

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2002

1. ACCOUNTING POLICIES

The unaudited condensed interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The accounting policies adopted in the preparation of these unaudited condensed interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 December 2001 except for the adoption of the following new and revised SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (Revised) prescribes the basis of presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to SSAP 1 is to change the requirements from presenting a statement of recognized gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the period and the comparative figures have been presented in accordance with SSAP 1 (Revised).

SSAP 11 (Revised) prescribes the basis for translation of foreign currency transactions on financial statements. SSAP 11 (Revised) has had no major impact on these condensed consolidated financial statements.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the period and the comparative figures have been presented in accordance with SSAP 15 (Revised).

SSAP 33 prescribes the basis for the reporting information about discontinuing and discontinued operations. SSAP 33 has had no major impact on these condensed consolidated financial statements.

SSAP 34 prescribes the accounting treatment and disclosure for employee benefits. SSAP 34 has had no major impact on these condensed consolidated financial statements.

Interim Report

2. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and gross rental income received and receivable from investment properties during the period.

3. SEGMENT INFORMATION

An analysis of the Group's turnover and results information for the period by business segments is as follows:

	Footwear products		Property investment		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2002	2001	2002	2001	2002	2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>469,664</u>	<u>411,478</u>	<u>755</u>	<u>468</u>	<u>470,419</u>	<u>411,946</u>
Segment results	<u>87,793</u>	<u>61,143</u>	<u>(14,661)</u>	<u>(14,004)</u>	<u>73,132</u>	<u>47,139</u>
Net unallocated expenses					<u>(34,384)</u>	<u>(10,800)</u>
Profit from operating activities					<u>38,748</u>	<u>36,339</u>
Finance costs					<u>(6)</u>	<u>(1,961)</u>
Share of profit of a jointly-controlled entity					<u>4,314</u>	<u>-</u>
Profit before tax	<u>43,056</u>	<u>34,378</u>			<u>43,056</u>	<u>34,378</u>

Interim Report

3. SEGMENT INFORMATION (continued)

The following table presents revenue and profit information for the Group's geographical segments:

	Turnover		Contribution to gross profit	
	Six months ended 30 June		Six months ended 30 June	
	2002	2001	2002	2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By geographical area				
North America				
United States of America	307,385	299,433	73,843	64,319
Others	33,581	17,069	8,067	3,666
	340,966	316,502	81,910	67,985
Europe	82,020	49,346	19,704	10,600
Asia	19,822	19,960	5,336	4,655
Australia	10,696	8,612	2,569	1,850
Others	16,915	17,526	4,064	3,765
	470,419	411,946	113,583	88,855

Interim Report

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June	
	2002	2001
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	243,439	228,335
Depreciation	10,745	7,441
Provision for bad and doubtful debts	1,430	2,741
Loss on disposal of fixed assets, net	7	1,183
Deficit on revaluation of leasehold land and buildings	4,999	8,225
Deficit on revaluation of investment properties	14,721	13,761
Interest income from listed investments	(779)	(8,112)
Net holding gain on short term investments	-	(855)
Gain on disposal of short term investments	-	(3,626)
Gain on disposal of long term investments	(247)	(2,848)
Dividend income from listed investments	(17)	(772)
	=====	=====

5. FINANCE COSTS

	Six months ended 30 June	
	2002	2001
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest expense on bank loan and overdrafts wholly repayable within five years	6	1,961
	=====	=====

Interim Report

6. TAX

	Six months ended 30 June	
	2002	2001
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Provision for the period:		
Hong Kong	667	150
Elsewhere	1,557	1,164
	<u>2,224</u>	<u>1,314</u>
Tax charge for the period	<u>2,224</u>	<u>1,314</u>

Hong Kong profit tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the period. Tax on profits assessable elsewhere has been provided at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices thereof.

7. INTERIM DIVIDEND

	Six months ended 30 June	
	2002	2001
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interim – HK\$0.06 per ordinary share (2001: Nil)	12,490	–
	<u>12,490</u>	<u>–</u>

Interim Report

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's unaudited net profit from ordinary activities attributable to shareholders for the period of HK\$40,876,000 (2001: HK\$33,175,000) and the weighted average number of 208,169,996 (2001: 205,269,996, adjusted for the consolidation of 25 ordinary shares of HK\$0.04 each into 1 ordinary share of HK\$1.00 each) ordinary shares in issue during the period.

There is no dilutive effect on the basic earnings per share for the six months ended 30 June 2002, and the exercise of share options would have anti-dilutive effect on the basic earnings per share for the six months ended 30 June 2001, and accordingly no diluted earnings per share for the periods is presented.

9. TRADE RECEIVABLES

The Group generally grants a credit term of 60 to 90 days to its customers. The unaudited ageing analysis of trade receivables based on the date of goods despatched is as follows:

	30 June 2002 (unaudited) HK\$'000	31 December 2001 (audited) HK\$'000
Current to 30 days	76,339	98,475
31 days to 60 days	43,009	24,795
61 days to 90 days	4,998	10,207
Over 90 days	71,885	75,864
	196,231	209,341
Less: Provision for doubtful debts	(76,084)	(77,252)
	120,147	132,089

Interim Report

10. TRADE PAYABLES

The unaudited ageing analysis of trade payables based on the date of receipt of goods and services purchased is as follows:

	30 June 2002 (unaudited) HK\$'000	31 December 2001 (audited) HK\$'000
Current to 30 days	58,990	58,916
31 days to 60 days	31,850	32,284
61 days to 90 days	11,199	7,111
Over 90 days	20,401	18,759
	<u>122,440</u>	<u>117,070</u>

11. SHARE CAPITAL

	30 June 2002 (unaudited) HK\$'000	31 December 2001 (audited) HK\$'000
Shares		
Authorised:		
2,000,000,000 ordinary shares of HK\$1.00 each	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
208,169,996 ordinary shares of HK\$1.00 each	<u>208,170</u>	<u>208,170</u>

There was no movement in the share capital of the Company for the six months ended 30 June 2002.

