

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

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

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 2003 ("the 2003 Financial Statements").

3. SEGMENT INFORMATION

Business segments

No business segment analysis is presented as less than 10% of the Group's turnover and contribution to results are contributed by activities other than the manufacture and marketing of footwear products.

4. PROFIT FROM OPERATIONS**Six months ended 30 June**

	2004	2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Cost of inventories recognised as expense	372,034	315,735
Depreciation and amortisation	21,017	13,544
Allowance for bad and doubtful debts	9,295	3,850
Loss on disposal of property, plant and equipment	-	9
Interest income from:		
Bank deposits	(1,564)	(362)
Investments in securities	(714)	(577)
Trade debtors	(4,537)	(2,365)
A jointly controlled entity	(478)	-
Dividend income from listed investment securities	(44)	(38)

5. TAXATION**Six months ended 30 June**

	2004	2003
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	2,901	4,410
Other jurisdictions	7,617	5,034
	10,518	9,444
Deferred tax:		
Current period	630	(390)
Attributable to a change in tax rate	-	(5)
	630	(395)
Taxation attributable to the Company and its subsidiaries	11,148	9,049

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 June 2003: 17.5%) of the estimated assessable profit for the six months ended 30 June 2004.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

6. DIVIDENDS

During the six months ended 30 June 2004, a final dividend of HK\$0.06 per ordinary share was paid to the shareholders as the final dividend for the year ended 31 December 2003.

During the period ended 30 June 2003, a final dividend of HK\$0.0175 per ordinary share and a special dividend of HK\$0.025 per ordinary share were paid to shareholders. The dividend per share had been adjusted for the effect of the share subdivision as set out in note 22(b) to the 2003 Financial Statements.

The board of directors of the Company (the "Board") have determined that an interim dividend of HK\$0.028 (2003: HK\$0.02) per ordinary share should be paid to shareholders of the Company whose names appear in the register of members on 8 October 2004.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the following data:

	Six months ended 30 June	
	2004	2003
Net profit for the period and earnings for the purposes of basic and diluted earnings per share	<u>HK\$74,435,000</u>	<u>HK\$55,978,000</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>1,105,365,028</u>	<u>915,947,982</u>

For the purpose of calculating basic earnings per share, the weighted average number of ordinary shares for the six months ended 30 June 2003 had been adjusted to reflect the share subdivision as set out in note 22(b) to the 2003 Financial Statements and the bonus issue as set out in note 13.

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for the six months ended 30 June 2004.

No diluted earnings per share had been presented as there were no potential ordinary shares outstanding for the six months ended 30 June 2003.

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

During the period, the Group acquired property, plant and equipment at a cost of HK\$17,646,000.

In previous years, moulds were depreciated over their estimated useful life of 18% to 20% per annum. Upon a reassessment of the estimated useful lives of moulds, the Group commenced to write off the cost of moulds over 12 months effective from 1 January 2004. The change in depreciation rate has resulted in a decrease in the profit for the period ended 30 June 2004 by HK\$8,453,000.

In addition, investment properties with a carrying amount of HK\$34,651,000 have been transferred to land and buildings.

The Group's land and buildings and investment properties were revalued by the directors at 30 June 2004. The resulting revaluation surpluses of HK\$961,000 and HK\$745,000 respectively have been credited to the income statement.

9. GOODWILL

During the six months ended 30 June 2004, amortisation of goodwill amounted to HK\$139,000 (six months ended 30 June 2003: nil).

10. INTEREST IN A JOINTLY CONTROLLED ENTITY/LOAN TO A JOINTLY CONTROLLED ENTITY/AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Share of net assets	—	1,095
Loan to a jointly controlled entity	38,949	—
Interest receivable	478	—
	39,427	—
Amount due from a jointly controlled entity	36,828	—
Less: Allowance	(2,774)	—
	34,054	—

10. INTEREST IN A JOINTLY CONTROLLED ENTITY/LOAN TO A JOINTLY CONTROLLED ENTITY/AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY (continued)

On 2 January 2004 and 8 June 2004, the Group acquired 50% equity interest in Smart Shine Industries Limited ("Smart Shine") and the remaining 50% equity interest in Union Overseas Holdings Limited ("UOHL") at cash considerations of US\$1 and HK\$390 respectively. After the acquisition of UOHL, UOHL becomes a wholly-owned subsidiary of the Company.

Loan to a jointly controlled entity is unsecured, repayable on demand and bears interest at a rate of 6.4363% per annum from 12 May 2004 to 30 June 2004 and LIBOR plus 2% per annum from 1 July 2004 to 11 May 2005. The amount due from a jointly controlled entity is unsecured, interest free and repayable on demand.

