MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

During the period under review, the Group recorded a turnover of approximately HK$102.2 million, representing a decrease of approximately 42% as compared to the previous period HK$177.8 million, because of the significant price pressure on the products. This price pressure is attributable to the keen competition amongst market players under an adverse business atmosphere around the world.

The following table provides analysis of the Group's revenue by geographical market:

	For the six months ended 31 March 2004		For the six months ended 31 March 2003		Percentage of change Year to Year
	HK$'000	**%**	*HK$'000*	%	%
Europe	**71,916**	**73**	144,087	81	(50)
United States of America	**6,540**	**7**	12,385	7	(47)
The PRC	**10,347**	**10**	7,244	4	43
Others	**10,351**	**10**	14,126	8	(27)
Sub-total	**99,154**	**100**	177,842	100	(44)
IT Business in the PRC	**3,039**		–		
TOTAL	**102,193**		177,842		(43)

Throughout the period, the gross profit margin dropped from 8.7% to -42.5% in reflection of the tough operating environment. With respect to a record high price of the crude oil during the last decade, it escalates the petrochemical related products, such as Polyurethane, synthetic leather and EVA, etc. Meanwhile, price of raw materials, i.e. natural rubber and leather, also increased considerably during the time. Unfortunately, these items are the essential raw material of our core business in making of athletic and leisure shoes. Coupled with these volatile raw materials supply, it inevitably stimulated the upsurge of our cost of good sold and deteriorated the gross profit substantially.

Due to the shrinkage of sales volumes in footwear business and growth of selling and general administration cost in the IT business stream regarding the diversification of our revenue sources, the net profit margin gave a figure of negative 30%. However, over 25% of operating expense (i.e. HK$3.3 million) was non-cash expenditure which reflected the amortisation of goodwill in relation to the newly acquired IT subsidiary, Chinaway Network Technology Limited.

The Group has recorded a loss attributable to shareholders amounted to approximately HK$10.6 million because of the significant price pressure on the product, the increase of cost of raw material and the expansion of the IT business division.

Outlook

Looking ahead towards the coming year, though the global economic atmosphere is improving, the market is increasingly competitive as there is a worldwide over-supply of leisure and athletic footwear. On the other hand, as shown in the recent economical figures, the crude oil and in turn the raw materials are expected to remain at a high level. The Group will inevitably tolerate a higher cost of good sold in a short to medium term that squeezes our profit margin. Under this circumstance, the Group will put more effort to retain its existing customers and attain a more cost-effective structure in footwear unit until stability in crude oil price. Certainly, it would be a challenging year for the Group in footwear business.

In response to the keen competition and the market change in raw materials within the footwear industry, the Group diversified its existing business into information technology business since the acquisition of Chinaway Network Technology Limited during last year. The management anticipates that diversification into IT business will broaden the revenue base of the Group and enhance the Group's profit margin in the long run. Meanwhile, the Group will implement a strategy in acquisition of potential business opportunities with favorable rate of return and good prospect to enhance its IT business in the short run. As a result, the Group has exercised a rights issue of approximately HK$60 million after post balance date of 31 March 2004 whereas it can provide a fund reserve for any potential acquisition. However, there is no acquisition has been completed yet since the rights issue but identified a potential target in June 2004. A detail of this potential transaction has been disclosed in the announcement as of 2 June 2004. If any of the investment is materialized, the Company will make appropriate disclosure and/or obtain shareholders' approval in accordance to the provisions 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.