Interim Report 2005

永恩國際集團有限公司
Prime Success International Group Limited

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Chen Ying-Chieh *(Chairman)*
Chen Hsien Min *(Managing Director)*
Chang Chih-Kai

Independent Non-Executive Directors

Hsiao Hsi-Ming
Huang Shun-Tsai
Kuo Jung-Cheng

AUDIT COMMITTEE

Hsiao Hsi-Ming *(Chairman)*
Huang Shun-Tsai
Kuo Jung-Cheng

REMUNERATION COMMITTEE

Kuo Jung-Cheng *(Chairman)*
Chen Hsien Min
Hsiao Hsi-Ming
Huang Shun-Tsai

NOMINATION COMMITTEE

Huang Shun-Tsai *(Chairman)*
Chen Ying-Chieh
Hsiao Hsi-Ming
Kuo Jung-Cheng

COMPANY SECRETARY

Ip Ching Bun, Ben

REGISTERED OFFICE

Ugland House
South Church Street
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

17/F, Fung House
19-20 Connaught Road Central
Central
Hong Kong

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22/F Prince's Building
Central
Hong Kong

PRINCIPAL BANKERS

Bank of Overseas Chinese
Citibank, N.A.
Hang Seng Bank Limited
Standard Chartered Bank
The International Commercial Bank of China
UFJ Bank Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

SHARE INFORMATION

Stock code:	210
Board lot:	2,000 shares

WEBSITE

www.daphne.com.cn

KEY FINANCIAL DATES

Announcement date	22 September 2005
Book closed dates	7 October 2005 to 12 October 2005
Dividend payment date	on or before 21 October 2005

FINANCIAL HIGHLIGHTS

	Half Year Results to 30 June		
	2005	2004	**Change**
		As restated	
	HK$'000	*HK$'000*	
Turnover	**1,154,576**	839,572	**+38%**
Gross profit	**498,560**	305,745	**+63%**
Profit attributable to shareholders of the Company	**106,334**	66,030	**+61%**
Basic earnings per share	**HK 6.74 cents**	HK 4.26 cents	**+58%**
Dividend per share	**HK 2.5 cents**	HK 1.5 cents	

The board of Directors (the "Board") of Prime Success International Group Limited (the "Company") is pleased to present the unaudited interim results and condensed consolidated accounts of the Company and its subsidiaries (collectively known as the "Group") for the six months ended 30 June 2005, together with comparative figures for the corresponding period in 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The booming economy in the PRC and the increasing spending power of the Chinese population on trendy products have generated great demand for mid-to-high-end casual footwear products. To capture the huge opportunities, the Group continued to expand its own-brand business and has achieved strong turnover growth with solid expansion of margins. Driven by its own-brand business, the Group's turnover reached HK$1,154,576,000 in the first half of 2005, up 38% from the corresponding period last year. Profit attributable to shareholders was HK$106,334,000, up 61% from the corresponding period last year.

OEM Business

OEM business, one of the Group's traditional core businesses, recorded a steady turnover of HK$361,718,000 (2004: HK$373,606,000) during the period. The contribution of OEM business to the total turnover, however, dropped to 31% (2004: 45%) during the period as a result of the increase in turnover of the Group's own-brand business. The operating profit of the Group's OEM business increased by 129% to HK$45,073,000 (2004: HK$19,690,000) which reflected the results of steady increase of high margin orders and tighter cost control measures during the period. Turnover from the Group's five largest OEM customers accounted for 24% of the total turnover. The Group's business in Europe continues to grow steadily, while the U.S. remained as the major overseas export market.

Brand Business

The Group manages three brands of consumer products and sells through four separate chains of shops, namely, its own brand "Daphne" ladies' footwear in Daphne D28 and Daphne D18 chains, mega stores under its brand name "Shoebox" and exclusive specialty shops for "Adidas – Original Collection".

Both Daphne D28 and Daphne D18 aim at ladies' middle income market segment with target ages between 26 to 50 and between 15 to 25 respectively. Shoebox carries footwear for all ages and genders and targets at mass market segment. Adidas "Original Collection" carries full range of sportwear and targets at the high income market segment.

