

RESULTS OF OPERATIONS

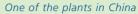
Turnover for the fiscal year ended 30th September, 2002 totalled US\$1,938.6 million, an increase of 8.9% over the same period in 2001. Net profit rose by 7.4% to US\$228.6 million compared with US\$212.8 million in 2001, while earnings per share for the financial year under review totalled US\$0.323 versus US\$0.302 in 2001.

Costs Review

Total operating costs increased by 9.1% to US\$1,760.6 million in 2002, compared to US\$1,613.8 million in 2001.

Cost of sales rose 8.6% to US\$1,426.1 million in 2002 from US\$1,312.9 million in 2001. Selling and distribution expenses, administrative expenses and other operating expenses increased by 7.6%, 1.9% and 36.6%, respectively. The substantial increase in other operating expenses was mainly due to the increase in research and development expenditure, loss on disposal of property, plant and equipment, syndicated loan arrangement fees during the year, etc.

Inventory turnover in days remained steady at 39.2 days in 2002 (2001: 40 days). The production volume, meanwhile, continues to improve utilization of the facilities and achieve economies of scale.





Production Volume and Categories

Total production volume increased by 15% to 130.4 million pairs from 113.5 million pairs in 2001. Athletic shoes accounted for 75% of overall turnover (2001: 73%), while casual shoes accounted for 18% (2001: 19%). Growth rates by dollar value reflect an increase of 11% for athletic shoes and an increase of 3% for casual shoes. A greater product mix with wider price ranges were recorded during the year. In 2002, the Group increased the number of production lines to 254 from 227 in 2001.

	Year Ended 30th September,						
	:	2002		2001	2000		
	US\$ million	%	US\$ million	%	US\$ million	%	
Athletic Shoes	1,451.5	74.9	1,304.5	73.3	1,283.7	75.9	
Casual Shoes	355.2	18.3	346.1	19.4	258.9	15.3	
Retail Shoe Sales	3.2	0.2	-	-	-	-	
Sole & Components	128.7	6.6	129.1	7.3	148.5	8.8	
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Total Turnover	1,938.6	100.0	1,779.7	100.0	1,691.1	100.0	



RESULTS OF OPERATIONS (Continued)

Geographical Market

The Group has achieved modest growth in the U.S. market, which accounted for approximately 52% (2001: 55%) of total turnover, while the European and Asian markets have recorded more significant growth, representing approximately 27% (2001: 26%) and 14% (2001: 13%) of the total turnover, respectively.

	Year Ended 30th September,							
	2002		2001		2000			
	US\$ million	%	US\$ million	%	US\$ million	%		
U.S.A.	1,001.0	51.6	981.3	55.1	901.4	53.3		
Canada	39.5	2.0	39.0	2.2	53.1	3.1		
Europe	527.0	27.2	465.5	26.2	452.3	26.8		
South America	57.1	3.0	35.5	2.0	25.4	1.5		
Asia	267.4	13.8	222.8	12.5	221.7	13.1		
Other Areas	46.6	2.4	35.6	2.0	37.2	2.2		
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Total Turnover	1,938.6	100.0	1,779.7	100.0	1,691.1	100.0		

One of the plants in China



LIQUIDITY AND FINANCIAL INFORMATION

Liquidity

As at 30th September, 2002, the Group had cash on hand of US\$312 million (2001: US\$132 million) and total borrowings of US\$421 million (2001: US\$342 million). This represented a gearing ratio of 33% (2001: 31%) and a net debt to equity ratio of 9% (2001: 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 decreased to US\$155 million from US\$324 million in 2001. The decrease was largely attributable to the refinancing of the previous syndicated loan and repayment made during the year.

The interest coverage ratio of the Group's profit before interest, tax, depreciation and amortization (EBITDA) to net interest expense was 36.9 times in 2002 compared with 16.4 times in 2001.

