

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2003

1. ACCOUNTING POLICIES

The condensed interim financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The condensed interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 "SSAP 25" "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002, except as described below.

In the current period, the Group has adopted, for the first time, SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, the Group did not recognise any deferred tax and the unrecognised deferred tax was calculated using the income statement liability method. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Opening accumulated profits at 1 January 2002 have been increased by HK\$765,000, which is the cumulative effect of the change in policy on the results for periods prior to 2002. The effect of the change is a reduced charge to income taxes in the current period of HK\$395,000 (for the six months period ended 30 June 2002: HK\$193,000).

2. SEGMENT INFORMATION

Business Segments

	Footwear products		Property investment		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Turnover	<u>582,277</u>	<u>469,664</u>	<u>441</u>	<u>755</u>	<u>582,718</u>	<u>470,419</u>
Segment results	<u>93,397</u>	<u>87,793</u>	<u>(11,659)</u>	<u>(14,661)</u>	<u>81,738</u>	<u>73,132</u>
Unallocated corporate expenses					<u>(16,744)</u>	<u>(34,384)</u>
Profit from operations					<u>64,994</u>	<u>38,748</u>
Finance costs					-	(6)
Share of results of a jointly controlled entity					<u>(7)</u>	<u>4,314</u>
Profit before taxation					<u>64,987</u>	<u>43,056</u>

3. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
	Profit from operations has been arrived after charging (crediting):	
Cost of inventories sold	<u>315,735</u>	243,439
Depreciation	<u>13,544</u>	10,745
Provision for bad and doubtful debts	<u>3,850</u>	1,430
Loss on disposal of property, plant and equipment	<u>9</u>	7
Interest income from listed investment securities	<u>(577)</u>	(779)
Gain on disposal of investment securities	<u>-</u>	(247)
Dividend income from listed investment securities	<u>(38)</u>	(17)

4. TAXATION

	Six months ended 30 June	
	2003	2002
	(unaudited)	(unaudited and restated)
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	4,410	667
Other jurisdictions	5,034	1,557
	9,444	2,224
Deferred tax:		
Current period	(390)	(193)
Attributable to increase in tax rate	(5)	-
	(395)	(193)
Taxation attributable to the Company and its subsidiaries	9,049	2,031

Hong Kong Profits Tax is calculated at the rate of 17.5% (2002: 16%) of the estimated assessable profit for the period. The Profits Tax rate has been increased with effect from the 2003 year of assessment. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

5. DIVIDEND

During the six months ended 30 June 2003, a final dividend of HK\$0.07 per ordinary share and a special dividend of HK\$0.1 per ordinary share were paid to shareholders as the final and special dividends for the year ended 31 December 2002.

The board of directors of the Company (the "Board") have determined that an interim dividend of HK\$0.08 (2002: HK\$0.06) per ordinary share should be paid to shareholders of the Company whose names appear in the Company's register of members on 18 September 2003.

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's unaudited net profit attributable to shareholders of HK\$55,978,000 (2002: HK\$41,069,000) and the number of 208,169,996 (2002: 208,169,996) ordinary shares in issue during the period.

7. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2003, the Group acquired the land and buildings as referred to note 8 at a cost of HK\$102,370,000. The Group's investment properties and land and buildings were revalued by the directors at 30 June 2003. The resulting revaluation deficits of HK\$11,476,000 and HK\$4,135,000 respectively have been charged to the income statement.

8. DEPOSITS PAID FOR THE ACQUISITION OF LAND AND BUILDINGS

At 31 December 2002, the amounts represented deposits paid for the purchase of four lots of land situated in Zhongshan, the People's Republic of China (the "PRC") (the "Land") and the buildings thereon (the "Buildings") for a total consideration of HK\$102,370,000.

During the six months ended 30 June 2003, the Group obtained all the relevant title certificates in respect of the Land and Buildings. The deposits were used to settle the consideration in acquisition of the properties.

9. DEPOSIT PAID FOR THE ACQUISITION OF A SUBSIDIARY

The deposit represents the full consideration paid by the Group in connection with the acquisition of 80% interest in a private limited company incorporated in the British Virgin Islands. At 30 June 2003, the Group had no unpaid commitment.

10. TRADE AND OTHER RECEIVABLES

The Group generally grants an average credit period of 60 to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
0 to 30 days	120,865	129,203
31 days to 60 days	37,988	49,934
61 days to 90 days	7,307	25,157
Over 90 days	14,917	4,520
	181,077	208,814
Other receivables	16,664	12,381
	197,741	221,195

11. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
0 to 30 days	77,707	59,970
31 days to 60 days	43,755	56,231
61 days to 90 days	12,419	9,671
Over 90 days	25,051	21,122
	158,932	146,994
Other payables	166,098	122,663
	325,030	269,657

12. SHARE CAPITAL

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$1.00 each	2,000,000	2,000,000
Issued and fully paid:		
208,169,996 ordinary shares of HK\$1.00 each	208,170	208,170

There was no movement in the share capital of the Company for the six months ended 30 June 2003 and the year ended 31 December 2002.