Daphne PRC Points-of-Sales Distribution

Central China		
Chengdu Regional Offices	51 Specialty Stores	9 Counters
Changsha Regional Offices	47 Specialty Stores	9 Counters
Xinjiang Regional Offices	19 Specialty Stores	4 Counters
Xian Regional Offices	23 Specialty Stores	12 Counters

Northern China		
Beijing Regional Offices	29 Specialty Stores	24 Counters
Zhengzhou Regional Offices	68 Specialty Stores	17 Counters
Jinan Regional Offices	69 Specialty Stores	30 Counters
Tianjin Regional Offices	27 Specialty Stores	23 Counters

Eastern China		
Nanjing Regional Offices	59 Specialty Stores	36 Counters
Shanghai Regional Offices	90 Specialty Stores	18 Counters
Hangzhou Regional Offices	59 Specialty Stores	22 Counters

Southern China		
Fuzhou Regional Offices	61 Specialty Stores	6 Counters
Guangzhou Regional Offices	77 Specialty Stores	37 Counters
Nanning Regional Offices	33 Specialty Stores	12 Counters

North Eastern China		
Harbin Regional Offices	55 Specialty Stores	15 Counters
Changchun Regional Offices	30 Specialty Stores	9 Counters
Shenyang Regional Offices	75 Specialty Stores	29 Counters

Shoebox PRC Points-of-Sales Distribution

Central China
2 Specialty Stores

Northern China
5 Specialty Stores

Eastern China
21 Specialty Stores

Southern China
4 Specialty Stores

North Eastern China
6 Specialty Stores

Adidas – Original Collection PRC Points-of-Sales Distribution

Central China

2 Specialty Stores 6 Counters

Northern China

12 Counters

Eastern China

3 Specialty Stores 21 Counters

Southern China

1 Specialty Stores 6 Counters

North Eastern China

2 Specialty Stores 6 Counters

Turnover of brand business increased by 70% to HK$792,858,000 (2004: HK$465,966,000), representing 69% of the Group's total turnover. Sales from "Daphne" increased by 49% to HK$695,418,000 (2004: HK$465,966,000), accounting for 60% of the Group's total turnover. Sales from "Shoebox" was HK$31,477,000, contributing to 3% of the total turnover. Sales from "Adidas – Original Collection" exclusive retail shop business reached HK$65,963,000, representing 6% of the total turnover.

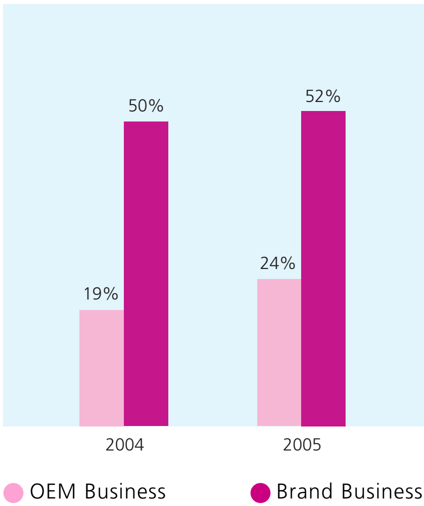
"Daphne" – Own-Brand Ladies' Footwear Business

The Group continued to build on the reputation of "Daphne" as the leading female footwear brand in the PRC, and continued to expand Daphne's sizeable customer base. In the past six months, the Group has continued to extend its reach in various cities in China by adding more points-of-sales, bringing the total number of points-of-sales from over 1,500 in 2004 to over 1,800 as at 30 June 2005, including 872 specialty shops, 312 "Daphne" counters, 131 "Daphne" franchised specialty shops and over 400 points-of-sales that are set up by wholesalers. Driven by more "Daphne" points-of-sales, the Group's revenue from sales of Daphne ladies footwear continued to grow from HK$465,966,000 to HK$695,418,000 as compared with the corresponding period last year, while operating profit also surged 45% from HK$60,428,000 to HK$87,398,000 in the first half of the financial year.

