Chairman’s Statement

RESULTS AND DIVIDENDS

The profit attributable to shareholders of the Group for the year ended 31st December 2002 is HK$7,723,000 (2001: HK$15,606,000 as restated after adjustment of retirement benefit obligations). The turnover of the Group for the year ended 31st December 2002 is HK$325,764,000 (2001: HK$421,178,000), representing a decrease of approximately 23% over the previous year’s. The Group recorded a loss before taxation of HK$1,252,000 in this year as compared to profit as restated before taxation of HK$18,877,000 last year.

The earnings per share for the year ended 31st December 2002 is HK2.9 cents as compared to HK5.8 cents as restated for the year ended 31st December 2001.

The directors recommended a final dividend of HK2 cents per share (2001: HK2 cents) payable to shareholders on the Register of Members on 10th June 2003. The Register of Members will be closed from 6th June 2003 to 10th June 2003, both days inclusive, during which no share transfer will be effected. To qualify for the final dividend, transfers to be dealt with must be lodged at the company’s Share Registrar, Abacus Share Registrars Limited, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong before 4:00 p.m. on 5th June 2003.

BUSINESS REVIEW AND PROSPECTS

The core business of the Group is the manufacture and export of athletic and athletic-style leisure footwear. The major customers are Fila, Reebok, Rockport and Sole Technology.

The year under review was a difficult year for the operations of the Group. Given the global economic downturn, consumer sentiment sank and resulted in a more cautious attitude when customers place their orders. A decrease in order amount had an adverse impact on the turnover and operating results of the year.

As always, the Group firmly believes that effective cost control measures are the key to maintaining its competitive edge and driving up its profit. As such, the Group implemented a series of cost control measures during the year under review, which included streaming group structure, strengthening management, lowering inventory level, tightening control over operating costs etc., and to source raw materials from premier suppliers at the most favorable prices. Nevertheless, under the intense competition in the market, it still requires continual efforts of the Group to improve its current operations so as to achieve a stable and healthy development in its businesses.

With the accession to the World Trade Organization and the further open policies of Mainland China, the Group believes that the consumer market of Mainland China is full of potential and opportunities. To enhance its competitive edge and identify more business opportunities, the Group has invested in Dingshanhu Town, Kunshan City, Jiangsu Province, where it is taking its first step to commence construction of a production plant. Other related works are under heavy construction.

The Group anticipates that the global economic downturn will continue for a period of time and will still influence the business of the Group. To cope with the current adverse conditions, the Group will strive to consolidate its market position and maintain its competitiveness through the reduction of costs and exploration of new markets.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has adhered to prudent financial policies in monitoring and managing its cash resources as well as banking facilities. As at 31st December 2002, the Group had available bank and cash balances of HK$71 million (2001: HK$53 million), including deposits of HK$16 million (2001: HK$18 million) pledged for banking facilities available to the Group of HK$35 million (2001: HK$35 million). The banking facilities are also secured by legal charges over certain land and buildings of the Group in Hong Kong and Taiwan with a total net book value of HK$46 million (2001: HK$47 million) at the balance sheet date.

Funding of the Group's operations is mainly financed by internal resources. Borrowings from banks to the Group amounted to HK$12 million (2001: HK$3 million) as at the balance sheet date, which were denominated in Hong Kong dollars and New Taiwan dollars, and were repayable within one year. The gearing ratio of the Group (total borrowings to total shareholder's equity) was only 4.7% (2001: 1.1%). The bank borrowings are being interest bearing at prevailing market rates.

The management is confident that the ample financial resources of the Group not only provide adequate funding for its operational requirements but also put the Group in a favorable position for future expansion.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

As at 31st December 2002, borrowings of the Group were denominated in Hong Kong dollars and New Taiwan dollars, whilst purchases and sales of the Group were mainly denominated in Hong Kong dollars, New Taiwan dollars or US dollars. In view of the stability of the exchange rates of Hong Kong dollars, New Taiwan dollars and US dollars, the directors consider that the Group has no significant exposure to foreign exchange fluctuation.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December 2002, the Group had a total of approximately 60 employees in its Hong Kong and Taiwan offices and approximately 4,000 workers in its processing bases in Mainland China. In addition to the competitive remuneration packages offered to employees, discretionary bonus may also be granted to eligible employees based on the performance of the Group and individual employees. In addition, the Group offers employee share options to employees according to individual merits. However, no share option was granted during the year or outstanding as at the balance sheet date.

Feng Shen Chuan
Chairman

Hong Kong, 10th April 2003