Chairman's Statement

RESULTS

The Group's performance for 2002 is highlighted as follows:

– Turnover decreased by 9.7% to US$115,405,000 (2001: US$127,838,000)

– Net profit attributable to shareholders decreased by 26.9% to US$5,492,000 (2001: US$7,511,000)

– Operating profit (EBITDA) decreased by 11.2% to US$17,200,000 (2001: US$19,364,000)

INDUSTRY OVERVIEW

The business environment remained difficult in 2002. The US economy was still waiting for the recovery, and the retail market continued to be sluggish due to weak consumer confidence. The footwear market was thus affected. On the other hand, the European Union maintained its import quota on footwear products from China. Therefore, the Group's export sales to Europe also suffered. To sum it up, while the economic anaemia around the world continued to drag down the Group's turnover, the extent of decrease was narrowed.

BUSINESS REVIEW

Product Mix

The Group's product mix for the year 2002 comprises sports sandals (27%), casual shoes (30%), athletic shoes (39%) and others (4%). The Group will stick to its strategy of diversifying the range of its footwear products.

Geographical market segments

As ever, North America remained the largest export market of the Group, accounting for 66% of its turnover in 2002. In comparison, the turnover contribution from the European market fell from 14% last year to 10% this year.

This was due to the quota system still in place in the European countries. Meanwhile, sales to Asian countries accounted for 19% of the total turnover, largely unchanged from last year.

Domestic sales in the PRC

Our domestic sales in the PRC continued to grow steadily. In addition to the Group's approximately 120 sales outlets already established in the mainland, more counters will be set up in department stores in 2003. Hence, it is expected that turnover of the Group will continue to increase.

Associates and jointly controlled entity

In July 2002, the Group acquired a Japan-listed footwear distributor Secaicho Corporation ("Secaicho"), at a consideration of US$5 million, to become its associate. The company, with more than 80 years of history, has established an extensive sales network in Japan. It has developed its own brand name Topaz and has been granted licences to market a number of brand names, including Elle and Champion USA. Secaicho has become the Group's strategic partner in Japan, and obtained syndicative effect, which enables the Group effectively explore the footwear market in Japan. The Group will also work with Secaicho to obtain the distribution rights of overseas brand names for sale in Japan and Asia.

Besides, the Group in last year set up a leather plant in joint venture with a leading leather manufacturer in Thailand. Phase one of the plant was already completed and commenced production in June 2002. It is estimated that the plant's monthly production capacity will reach 1,000,000 feet within a few months.

PROSPECTS

Certain economists forecast that the market recovery will be delayed further to the fourth quarter of 2003. In the meantime, the Group will take additional prudence in implementing its cost control measures to control production costs and operating expenses. Indeed, the turnover of the Group for the first quarter of 2003 already recorded an increase of 25% compared to the same period last year. Besides, Europe is going to lift its import quota in early 2005. In view of this, the Group expects to see a steady increase in its turnover in 2004 and 2005.

Chairman's Statement

CONCLUSION

So as to achieve good results under such difficult times, the Group will continue its efforts to strengthen its management quality, staff training and cost 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, 15th April, 2003