

Management Discussion and Analysis

RESULTS OF OPERATIONS

The Group's turnover for the fiscal year ended 30th September, 2001 totaled US\$1,779.7 million, an increase of 5.2% over the same period in 2000. Net profit rose by 1.2% to US\$212.8 million from US\$210.2 million in 2000, while earnings per share for the financial year under review totaled US\$0.302, versus US\$0.297 in 2000.

Costs Review

Total operating costs increased 5.6% to US\$1,613.8 million in 2001, compared to US\$1,528.3 million in 2000.

During the year, cost of sales rose 5.1% to US\$1,312.9 million from US\$1,249.7 million in 2000. Selling and distribution expenses, administrative expenses and other operating expenses increased by 4.4%, 6.5% and 15.5%, respectively.

Inventory turnover in days remained steady at 40 days in 2001. Increases in production volume, meanwhile, continue to improve utilization of facilities and economies of scale.

Production Volume and Categories

Total production volume increased 10% to 113.5 million pairs from 103.1 million pairs in 2000. Athletic shoes accounted for 73% of overall turnover (2000: 76%), while casual shoes accounted for 19% (2000: 15%). Growth rates by dollar value for athletic and casual shoes were 1.6% and 34%, respectively. More product mix with wider price ranges were noted during the year. In 2001, the Group increased the number of production line to 227 from 215 in 2000.

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Year ended September 30,

	2001		2000		1999	
	US\$ million	%	US\$ million	%	US\$ million	%
Athletic Shoes	1,304.5	73.3	1,283.7	75.9	1,151.4	77.6
Casual Shoes	346.1	19.4	258.9	15.3	195.2	13.1
Sole & components	129.1	7.3	148.5	8.8	137.5	9.3
Total Turnover	1,779.7	100.0	1,691.1	100.0	1,484.1	100.0

RESULTS OF OPERATIONS (Continued)

Geographical Market

The Group continued to make progress in the U.S. markets, which accounted for 55% of turnover (2000: 53%), while sales within Europe fell marginally to 26% of turnover (2000: 27%). The Asian, Canadian, South American and other markets collectively accounted for 19% of turnover (2000: 20%).

	Year ended September 30,					
	2001		2000		1999	
	US\$ million	%	US\$ million	%	US\$ million	%
U.S.A.	981.3	55.1	901.4	53.3	905.8	61.0
Canada	39.0	2.2	53.1	3.1	43.4	2.9
Europe	465.5	26.2	452.3	26.8	308.4	20.8
South America	35.5	2.0	25.4	1.5	20.8	1.4
Asia	222.8	12.5	221.7	13.1	185.5	12.5
Other Areas	35.6	2.0	37.2	2.2	20.2	1.4
Total Turnover	1,779.7	100.0	1,691.1	100.0	1,484.1	100.0

LIQUIDITY AND FINANCIAL INFORMATION

Liquidity

As at 30th September, 2001, the Group had cash on hand of US\$132 million (2000: US\$117 million) and total borrowings of US\$342 million (2000: US\$294 million). This represented a gearing ratio of 32% (2000: 31%) and a net debt to equity ratio of 20% (2000: 19%). The gearing ratio is based on total borrowings to shareholders' equity and the net debt to equity ratio is based on total borrowings net of cash on hand to shareholders' equity.

Short-term loans increased to US\$324 million from US\$170 million in 2000. This increase was largely attributable to the reclassification of a US\$120 million long-term loan to short-term status.

The interest coverage ratio of the Group's profit before interest, tax, depreciation and amortization (EBITDA) to net interest expense was 16.4 times in 2001, compared with 35.4 times in 2000.

In October 2001, the Group raised a 5-year syndicated loan of US\$350 million. Proceeds from the loan have been and will be used to refinance existing bank borrowings and to fund future business expansion.

LIQUIDITY AND FINANCIAL INFORMATION (Continued)

Capital Expenditure

Capital expenditure for the year totaled US\$182 million. During the year, the Group invested approximately US\$80 million for construction of new factory buildings, dormitories, staff quarters and accommodation facilities, mainly in China and Vietnam. The Group also invested approximately US\$16 million in new land and buildings and approximately US\$81 million to fund the acquisition of plant and equipment for the Group's business as well as the improvement of the existing recreational and welfare facilities for employees in China, Indonesia and Vietnam.

During the year, the Group also disposed of certain property, plant and equipment totaling US\$28.7 million.

Dividend Policy

The Group maintained a position of financial stability and solid cash holdings at the end of 2001. In light of this, the Group has continued its policy of steadily increasing dividend payments to its shareholders. A final dividend of HK\$0.60 per share (2000: HK\$0.55) will be declared. Dividend per share proposed for year 2001 totaled HK\$1.00, an increase of 5.3% from HK\$0.95 in 2000. Dividend payout ratio increased to 42.4% in 2001 from 41.3% in 2000.

Share Repurchases

During the year, the Company repurchased certain of its own shares on the Hong Kong Stock Exchange pursuant to the general mandate granted to the Directors of the Company at the Annual General Meetings.

Details of shares repurchased by the Company during the year were as follows:

Number of ordinary shares	Highest price paid per share	Lowest price paid per share	Aggregate price paid
11,353,000	HK\$15.70	HK\$13.65	HK\$166,133,000

CORPORATE SOCIAL RESPONSIBILITY

The Group is committed to creating an environment that values and respects employees, recognizes and rewards their performance and provides them with meaningful growth opportunities. It has also continuously engaged in programs to ensure health and safety and to promote the well-being of the community.

For the past several years, evening schools were organized for employees in China, Indonesia and Vietnam to provide workers opportunity to complete junior and senior high school curriculum. Many training courses, after work group activities and community affairs programs, some of which were co-sponsored with our brand customers and international organizations such as Global Alliance, offered unique opportunities for staff self-development as well as building a better community in and out of the workplace.

Meanwhile, pursuant to the long-term initiative to protect the environment, the Group has completed two world-class wastewater treatment plants this year in China capable of handling 8,000 CMD (ton) of wastewater daily. Two existing plants in Vietnam have been functioning well in place.