11. TRADE AND OTHER RECEIVABLES

The Group allows a credit period ranging from 60 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$269,513,000 (31 December 2003: HK\$268,454,000) and an aged analysis is as follows:

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
0 to 30 days	139,842	153,933
31 to 60 days	56,925	33,937
61 to 90 days	29,866	36,620
Over 90 days	66,280	58,069
	292,913	282,559
Less: Allowance for bad and doubtful debts	(23,400)	(14,105)
	269,513	268,454

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$167,745,000 (31 December 2003: HK\$179,233,000) and an aged analysis is as follows:

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
0 to 30 days	75,099	85,553
31 to 60 days	52,193	59,370
61 to 90 days	15,825	11,300
Over 90 days	24,628	23,010
	167,745	179,233

13. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares at HK\$0.25 each		
Authorised:		
At 31 December 2003 and June 30 2004	<u>8,000,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
At 1 January 2004	996,679,984	249,170
Exercise of share options	12,232,000	3,058
Issue of shares on bonus issue	<u>100,891,198</u>	<u>25,223</u>
	<u>1,109,803,182</u>	<u>277,451</u>

Pursuant to a circular dated 20 April 2004, the directors of the Company proposed to make the issue of new ordinary shares of HK\$0.25 each in the capital of the Company (the "Share(s)") to the registered holders of the Shares whose names appear on the register of members of the Company at the close of business on 12 May 2004 on the basis of one new Share, credited as fully paid, for every ten Shares then held (the "Bonus Shares"). The Bonus Shares credited as fully paid rank pari passu in all respects with the existing issued shares except that they did not rank for the Bonus Issue. It was proposed that the directors of the Company be authorised to capitalize the sum of HK\$25,223,000, being part of the amount standing to the credit of the share premium account of the Company and apply such sum in paying up in full the Bonus Shares. The total number of shares in issue was then increased to 1,109,803,182.

14. OPERATING LEASE COMMITMENTS**The Group as lessee**

Minimum leases payments paid under operating leases for land and buildings during the period was HK\$7,616,000 (six months ended 30 June 2003: HK\$4,797,00).

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Within one year	14,309	14,707
In the second to fifth year inclusive	47,848	51,104
After five years	9,458	12,864
	<u>71,615</u>	<u>78,675</u>

Operating lease payments represent rentals payable by the Group for certain of its land and buildings. Leases are negotiated and rentals are fixed for terms ranging from two to eight years.

The Group as lessor

Property rental income earned during the period was approximately HK\$738,000 (six months ended 30 June 2003: HK\$464,000). Certain of the Group's properties are held for rental purposes and are expected to generate rental yields of 7% (six months ended 30 June 2003: 4%) on an ongoing basis. The properties held for rental purposes have committed tenants for the next one to two years.

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

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Within one year	1,111	1,424
In the second to fifth year inclusive	591	1,065
	<u>1,702</u>	<u>2,489</u>

15. CONTINGENT LIABILITIES

At 30 June 2004, the Company had outstanding corporate guarantees amounting to HK\$79,000,000 (31 December 2003: HK\$40,000,000) issued in favour of certain banks to secure general banking facilities made available to the Company and certain of its subsidiaries.

16. ACQUISITION AND DISPOSAL OF SUBSIDIARIES**Acquisition**

On 8 June 2004, the Group acquired additional 50% equity interest in UOHL at a consideration of HK\$390 as set out in note 10. This transaction has been accounted for using the acquisition method of accounting.

The effect of the acquisition is summarised as follows:

	<i>HK\$'000</i>
Net assets acquired and cash consideration	—
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	<u>87</u>

UOHL did not make any significant contribution to the results and cash flows of the Group during the interim period.

Disposal

On 9 June 2004, the Group entered into a sale agreement to dispose of 100% equity interest in a subsidiary, Muspole International Limited ("Muspole") which was an investment holding company, to Smart Shine. The disposal was completed on 9 June 2004, on which date control of Muspole was passed to Smart Shine.

The net assets of Muspole at the date of disposal were as follows:

	<i>HK\$'000</i>
Net assets disposed of and total consideration	<u>36,828</u>
Satisfied by:	
Amount due from a jointly controlled entity	<u>36,828</u>
Net cash outflow arising on disposal:	
Bank balances and cash	<u>(57,470)</u>

Muspole did not make any significant contribution to the results and cash flows of the Group during the interim period.

17. RELATED PARTY TRANSACTIONS

In addition to the disposal of interest in Muspole to Smart Shine as disclosed in note 16, during the period ended 30 June 2004, the Group received interest income amounting to HK\$478,000 (six months ended 30 June 2003: Nil) from Smart Shine, a jointly controlled entity of the Group. The transaction was carried out on terms similar to those applicable to transactions with unrelated parties.

18. POST BALANCE SHEET EVENTS

On 12 July 2004, a wholly owned subsidiary of the Company, Wise Investment Group Limited, entered into a sales and purchase agreement with Minotaur Overseas Limited to acquire the entire interest in Misto Worldwide Limited at a consideration of HK\$52,972,000 (subject to adjustment). The transaction was completed on 23 July 2004.

INTERIM DIVIDEND

The Board declared an interim dividend of HK\$0.028 per share. This represents a 40% increase over the dividend per share for the corresponding period in 2003 (after adjusting for the subdivision of shares in 2003) (2003: HK\$0.02) for the six months ended 30 June 2004 to members whose names appear on the register of members of the Company as at the close of business on 8 October 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 5 October 2004 to 8 October 2004 (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 share registrar of the Company in Hong Kong, Tengis Limited at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by no later than 4:30 p.m. on 4 October 2004.