To further expand the market share and penetration of "Daphne" in the Chinese ladies footwear market, the Group has divided the Daphne brand into "Daphne D28" and "Daphne D18". "Daphne D28" targets professional female customers with high spending power in the age group from 26 to 50, whereas "Daphne D18" a youth collection targets young customers with strong spending power. The Group has invited "S.H.E", an energetic and popular band, to act as the spokesperson for "Daphne D18". Not only has this move aroused customers' awareness of the Daphne brands, but it has also generated satisfactory returns to the Group in just a few months. The Group currently operates 103 "Daphne D18" specialty shops and 1 counter.

Gross Profit Margin Analysis by Business

For the six months ended 30 June



Brand Business Turnover and Operating Profit by Brand

For the six months ended 30 June

	Daphne	**Adidas**	**Shoebox**	**Total**
	HK$	***HK$***	***HK$***	***HK$***
Turnover	695,418,000	65,963,000	31,477,000	792,858,000
Operating Profit / (Loss)	87,398,000	3,965,000	(3,673,000)	87,690,000

Brand Business Turnover by Channel

For the six months ended 30 June

	Daphne	**Adidas**	**Shoebox**	**Total**
	HK$	***HK$***	***HK$***	***HK$***
Specialty Stores	435,110,000	15,225,000	31,477,000	481,812,000
Counters	164,790,000	50,738,000	N/A	215,528,000
Others	95,518,000	N/A	N/A	95,518,000

Brand Business Turnover by Square Footage

For the six months ended 30 June

	HK$
Daphne	134.54
Adidas - Original Collection	251.87
Shoebox	40.64

"Shoebox" – Own-Brand Mega Stores

To further diversify its customer portfolios and penetrate the mass market, the Group has launched a mega shoe store chain under the new brand "Shoebox" since May 2004 to sell collections of different kinds of shoes, including those for men, women, children, sport, leisure as well as sandal, etc. The Group has now opened more than 46 "Shoebox" mega stores in several major cities in China, including Beijing, Shanghai, Wuhan, Yangzhou and Suzhou. Some of the stores are located inside hypermarket chains such as "Carrefour", "Hymall" and Trust-Mart with high customer flow.

The "Shoebox" business has yielded satisfactory results since its launch and has strengthened the Group's initiatives to expand into the high quality low-priced footwear market in the PRC.

Adidas – Exclusive Retail Shop Business

The "Adidas – Original Collection" business and exclusive specialty shops has started to deliver visible results in view of the continued increasing turnover recorded. In addition to the existing 8 specialty shops, the number of "Adidas – Original Collection" counters increased from 30 to 51, bringing the total number of points-of-sales to 59 as at 30 June 2005. These points-of-sales are mainly located in major cities with higher income per capita and education level, including Shanghai, Beijing and Guangzhou where people are increasingly inclined to healthy lifestyle and frequent exercises. The Group is confident that its "Adidas – Original Collection" will capture the rising demand for athletic and casual footwear products and apparel of prestigious brands in the PRC.

Number of specialty stores and counters of various brand businesses

	30 June 2005		31 December 2004	
	Specialty stores	**Counters**	Specialty stores	Counters
Daphne	**872**	**312**	725	297
Daphne D18	**103**	**1**	N/A	N/A
Daphne D28	**769**	**311**	N/A	N/A
Adidas – Original Collection	**8**	**51**	8	30
Shoebox	**38 mega store**		21 mega stores	

Development of Infrastructure

With the commencement of operation of the production plants in Anhui and Fujian and the processing plant in Jiangsu in the first half year of the financial year 2005, the Group has expanded production capacities to cater for its business growth. In the meantime, the logistics centers in Shanghai and Fujian have also commenced operation. The constructions of the logistics centers in Shenyang and Beijing are expected to be completed in the fourth quarter of 2005, and those in Chengdu and Guangdong are planned to be completed by the end of 2006. Equipped with advanced computer system, these logistics centers can handle the warehousing, transportation and freight of products more effectively with lower costs.

