

To our Shareholders,

BUSINESS REVIEW

During the latest financial year, we have undergone a challenging year. The Group recorded a drop in turnover and a net loss as of the year end. It is attributable to the keen competition induced by adverse global over-supply business environment, high manufacturing cost due to the volatility of raw materials and shortage of skillful labors in the People's Republic of China (the "PRC").

Regarding the adverse operating environment in footwear industry since SARS in 2003, the Group has been diversifying into the information technology business during late 2003 in order to broaden the revenue stream. After having started the IT operation for one year, Chinaway Network Technology Limited reported a net profit figure during the period. However, the IT division is still undergoing its development stage.

To strengthen our IT section, we acquired two IT companies after the financial year ended 2004. It is expected that these companies will enhance our IT business platform to capture the businesses opportunities in Hong Kong and the PRC market.

PROSPECTS

Looking ahead, the Group is expected to confront envisaged challenges.

Though the global economic atmosphere is improving, the market is increasingly competitive in the footwear segment as there is a worldwide over-supply of leisure and athletic footwear. Given the recent economical figures concerning commodity, the crude oil and in turn the raw material costs are expected to accompany at high level. The Group will inevitably tolerate a higher cost of good sold in a short to medium term that squeezes our profit margin. Recognized as world's manufacturing base along with the overheating economy in the PRC, the Group will also suffer from a costly direct labor in the short to medium term until the completion of the PRC Government's marco-economic control measurement. Under these circumstances, the Group will slow down its marketing effort and attain a further cost-effective structure in footwear division till stability in crude oil price and labor cost. The Group will closely monitor and continuously review its strategies in implementing the footwear business.

As disclosed, the management anticipates challenges faced by the Group over the coming year. Regarding the footwear segment, the Group will closely scrutinize the operating environment from time to time while implementing prompt and suitable strategy to cope with the market sentiment.

Regarding the IT segment, the Group will take more effort to establish a solid IT business platform so that it will ultimately generate a stable revenue to the Group. Meanwhile, the Group will implement an inorganic growth strategy in acquisition of potential business opportunities with good prospect to enhance its IT business in the short run.

Given the potential of the information technology market in the PRC and Hong Kong, the Group is still actively exploring any business opportunities through strategic acquisition to enhance the IT business operation. The management has been vigorously identifying any potential acquisitions for the Company. If any of the investment is materialized, the Company will make appropriate disclosure and/or obtain shareholders' approval in accordance to the provision of the Listing Rules.

The Group will be very cautious in allocating its resources and will keep on exploring other suitable business opportunities and diversifying its investment to other potential industries with favorable investment return and prospect.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to our staff members for their loyalty, hard work and dedicated services.

On behalf of the Board

Lee Man Fa

Chairman

Hong Kong, 28 January 2005