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I take pride in reporting to our shareholders that, despite tough market conditions, Kingmaker Footwear Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group") achieved another year of record turnover and profit in the year ended 31 March 2001. These remarkable results were attributable to our dedicated efforts to maximize productivity, improve profit margins and expand production lines, as well as our uncompromising focus on brown shoes and fashion casual footwear, a niche product line that commands a niche market.

BUSINESS REVIEW

Despite the overall sluggish environment for the footwear industry, the brown shoes segment continued to grow during the year, with more new brands coming on to the market. Growth was recorded in both the US and European markets. Following the success of the first baby-shoes programs, the Group was commissioned by Stride Rite to produce a new "Toddler Tech" line of baby footwear, which uses the latest gate technology and which has been a major success in the US since its launch. This program gave the Group a head start in the market for high-value baby and children's footwear, which has since become an important revenue generator for the Group and an engine for growth during the year.

Last year, the Group captured another new trend – that of "athleisure" footwear. This new line of footwear combines the chic look of white athletic shoes with the less costly outsole of brown shoes, to produce a new, competitively priced footwear line. Management consider the "athleisure" line one of the Group's main growth driver for the future.



During the year, the Group's production capacity was further expanded following the commencement of operations at our Vietnam facility in February 2001. Management will continue to work with local staff to enhance the new plant's production efficiency and quality. Over the past few years, the Group's capacity expansion has progressed in line with its plan to capture a larger market share in Europe.

As noted in our interim report, the Group has launched a new wholesale and retail business in Mainland China, followed by the establishment of an office and a flagship store in Guangzhou in March 2001. The operation has performed well and as of the date of this report the number of sales points in the country has topped 200, in line with management's targets. The retail environment in Mainland China is positive, but competitive. With the signing of famous athletic footwear brands such as Lotto and Head, management is confident of the positive development of this new business operation, which has prepared itself for a more rapid phase of growth with Mainland China's imminent World Trade Organization ("WTO") entry.

The Group's past successes were largely attributable to management's constant efforts to improve efficiency as production scale expands. Further enhancement of the production flow was implemented last year, resulting in an even shorter turnaround time and lower stock levels. Such efforts are expected to help the Group strengthen its competitiveness in preparation for industry cycles and market changes.

Currently the Group has a workforce of 10,000, working on 25 production lines, 17 of which are in Mainland China, 3 in Macau and 5 in Vietnam. The largest 5 branded customers are Skechers, Timberland, Stride Rite, Wolverine and Caterpillar/Cat.

FUTURE PLANS AND PROSPECT

To expand the lead in brown shoes manufacturing, the Group will accelerate capacity expansion and diversification of the production base. With a designed total capacity of 8 lines, the Vietnam factory has increased its production lines to 5 since February this year. Additional lines will be phased in over the next 2 years.

In order to maintain its competitiveness, management is seeking to establish new facilities in other parts of China. A new factory is now being planned in Zhongshan. Land has been identified and the blueprint of the new facilities envisages a total of 12 lines located in two separate buildings to house the production of competitive brands.



The Group will continue to invest in information technology to enhance operational and production flow.

An office was set up in Guangzhou recently to facilitate the development of the wholesale and retail business in Mainland China. The Group is now well equipped to embark on a more aggressive expansion program for this operation following Mainland China's accession to the WTO. To better manage the distribution network, the Group also plans to establish new offices in Beijing and Shanghai.

These achievements will form the bedrock of the Group's healthy, sustainable growth and profitability well into the future.

APPRECIATION

Finally, on behalf of the board, I would like to express my sincerely thanks to the shareholders, customers and suppliers, banks and staff for their dedicated contributions to the success of the Group.

On behalf of the Board

Chen Ming Hsiung, Mickey

Chairman

Hong Kong, 9 July 2001