FINANCIAL REVIEW

Turnover and Performance

Turnover of the Group reached HK$1,154,576,000 (2004: HK$839,572,000) for the six months ended 30 June 2005, up 38% from the corresponding period last year. This increase was driven by further expansion of domestic sales in the Chinese market, where sales grew by 70% over the comparable period last year to HK$792,858,000. Economies of scale from higher turnover and tighter cost control contributed to the strong increase in gross profit margin from 36% to 43%, while net profit margin surged from 8% to 9%, as compared with corresponding period last year.

During the period under review, basic earnings per share of the Group was approximately HK6.74 cents, representing a 58% increase from the corresponding period last year. The Board resolved the payment of HK2.5 cents per share as an interim dividend for the six months ended 30 June 2005.

Liquidity and Financial Resources

As at 30 June 2005, the Group maintained a healthy cash level with cash and cash equivalents of approximately HK$181,394,000 (31 December 2004: HK$126,893,000) and unutilized banking facilities of HK$90,638,000 (31 December 2004: HK$69,577,000). The Group's current ratio, being the proportion of total current assets divided by the total current liabilities, improved slightly to 1.66 from 1.60 for the same financial period last year.

The gearing ratio of the Group, expressed as a percentage of interest bearing external borrowings of HK$134,423,000 (2004: HK$98,527,000) over shareholders' equity of HK$628,623,000 (2004: HK$533,720,000), was 21.4% (2004: 18.5%) as at 30 June 2005.

Foreign Exchange Rate Exposure

The Group's monetary assets, liabilities and transactions are mainly denominated in Hong Kong dollars, Renminbi, U.S. dollars and New Taiwanese dollars. The management believes that the Group's working capital is not exposed to any significant risk from currency exchange rate fluctuation. Foreign exchange risks arising from transactions denominated in non-U.S. dollar are managed by the Group treasury with the use of foreign exchange forward contracts, whenever necessary, with major and reputable financial institutions.

Pledge of Assets

As at 30 June 2005, the Group's short-term bank borrowings of HK$77,385,000 (31 December 2004: HK$46,827,000) were secured by certain land use rights and buildings of net book value of HK$16,963,000 (31 December 2004: nil) and available-for-sale financial assets with nil carrying value (31 December 2004: nil).

Contingent Liabilities

As at 30 June 2005, the Group had no significant contingent liabilities.

Capital Investments

The Group has planned to establish six logistics centers in the PRC with an estimated total investment amount of HK$94,879,000. During the period under review, the Group has invested HK$9,244,000 to establish these centers. In addition, the Group has budgeted an amount of HK$21,502,000 to renovate and expand several sales and distribution offices in the PRC.

During the period under review, the Group has continued to implement the Enterprise Resources Planning system to improve the operation of its Brand business and the efficiency of its financial reporting process. The estimated total cost to complete the project is approximately HK$2,589,600. The full implementation of the system is scheduled to be completed at the end of 2005.

The Group expects to finance all the above investment projects by internal resources and short-term bank borrowings.

Human Resources

As at 30 June 2005, the Group had over 24,000 employees in Hong Kong, Taiwan and the PRC. Staff expenditure for the six months ended 30 June 2005 was HK$178,532,000 (six months ended 30 June 2004: HK$124,700,000). Human resources are the Group's key assets for its persistent strong growth. To face the intensifying competition in the market and rising requirement standards of customers, the Group will commit more resources on staff trainings and ensure that employee remuneration is maintained at competitive levels complemented by performance-based bonuses, retirement pension contribution and share options.

Prospects

For the six months ended 30 June 2005, the Group's export orders on hand amounted to more than HK$300,000,000. The Group's business is steadily growing hand in hand with the robust economic development in the PRC. The revaluation of Renminbi in July 2005 will enhance the purchasing power of customers in general, hence benefit the Group's business.

OEM Business

The Group expects a steady growth in margin in its OEM business in the second half of 2005. The U.S. market will remain as the Group's largest export market and the Group will strive to expand new overseas markets such as Europe and Japan so as to secure new customers and orders with higher profit margins.

