

Chairman's Statement

RESULTS

The Group's performance for 2004 is highlighted as follows:

- Turnover was US\$143,704,000 (2003: US\$129,552,000)
- Net loss attributable to shareholders US\$1,082,000 (2003: net profit attributable to shareholders US\$4,217,000)

Performance of the Group for the year has been affected by increasing price in raw materials. As a result of the price hike of crude oil and crude oil products in the second half of 2004, costs of petroleum-derived products, especially those used for shoe components such as midsoles and outsoles, soared rapidly. The rising costs of materials impeded the gross profit margin of the Group. In addition, the increase in staff costs due to rise in wages and staff benefits in the Pearl River Delta region also contributed to the increasing production costs of the Group.

Furthermore, instability in electricity supply has also upset the normal production schedules of the Group, resulting in additional production expenses.

On the other hand, the corporate reorganisation of Secaicho Corporation, a long-term investment of the Group, approved by the Osaka Court in Japan was confirmed in September 2004. Subsequent to the capital reduction, the original shareholders experienced a loss in the interests and rights of the share capital they held. As a result, the Group has written off all the remaining investment amount in this investment.

INDUSTRY REVIEW

The largest export market of the Group, the US retail market, experienced growth in 2004. The increased consumer spending and needs boosted purchases from wholesalers and retailers. As a result, sales of the Group increased along with the number of orders received by its clients.

BUSINESS REVIEW

PRODUCT MIX

The growth in turnover of the Group mainly came from the sales of athletic shoes in 2004, while other footwear products accounted for a proportion as the previous year. The Group's product mix comprises sports sandals (10%), casual shoes (21%), athletic shoes (64%) and others (5%). The Group strives for broadening its footwear product mix.



GEOGRAPHICAL MARKET SEGMENTS

North America remained the largest export market of the Group, accounting for 73% of its turnover for 2004. Turnover contribution from the European market continued to be constrained by the quota system and fell to 7%. Meanwhile, sales to Asian countries accounted for 16% of the total turnover, largely unchanged for the year.

DOMESTIC SALES IN THE PRC

The Group's domestic sales continued to grow steadily. The number of sales outlets of Group in the PRC stood at around 140.

PEGASUS LEAN OPERATING SYSTEM

At present, the Group increased the number of pilot production lines based on the concept of lean operating system to 14. Compared to traditional production lines, the pilot production lines were proved to help reduce inventory level and wastage, shorten the delivery period and strengthen the productivity.

HUMAN RESOURCES

During the year, the Group engaged a consultant to review its human resources organisation with an aim of optimizing and rationalising the structure. In addition, the Group has established an internal performance appraisal system and a talent pool system, which optimizes the allocation of resources and ensures human resources support for the sustainable development of the Company.



PROSPECTS

The export quota system against footwear products from the PRC was lifted since 1st January, 2005. Consequently, turnover contribution

from exports to the European market recorded a growth with good prospect. It is expected that exports to North



America will also maintain a steady growth. However, keen market competition requires that the Group operate in a more prudent manner. In 2005, the oil price still remains at high level and it is estimated that the adjustment to unit shoe price will be made at the second half of the year.

CONCLUSION

The Group is committed to maintaining and enhancing its product and service qualities by regularly improving the capacity of human resources and production flow. While tackling the challenges of rising staff and production costs, the Group will actively seek to boost its production efficiency and expand customer base by securing orders from new customers amid keen market competition.

On behalf of the Board, I would like to express my deepest gratitude to the staff for their contribution and our suppliers and customers for their continued support.



By Order of the Board
Thomas Wu Chen San
Chairman

Hong Kong, 21st April, 2005