13. CONTINGENT LIABILITIES

At 30 June 2003, the Company had outstanding corporate guarantees amounting to HK\$40,000,000 (31 December 2002: HK\$40,000,000) issued in favour of a bank to secure general banking facilities made available to the Company and certain of its subsidiaries.

14. OPERATING LEASE COMMITMENTS

(a) The Group as lessee

Minimum lease payments paid under operating leases for premises during the period was approximately HK\$4,797,000 (2002: HK\$4,506,000).

At balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Within one year	1,955	5,831
In the second to fifth years inclusive	4,718	3,470
After five years	1,061	1,459
	<u>7,734</u>	<u>10,760</u>

Operating lease payments represent rental payable by the Group for certain of its premises. Leases are negotiated and fixed for terms ranging from two to ten years.

(b) The Group as lessor

Property rental income earned during the period was approximately HK\$464,000. (2002: HK\$755,000). The investment properties are expected to generate rental yields of 1% (2002: 1%) on an ongoing basis and the Group has committed tenants for the next year.

At balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Within one year	1,339	828
In the second to fifth years inclusive	1,997	558
	<u>3,336</u>	<u>1,386</u>

15. CAPITAL COMMITMENTS

	30 June 2003 (unaudited) HK\$'000	31 December 2002 (audited) HK\$'000
Capital commitments contracted for but not provided in the financial statements in respect of:		
Acquisition of the Land and Buildings (see note 8)	-	28,436
Capital contributions to a subsidiary in the PRC	-	93,600
Acquisition of property, plant and equipment	-	613
	<u>-</u>	<u>122,649</u>

16. POST BALANCE SHEET EVENTS

Subsequent to 30 June 2003, the Group had the following significant post balance sheet events:

- (a) On 27 May 2003, the Company entered into a subscription agreement with Ko Shing Limited (the "Subscriber") and Mr. Chang Tsung Yuan ("Mr. Chang") (the "Subscription Agreement"). Pursuant to the Subscription Agreement, the Company agreed to issue and the Subscriber agreed to subscribe for 41,000,000 shares of HK\$1.00 each in the share capital of the Company (the "Subscription Shares") at a price of HK\$2.38 per Subscription Share in cash, and Mr. Chang undertook to the Company to ensure the performance by the Subscriber of its obligations under the Subscription Agreement (the "Subscription").

The sole owner of the Subscriber is Mr. Chang, who is a director of various subsidiaries of the Company and is therefore a connected person as defined under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Subscription Agreement constituted a connected transaction of the Company. A special general meeting of the Company was held on 2 July 2003 where the shareholders of the Company passed resolutions, inter alia, approving the Subscription which was completed on 7 July 2003.

- (b) Pursuant to an announcement dated 5 August 2003 (the "Announcement"), the Board proposed that each of the existing issued and unissued share of HK\$1.00 each in the share capital of the Company be subdivided (the "Share Subdivision") into four shares of HK\$0.25 each (the "Subdivided Share"). The Share Subdivision is subject to, inter alia, shareholders' approval at a special general meeting to be held on 3 September 2003. At the date of the Announcement, the authorised share capital of the Company was HK\$2,000,000,000 which was divided into 2,000,000,000 shares, of which 249,169,996 shares were in issue. Immediately following the implementation of the Share Subdivision and on the basis that 249,169,996 shares are in issue, 996,679,984 Subdivided Shares will be in issue.

16. POST BALANCE SHEET EVENTS (continued)

- (c) Pursuant to the Announcement, on 30 July 2003, the board of directors of Union Overseas Holdings Limited ("UOHL"), a 50% owned jointly controlled entity of the Company, approved and adopted a merger proposal (the "Proposal") from an independent third party to acquire its entire interest in Converse Inc. ("Converse"). Consummation of the Proposal is subject to receipt of certain third party consents and regulatory approvals in the United States of America. Terms of the Proposal are subject to confidentiality restrictions between the parties to the Proposal. UOHL is prohibited from disclosing any information, including but not limited to, the terms of the consideration, the terms of the conditions and the representation and warranty in connection with the Proposal provided by Converse and the independent third party. The exact amount of consideration to be received by UOHL under the Proposal is yet to be finalised and the Proposal may or may not materialise. On the assumption that the Proposal materialised, the net gain from the Proposal attributable to the Group is estimated to be HK\$134 million to HK\$136 million. Such gain, if materialised, would be recorded as share of profit of a jointly controlled entity in the consolidated accounts of the Group for the year ending 31 December 2003. Following the completion of the Proposal, the Group will continue to engage in its principal business in the manufacture and trading of footwear and property and investment holding.

INTERIM DIVIDEND

The Board declared an interim dividend of HK\$0.08 per existing share of HK\$1.00 in the share capital of the Company (the "Share") (2002: HK\$0.06) or, if resolutions are passed by the Company's shareholders at the special general meeting to be held on 3 September 2003 approving the Share Subdivision (as mentioned in note 16(b) above), the interim dividend will be adjusted to HK\$0.02 per Subdivided Share for the six months ended 30 June 2003 to members whose names appear on the register of members of the Company as at the close of business on 18 September 2003.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 15 September 2003 to 18 September 2003 (both days inclusive), during which period no share transfer 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 branch share registrars in Hong Kong, Tengis Limited at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 11 September 2003.