Brand Business

In the second half of 2005, the Group will continue its strong growth momentum. The vigorous economic development in the PRC will lead to further expansion of consumer spending. The management is fully confident that the brand business will reach a new height.

The Group will commit more resources to promote the brand awareness. The Group is preparing to invest in a film associated with the "Daphne" brand, and it is expected to be on show in 2006. The film will help to strengthen consumer recognition of the "Daphne" brand and boost its value. Also, the Group will continue to expand the sales network of "Daphne", targeting at opening at least 250 "Daphne" points-of-sales each year.

With increasing demand for quality footwear products at reasonable prices but the absence of mega shoe shops with variety of shoe collections in one location, the Group will continue to expand the market coverage of "Shoebox" in those cities, and in particular, the second and third tier cities in the PRC in order to capture the flourishing business opportunities there. Currently, there are more than 46 "Shoebox" mega stores and the Group is planning to open a total of not less than 70 stores by the end of 2005 to further expand the sales network. The management is confident in the future development of the "Shoebox" business.

As for the "Adidas – Original Collection", currently there are 70 special outlets and the Group plans to accelerate the expansion of its specialty outlets to a total of 300 in 2008 by opening not less than 50 new specialty stores each year until 2008. The coming 2008 Beijing Olympics will definitely boost the demand for athletic and casual footwear and apparel of prestigious brands, and the Group is confident that this business segment will bring satisfactory return in the future.

Development of Infrastructure

In the second half of 2005, the Group has no other significant capital investment committment apart from finishing the construction of the planned logistics centers. The Group will continue to optimize its well-established sales and distribution network to diversify its brands and product ranges. Besides, the Group intends to strengthen its businesses through introducing new brands and/or markets.

With the prestigious brand established by the Company in the PRC, the Group will continue to bring outstanding returns for the investors and business partners. Looking forward, the management is optimistic about its business and hopes to reach a new milestone in the second half of this year.

INTERIM DIVIDEND

The Board resolved on 22 September 2005 to declare an interim dividend of HK2.5 cents (2004: HK1.5 cents) per ordinary share for the year ending 31 December 2005. The interim dividend will be payable on or before 21 October 2005 to shareholders whose names appear on the Register of Members of the Company at 4:00 p.m. on 6 October 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 7 October 2005 to 12 October 2005 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the registrar of the Company in Hong Kong, Secretaries Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 6 October 2005.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 JUNE 2005

		Unaudited Six months ended 30 June	
			As restated
		2005	2004
	Note	***HK$'000***	*HK$'000*
Turnover	*4*	**1,154,576**	839,572
Cost of sales		**(656,016)**	(533,827)
Gross profit		**498,560**	305,745
Other revenues		**2,898**	3,693
Selling and distribution expenses		**(291,392)**	(166,158)
General and administrative expenses		**(76,913)**	(61,218)
Operating profit	*5*	**133,153**	82,062
Finance costs		**(2,023)**	(1,537)
Share of profit of an associated company		**128**	78
Profit before taxation		**131,258**	80,603
Taxation	*6*	**(24,528)**	(12,327)
Profit for the period		**106,730**	68,276
Attributable to:			
– shareholders		**106,334**	66,030
– minority interests		**396**	2,246
		106,730	68,276
Dividend	*7*	**40,947**	23,368
Earnings per share	*8*		
– basic		**HK6.74 cents**	HK4.26 cents
– diluted		**N/A**	HK4.18 cents

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2005

	Note	Unaudited 30 June 2005 HK$'000	As restated Audited 31 December 2004 HK$'000
Non-current assets			
Land use rights	9	21,375	21,865
Fixed assets	9	238,136	194,097
Interest in an associated company		2,179	2,205
Investment securities		–	33,437
Available-for-sale financial assets		33,437	–
Other non-current assets		21,525	17,335
Deferred tax assets		20,635	18,328
		337,287	287,267
Current assets			
Inventories		518,960	469,111
Trade receivables	10	88,488	67,148
Other receivables, deposits and prepayments		94,991	123,354
Derivative financial instruments	11	3,216	–
Pledged bank deposits		6,000	3,446
Bank balances and cash		181,625	126,893
		893,280	789,952
Current liabilities			
Trade payables	12	246,660	260,537
Other payables and accrued charges		103,607	96,070
Derivative financial instruments	11	1,148	–
Taxation payable		51,573	39,179
Bank loans and overdrafts	13	134,654	98,527
		537,642	494,313
Net current assets		355,638	295,639
Total assets less current liabilities		692,925	582,906
Financed by:			
Share capital	14	163,789	156,789
Reserves		464,834	376,931
Shareholders' equity		628,623	533,720
Minority interests		63,739	48,839
Total equity		692,362	582,559
Non-current liabilities			
Deferred tax liabilities		563	347
		692,925	582,906