One of the plants in Indonesia



LIQUIDITY AND FINANCIAL INFORMATION (Continued)

Capital Expenditure

Capital expenditure for the year totalled US\$98 million (2001: US\$182 million). During the year, the Group invested approximately US\$20 million for construction of new factory buildings, dormitories, staff quarters and accommodation facilities, mainly in the People's Republic of China and Vietnam. The Group also invested approximately US\$15 million in new land and buildings and approximately US\$61 million in plant and equipment for the expansion of the Group's business.

During the year, the Group also disposed of certain property, plant and equipment totalling US\$10 million (2001: US\$28.7 million).

Dividends

The Group maintained a position of financial stability and solid cash holdings at the end of the 2002 fiscal year. In light of this, the Group has continued its policy of steadily increasing dividend payments to its shareholders. A final dividend of HK\$0.75 per share (2001: HK\$0.60) is recommended.

Dividend proposed for the year 2002 totalled HK\$1.15 per share, an increase of 15% from HK\$1.00 in 2001. A dividend payout ratio will be approximately 48% in 2002 compares with a dividend payout ratio of 42.4% in 2001.



The Directors of the Company resolved that the final dividend should be satisfied by way of cash payment, with an option for those entitled thereto to elect to be issued and allotted Scrip Shares in lieu of cash payment or a combination of cash payment and Scrip Shares. The Company will issue further announcement and circular containing full details of the declaration and payment of the final dividend as soon as practicable.

Our Employees

As at 30th September, 2002, the Group employed a total of 205,000 employees, compared with 187,200 in 2001. The Group's employment policies are formulated based on the performance of individual employees and are reviewed on a yearly basis. The Group may also provide discretionary performance bonuses to its employees as an incentive to enhance their contribution, subject to the profit of the Group and the performance of the employees.

Subsequent Event

In November 2002, the Group completed the acquisition of shares in 67 companies (the "Target Group") engaged in the manufacturing of raw materials, production tools and shoe components for shoe manufacturing from the subsidiaries of its parent company, Pou Chen Corporation ("Pou Chen"), for a total consideration of US\$427 million (US\$186.8 million by way of allotment and the issue of 60 million Company's shares at HK\$24.29 per share and US\$240.2 million in cash financed through a combination of existing cash holdings, undrawn bank facilities and external debt).



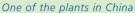
LIQUIDITY AND FINANCIAL INFORMATION (Continued)

Subsequent Event (Continued)

The total consideration represented a P/E ratio of 9.57 times based on the Target Group's guaranteed net profit after taxation and minority interest of US\$44.6 million for the year ended 30th September, 2002. The total consideration will be adjusted based on any shortfall or excess of the actual net profit from the guaranteed net profit on the same P/E ratio, provided that the upside consideration adjustment does not exceed US\$9.57 million.

The acquisition is an integral part of the Company's strategy to extend its vertical business integration and expand its core footwear production business. It is also part of the Company's strategy to enhance its earnings base and enlarge its asset base through more diversified business activities with a broader client base.

The acquisition will consolidate the Company's position as the largest manufacturer for leading international brands of athletic and casual footwear. In addition, it will improve corporate transparency by eliminating a significant amount of connected transactions between the Group and its parent, Pou Chen.





Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 30th September, 2002.

Proposal for Subdivision of Shares and Reduction of Board Lot

The Directors of the Company will put to shareholders for their approval a proposal (the "Share Subdivision Proposal") to subdivide each of the existing issued and unissued shares of HK\$0.50 each in the capital of the Company into two shares of HK\$0.25 each (the "Subdivided Shares"). The board lot size for trading of shares in the Company on the Stock Exchange will change from 1,000 shares of HK\$0.50 each to 500 Subdivided Shares. This could improve liquidity of trading in Subdivided Shares on the Stock Exchange and enable the Company to attract more investors and widen its shareholder base.

The Share Subdivision Proposal will be conditional upon the approval by the shareholders at the Annual General Meeting of the Company. It will also be conditional on the consent of the Bermuda Monetary Authority and on the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Subdivided Shares.

A press announcement and a circular with full details of the Share Subdivision Proposal to the shareholders will be issued as soon as practicable.