BUSINESS REVIEW AND PROSPECTS *(Continued)*

Secaicho filed an application to Osaka Court for corporate reorganisation in July 2003 for the reason of shortage of short-term capital turnover. Till now, Secaicho is under normal operation and keeps purchasing the footwear products from the Group. The Group also keeps delivering the footwear products against receipt of L/C as usual, and there is no issue of trade receivables. However, the Group has recognised an impairment loss for investment in Secaicho in an amount equal to approximately 50% of the cost of investment in the financial statement for the year ended 31st December 2003. To be consistent with its prudent approach, the Group has further recognised an impairment loss amounted to US$1,164,000, which is equal to approximately 50% of the remaining investment cost, in the financial statement of the first-half year of 2004.

In the first-half year of 2004, the Group's trial production lines based on the concept of lean operating system at the plant increased to four. The result of trial production lines was encouraging, not only enhanced its productivity persistently, but also shortened the delivery period. On the other hand, the Group also engaged consultants to review and optimize the composition of its human resources, with an aim to rationise its structure, strengthen its internal review mechanism, thus enabling an effective use of resources.

It is our Group's strategy to focus on our own line of business, devoting our mind to existing branded customers and serving them with more enthusiasm, which functions as the foundation for enhanced business partnership. Despite intense market competition, we will further our stringent cost control to improve efficiency and to increase return to the shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2004, the Group's total assets was US$154,033,000, comprising mainly current liabilities of US$27,743,000, long term liabilities of US$18,281,000 and shareholders' funds of US$108,008,000. The current ratio was approximately 2.5 times and the ratio of net bank borrowings to shareholders' fund was approximately 16%. The Group services its debts primarily through cashflow generated from its operation. The Directors believe that the Group has maintained sufficient working capital for its operation and future expansion.