



CHAIRMAN'S STATEMENT

This year is a tough year. The performance of this year is affected by the accelerated competition in the footwear manufacturing industry as well as the general increase in the raw material price.

Our customers are more aggressive in price negotiation as the retail environment becomes very promotional. The substantial surge in the manufacturing capacity has exacerbated the situation which intensifies competition, and thereby exerting substantial pressure on our profit margin.

To cope with mounting difficulties, we focus on improving production efficiency through tightening cost control and streamlining workflow of our operation. During the year, we have converted most of our production lines based on the lean manufacturing concept, which will significantly improve our overall equipment effectiveness as well as shorten our production lead time. This achievement reflects our Group's commitment and relentless drive for operational efficiency. Therefore, I would like to take this opportunity to thank our employees for their tremendous contribution.

Furthermore, we are now concentrating our efforts on upgrading our product design, development and research platform with a view to creating more exciting and innovative products that address market trends and help to create consumer demand.

Looking forward, we realise that the key to our continued success lies in our productivity and value creation ability. We will continue to create fashionable and high quality products that meet and exceed our customers' expectations. With the continued support of our customers, suppliers, shareholders and all of our employees, we are confident that we can successfully tackle the challenges that the future brings with it.

Lee Chi Keung, Russell

Chairman

Hong Kong, 22nd July 2004

