MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

Turnover of the Group for the six months ended 30th June 2006 amounted to HK$76,298,000 (six months ended 30th June 2005: HK$147,649,000), representing a decrease of approximately 48% over the corresponding period last year. Loss attributable to equity holders of the Company was HK$49,982,000, as compared to loss of HK$7,850,000 for the same period last year.

Business Review and Prospects

The Group's core business is the manufacture and export of athletic and athlete-style leisure footwear, as well as the manufacture of working shoes, safety shoes, golf shoes and other functional shoes.

The first half of 2006 was a very difficult period with significant drop in turnover and rising production costs. The decrease in turnover by 48% over the same period last year was mainly due to the loss of some key customers in 2005 and intense market competition. The rising of minimum wages in the Pearl River Delta Region, higher material prices resulting from high oil prices throughout the period and the appreciation of Renminbi against US dollar were factors which magnified the cost pressures on the Group in addition to the loss of scale of economy due to the decrease in production volume. As a result, the Group incurred losses for the first six months of the year.

Upon the acquisition of the Group by South China Industries Limited ("SCI") through Micon Limited during the period, a new management team from SCI has taken control of the Group's operation since May 2006. SCI has been engaged in the footwear business for more than 10 years and the new management team will assist to formulate business plans and strategies for the future business development of the Group. Major business improvement initiatives taken by the management including key accounts management, supply chain and procurement management, manufacturing and efficiency improvement, inventories control and management, other selling, distribution and administrative expenses control and working capital management. In addition, the Group is planning to consolidate a factory in Dongguan, PRC with the Group's other production facilities in order to improve production efficiency and cost effectiveness.

Looking ahead is still full of challenges requiring the Group's great effort and determination. Leveraging on the expertise in the sales team, fulfillment team and supply chain team, the Group will strive to improve productivity and maintain a tight control over operating cost. With better planning and monitoring, management is confident to bring rejuvenation to the Group.

Liquidity, Financial Resources and Capital Structure

The Group has adhered to stringent and prudent financial policies in monitoring and managing its cash resources as well as banking facilities. As at 30th June 2006, the Group had available cash and bank balances of HK$7,167,000 (2005: HK$20,846,000). The banking facilities available to the Group is HK$8,000,000 (2005: HK$49,000,000). The banking facilities are secured by legal charges over certain land and buildings of the Group with net book value of HK$5,327,000 (2005: HK$14,884,000).

Funding of the Group's operations is mainly financed by internal resources. As at 30th June 2006, there were no bank borrowings to the Group (2005: Nil). Accordingly, no gearing ratio is presented.

There is no change in capital structure of the Company during the period.

Exposure to exchange rate fluctuation

The directors considered that the Group has no significant exposure to foreign exchange fluctuation. No hedging or other arrangements to reduce the currency risk has been implemented.

Employees and remuneration policy

As at 30th June 2006, the Group had a total of approximately 25 employees in its Hong Kong and Taiwan offices and approximately 2,400 workers in its processing bases in Mainland China. Besides offering competitive remuneration packages to the employees, discretionary bonuses may also be granted to the eligible employees based on the Group's and the individual's performance. Staff costs for the period amounted to HK$22,306,000 (six months ended 30th June 2005: HK$33,696,000).

Significant Investment

For the six months ended 30th June 2006, the Group had not made any significant investment.

Material acquisitions and disposals of subsidiaries

There were no material acquisition and disposal of subsidiaries during the six months ended 30th June 2006.

Pledges of assets, contingent liabilities and commitments

There was no material change in the Group's pledges of assets, contingent liabilities and commitments as compared to the most recent published annual report.