MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

The Group continues its core business in manufacturing and sale of athletic and athletic-style leisure footwear, in the meantime, manufactures working shoes, safety shoes and golf shoes.

The turnover of the Group for the six months ended 30th June 2001 amounted to HK$245,300,000 (six months ended 30th June 2000: HK$196,583,000), representing an increase of approximately 24.78% over the previous year's. The profit attributable to the shareholders of the Group for the period ended 30th June 2001 is HK$24,235,000 and the loss attributable to the shareholders for the previous period of HK$1,709,000.

During the period under review, the major reason for the growth in the business has been due to the enhancement of productivity and the increase in sales. However, as there are still obstructions in pricing increment, the management persisted in the strengthening of cost control, streamlining of the staff and operating procedures as well as improvement to the profit margins during the period.

Looking forward, given the global economic slump and the slowdown in the economy of the United States, the market remains latent with uncertainties that are quite elusive. In the light of these uncertain economic conditions, the Group is facing tremendous challenges. Management is determined to implement the business strategy it has laid down and tackle in full swing any difficulty that arises. Following the imminent accession of China to the World Trade Organisation, the market in the PRC continues to be the focus for investors worldwide. The Group will explore other business opportunities more proactively and prudently.

Liquidity and Financial Resources

As at 30th June 2001, the Group had available bank and cash balances of HK$60,674,000 (31st December 2000: HK$81,321,000), including deposits of HK$26,625,000 (31st December 2000: HK$11,330,000) pledged for banking facilities available to the Group of approximately HK$59 million (31st December 2000: HK$70 million). The banking facilities are also secured by legal charges over certain land and buildings of the Group in Hong Kong and Taiwan with a total net book value of approximately HK$48 million (31st December 2000: HK$47 million) at as 30th June 2001.

The gearing ratio of the Group (Total borrowings to Total shareholders' equity) was 0.87% only (31st December 2000: 3.30%). The bank borrowings are being interest bearing at prevailing market rates.

Employees and Renumeration Policy

Currently, the Group has approximately 5,800 employees, who are remunerated in line with industry practice. For the six months ended 30th June 2001, the total staff costs incurred by the Group was approximately HK$43 million (six months ended 30th June 2000: HK$36 million) and there has been no significant change in the Group's remuneration policy.

Exposure to fluctuations in exchange rates and related hedges

The Group borrowings are primarily denominated in Hong Kong and New Taiwan dollars. The Group has no significant risk exposure to foreign exchange fluctuations.

Contingent Liabilities

At 30th June 2001, the Company provided corporate guarantees to a bank of HK$40.5 million (31st December 2000: HK$51 million) in respect of banking facilities granted to certain subsidiaries. The amount utilised at 30th June 2001 amounted to approximately HK$1.5 million (31st December 2000: HK$14 million).