11. SHARE CAPITAL (continued)

Share options

The Company adopted a new share option scheme (the "New Scheme") in 2001 to replace the share option scheme adopted on 9 February 1995 (as amended on 9 December 1997) (the "Old Scheme").

The Company operates the New Scheme for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. All directors, full-time employees and any other persons who, in the sole discretion of the board of directors, have contributed or will contribute to the Group are eligible to participate in the New Scheme.

Shares which may be issued upon exercise of all options to be granted under the New Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption. Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the New Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 14 days from the date on which the letter containing the offer is delivered to that participant and the amount payable on acceptance of an option is HK\$1.00.

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be established by the board of directors at the time the option is offered to the participants.

Interim Report

11. SHARE CAPITAL (continued)

Share options (continued)

No options may be granted under the New Scheme after the date of the tenth anniversary of the adoption of the New Scheme.

Details of movements in the number of share options under the Old Scheme during the period:

Exercise price per share	At 1 January 2002	Cancelled during the period	At 30 June 2002
HK\$1.00	1,540,000	(1,540,000)	–

12. RESERVES

Group	Share premium account <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002 (audited)	28,057	4,827	195,563	228,447
Exchange realignment (unaudited)	–	874	–	874
Net profit for the period (unaudited)	–	–	40,876	40,876
Interim dividend (unaudited)	–	–	(12,490)	(12,490)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2002 (unaudited)	<u>28,057</u>	<u>5,701</u>	<u>223,949</u>	<u>257,707</u>

13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2002 (31 December 2001: Nil).

Interim Report

14. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms of two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2002 (unaudited) HK\$'000	31 December 2001 (audited) HK\$'000
Within one year	1,397	1,299
In the second to fifth years, inclusive	532	1,226
	1,929	2,525

(b) As lessee

The Group leases certain land and buildings under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to ten years.

At 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2002 (unaudited) HK\$'000	31 December 2001 (audited) HK\$'000
Within one year	8,388	8,676
In the second to fifth years, inclusive	3,927	7,555
After five years	1,857	2,245
	14,172	18,476

Interim Report

15. COMMITMENTS

	30 June 2002 (unaudited) HK\$'000	31 December 2001 (audited) HK\$'000
Capital commitments contracted for in respect of:		
Capital contributions to subsidiaries in the PRC	1,841	1,841
Leasehold improvements	-	1,215
	1,841	3,056

INTERIM DIVIDEND

The Board of Directors declared an interim dividend of HK\$0.06 per share (2001: Nil) for the six months ended 30 June 2002 to members whose names appear on the register of members of the Company as at the close of business on 11 October 2002.

CLOSE OF REGISTER OF MEMBERS

The register of members will be closed from 7 October 2002 to 11 October 2002, both days inclusive, during which period no share transfers shall be effected. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration by no later than 4:00 p.m. on 4 October 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

During the period under review, the turnover of the Group was approximately HK\$470.4 million, an increase of approximately 14% as compared to the corresponding period in 2001. At the same time, the Group's net profit from ordinary activities attributable to shareholders was approximately HK\$40.9 million, an increase of 23% as compared to corresponding period in 2001 after making provisions for impairment in the value of the Group's investment to reflect the current market conditions.

Segmental Information

Despite the continuance of global economic downturn and weak customer sentiment, the Group has, nonetheless, achieved and sustained steady growth. Sales to North American market have increased by 8% and constituted approximately 72% (2001: 77%) of the Group's total turnover; Europe accounted for 17% (2001: 12%) of sales, while the remaining 11% (2001: 11%) sales were shared between Asia, Africa, Australia, Latin America and the Middle East. The Group is still seeking for new markets and widening its client base. The order book for the coming half of the year is extremely promising.

Manufacturing

To cope with the increasing production needs and customer requirement, the construction of the new industrial complex in Zhongshan has been completed. Manufacturing facilities are currently under full operation.

The Directors recognize the importance of providing our workers in China with a safe working environment and will further improve the staff's working and living conditions generally. The Group will continue to honour its commitment on international environmental and human rights standards.

The Panyu factory was recently awarded with the ISO 9002:1994 certification granted by The International Certification Network and the ISO 9002 certification granted by DQS Deutsche Gesellschaft zur Zertifizierung von Managementsystemen mbH. This shows the Group's commitment to meeting high international standards.

The Directors are considering utilizing more resources on the quality control process and focus on inventory management in line with customer requirements.

Liquidity and Capital Resources

As at 30 June 2002, the Group had cash and bank balances of HK\$189.2 million (31 December 2001: HK\$100.7 million). The Group was offered banking facilities amounting to HK\$90.7 million, none of which had been utilized, indicating a nil gearing ratio on the basis of total borrowings over shareholders' fund. The banking facilities were collateralized by the Group's leasehold land and buildings and investment properties.

The Group does not have any significant exposure to foreign currency fluctuation and contingent liabilities.