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Unaudited													
	Attributable to shareholders												Minority interests	Total equity
	Share capital	Share premium	Capital redemption reserve	Property revaluation reserve	Investment revaluation reserve	Fair value adjustment reserve	Exchange differences	Goodwill	Merger reserve	Other reserves	Retained profits	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005, as previously reported as equity	156,789	9,735	2,882	794	(4,000)	–	(12,415)	(36,782)	322	11,984	405,205	534,514	–	534,514
At 1 January 2005, as previously separately reported as minority interests	–	–	–	–	–	–	–	–	–	–	–	–	48,839	48,839
Adjustment arising from adoption of HKAS 17	–	–	–	(794)	–	–	–	–	–	–	–	(794)	–	(794)
Adjustment arising from adoption of HKAS 39	–	–	–	–	4,000	(4,000)	–	–	–	–	–	–	–	–
At 1 January 2005, as restated	156,789	9,735	2,882	–	–	(4,000)	(12,415)	(36,782)	322	11,984	405,205	533,720	48,839	582,559
Exchange differences	–	–	–	–	–	–	(443)	–	–	–	–	(443)	8	(435)
Shares issued under share option scheme	7,000	14,770	–	–	–	–	–	–	–	–	–	21,770	–	21,770
Transfer	–	–	–	–	–	–	–	–	–	1,205	(1,205)	–	–	–
Share of an associated company's reserve movements	–	–	–	–	–	–	–	–	–	4	(4)	–	–	–
Profit for the period	–	–	–	–	–	–	–	–	–	–	106,334	106,334	396	106,730
2004 final dividend paid	–	–	–	–	–	–	–	–	–	–	(32,758)	(32,758)	(3,141)	(35,899)
Disposal of interests by minority interests	–	–	–	–	–	–	–	–	–	–	–	–	(86)	(86)
Increase in amount due to minority interests	–	–	–	–	–	–	–	–	–	–	–	–	17,723	17,723
At 30 June 2005	163,789	24,505	2,882	–	–	(4,000)	(12,858)	(36,782)	322	13,193	477,572	628,623	63,739	692,362

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Unaudited											
	Attributable to shareholders										Minority interests	Total equity
	Share capital	Share premium	Capital redemption reserve	Property revaluation reserve	Exchange differences	Goodwill	Merger reserve	Other reserves	Retained profits	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004, as previously reported as equity	152,889	4,725	2,882	794	(9,626)	(36,782)	322	10,649	277,057	402,910	–	402,910
At 1 January 2004, as previously separately reported as minority interests	–	–	–	–	–	–	–	–	–	–	35,566	35,566
Adjustment arising from adoption of HKAS 17	–	–	–	(794)	–	–	–	–	–	(794)	–	(794)
At 1 January 2004, as restated	152,889	4,725	2,882	–	(9,626)	(36,782)	322	10,649	277,057	402,116	35,566	437,682
Exchange differences	–	–	–	–	(962)	–	–	–	–	(962)	(18)	(980)
Shares issued under share option scheme	2,900	2,900	–	–	–	–	–	–	–	5,800	–	5,800
Transfer	–	–	–	–	–	–	–	1,184	(1,184)	–	–	–
Share of an associated company's reserve movements	–	–	–	–	–	–	–	3	(3)	–	–	–
Profit for the period	–	–	–	–	–	–	–	–	66,030	66,030	2,246	68,276
2003 final dividend paid	–	–	–	–	–	–	–	–	(23,368)	(23,368)	(3,435)	(26,803)
Capital injected by and increase in amount due to minority interests	–	–	–	–	–	–	–	–	–	–	3,396	3,396
At 30 June 2004	155,789	7,625	2,882	–	(10,588)	(36,782)	322	11,836	318,532	449,616	37,755	487,371

