consequently, the Group's export sales to Europe were affected. On the other hand, sales to Asian countries grew slightly from 14% in 2000 to 20% in 2001.



Central Administration Building



Dormitory

Domestic sales in the PRC

Our domestic sales in the PRC market continued to grow steadily. With the Group's approximately 120 sales outlets established in major cities of the PRC, the turnover is expected to remain on the rise.



Heat Embossing

solve the problem of sewage disposal from our factory so as to preserve and improve the local environment. The Group was also dedicated to strengthening its staff training. In the fourth quarter of 2001, Pegasus Culture & Technology School was established to provide the employees with an opportunity to study further in the evenings. Graduates from the school will



Sewage Treatment Plant

Jointly controlled entity

In 2001, the Group set up a jointly controlled entity with a leading leather manufacturer in Thailand for the manufacture of leather. The Group will be able to better control the quality and costs of leather it uses through this jointly controlled entity, in which it holds 30% of the interest. The jointly controlled entity is expected to commence production in May 2002.

Corporate responsibility

The Group continued to input resources for environmental enhancement. During the year, a water treatment plant was constructed to

be issued a certificate of higher secondary education by the Office of Adult Education in Panyu District.

PROSPECTS

We are pleased to notice that economic indicators of the first quarter of 2002 are showing signs of mild recovery of the US economy. However, we all know that the recovery of consumer confidence as well as the economy will only come gradually. In addition, before the EU removes its import quota on China's manufactured footwear, we consider that our operation should remain prudent.

Nevertheless, aggressive efforts have been made to explore other potential markets such as Japan and we hope that such initiative will bring contributions to the Group in the coming year.

CONCLUSION

As part of its efforts to provide reasonable



Stitching Line

return to shareholders against the difficult business environment, the Group will continue its internal consolidation and endeavour to strengthen its management quality, staff training and costs control measures.

On behalf of the Board, I would like to express my gratitude towards the staff for their valuable contribution during the year and to thank our customers and vendors for their continuous support.

By Order of the Board
Thomas Wu Chen San
Chairman

Hong Kong, 10th April, 2002