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Unaudited Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Net cash generated from operating activities	**88,942**	56,781
Net cash used in investing activities	**(68,718)**	(31,778)
Net cash generated from/(used in) financing activities	**33,846**	(28,482)
Increase/(decrease) in cash and cash equivalents	**54,070**	(3,479)
Cash and cash equivalents at 1 January	**126,893**	146,627
Effect of foreign exchange rate changes	**431**	620
Cash and cash equivalents at 30 June	**181,394**	143,768
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**181,625**	143,867
Bank overdrafts	**(231)**	(99)
	181,394	143,768

NOTES TO THE CONDENSED CONSOLIDATED INTERIM ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim accounts have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These condensed consolidated interim accounts should be read in conjunction with the 2004 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed consolidated interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following the adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards (collectively referred to as "new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in Note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting new HKFRSs

In 2005, the Group adopted the new HKFRSs below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33, 36 and 37 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests, share of net after-tax results of an associated company and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33, 36 and 37 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity accounts.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the classification of payments for the acquisitions of land use rights. In prior years, land use rights were accounted for at cost or valuation less accumulated depreciation and accumulated impairment. Under HKAS 17, the up-front prepayments made for land use rights are expensed in the consolidated profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated profit and loss account. HKAS 17 has been applied retrospectively.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit and loss account and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities. HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investment securities. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised on 1 January 2005.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the grant of share options to employees did not result in an expense in the profit and loss account unless the options were granted at a discount of the market price, where the discount was expensed in the profit and loss account. Effective 1 January 2005, the Group expenses the cost of share options granted in the profit and loss account. The Group has taken advantage of the transitional provisions of HKFRS 2 under which the new recognition and measurement policies have not been applied to share options granted on or before 7 November 2002 and all options granted to employees after 7 November 2002 but vested before 1 January 2005. No adjustments were resulted from the adoption of HKFRS 2.

The effect of changes in the above accounting polices on the consolidated profit and loss account is as follows:

	Six months ended 30 June 2005			Six months ended 30 June 2004	
	HKAS 1	HKAS 17	HKAS 39	HKAS 1	HKAS 17
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Decrease in share of profit of an associated company	(47)	–	–	(29)	–
Decrease in taxation charge	47	–	–	29	–
Decrease in depreciation of fixed assets	–	(500)	–	–	(413)
Increase in amortisation of land use rights	–	500	–	–	413
Increase in fair value of derivative financial instruments	–	–	2,068	–	–
Net increase in consolidated profit	–	–	2,068	–	–

The effect of changes in the above accounting polices on the consolidated balance sheet is as follows:

	30 June 2005		31 December 2004	
	HKAS 17	HKAS 39	HKAS 17	HKAS 39
	HK$'000	HK$'000	HK$'000	HK$'000
Increase/(decrease) in assets				
Land use rights	21,375	–	21,865	–
Fixed assets	(22,559)	–	(23,049)	–
Available-for-sale financial assets	–	33,437	–	–
Investment securities	–	(33,437)	–	–
Derivative financial instruments	–	3,216	–	–
Increase/(decrease) in liabilities/equity				
Derivative financial instruments	–	1,148	–	–
Deferred tax liabilities	(390)	–	(390)	–
Retained profits	–	2,068	–	–
Property revaluation reserve	(794)	–	(794)	–

(b) New principal accounting policies

(i) Foreign currency translation

Functional and presentation currency

Items included in the accounts of each Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The condensed consolidated accounts are presented in Hong Kong (HK) dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit and loss, are reported as part of the fair value gain or loss.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated profit and loss account as part of the gain or loss on sale.

(ii) Investments

Prior to 1 January 2005:

The Group classified its investments in securities, other than subsidiaries and associated companies, as investment securities and trading investments.

(1) Investment securities
These are held for non-trading purposes and are stated at fair value. Changes in the fair value of individual investment are credited or debited to the investment revaluation reserve until the investments are sold, or are determined to be impaired by the directors. Where there is evidence that individual investment is impaired the cumulated loss incurred recorded in the revaluation reserve is taken to the profit and loss account. Any subsequent increase in fair value is credited to the profit and loss account up to the amount previously debited.

Upon disposal of investment securities, the cumulated gain or loss together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

(2) Trading investments
These are carried at fair value and at each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Gains or losses on disposal of trading investments are recognised in the profit and loss account as they arise.

From 1 January 2005 onwards:
The Group classifies its investments by the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates the designation at every reporting date.

(1) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(2) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are included in trade and other receivables under current assets except for maturities greater than 12 months after the balance sheet date.

(3) Held to maturity investments
Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the period, the Group did not hold any investments in this category.

(4) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the profit and loss account in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale financial assets are sold or impaired, the related accumulated fair value adjustments are included in the profit and loss account as gains or losses arising from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(iii) *Derivative financial instrument and hedging activities*

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives are deemed as financial assets or financial liabilities at fair value through profit and loss account, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

(iv) *Share-based payments*

The Group operates an equity-settled, share-based payment plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to their fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the condensed consolidated interim accounts are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

(a) Income tax

The Group is subject to income tax in various regions in Hong Kong, Taiwan and the PRC. As certain relevant matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related polices are required in determining the provision of income taxes to be made. Where the final tax outcome of these matters are different from the amounts originally recorded, the differences will impact the income tax and tax provisions in the period in which the differences realise.

(b) Tangible fixed assets and depreciation

Management determines the estimated useful lives and related depreciation charges for the Group's tangible fixed assets. Management will revise the depreciation charge where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Fair value of financial instrument estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

(d) Estimated write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Provisions are made for inventories where events or changes in circumstances indicate that the balances may not be realised. The identification of obsolescence requires the use of judgement and estimates. Where the exception is different from the original estimate, such difference will impact the carrying value of inventories and the net realisable value for the periods in which such estimate is changed.

4. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and distribution of footwear products.

Business segments

The Group is organised into two business segments, brand business and original-equipment manufacturing ("OEM") business. An analysis of the Group's turnover and operating results for the six months ended 30 June 2005 by business segment is as follows:

	2005			2004		
	Brand business	**OEM business**	**Group**	Brand business	OEM business	Group
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**792,858**	**361,718**	**1,154,576**	465,966	373,606	839,572
Segment results	**87,690**	**45,073**	**132,763**	60,428	19,690	80,118
Income derived from an unlisted investment			**–**			1,500
Income derived from an available-for-sale financial asset			**1,500**			–
Unallocated revenues			**233**			1,410
Unallocated expenses			**(1,343)**			(966)
Operating profit			**133,153**			82,062

Geographical segments

In presenting information on the basis of geographical segments, segment turnover is based on the geographical location of customers. An analysis of the Group's turnover for the six months ended 30 June 2005 by geographical segment is as follows:

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
The People's Republic of China (the "PRC")	**792,858**	465,966
The United States of America (the "U.S.")	**352,180**	361,666
Others	**9,538**	11,940
	1,154,576	839,572

5. OPERATING PROFIT

Operating profit is stated after (crediting)/charging the following:

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Amortisation of land use rights	**500**	413
Depreciation of fixed assets	**24,624**	10,617
Fair value gain on derivative financial instruments	**(2,068)**	–
Loss on disposal of fixed assets	**1,112**	202
Provision for slow moving inventories	**9,066**	3,763
Staff costs	**178,532**	124,700

6. TAXATION

No provision for Hong Kong profits tax has been made in the accounts as the Group does not have any assessable profit arising in Hong Kong. Taxation on profits arising outside Hong Kong has been calculated on the estimated assessable profit for the six months ended 30 June 2005 at the rates of taxation prevailing in the countries or places in which the Group operates.

Certain subsidiaries of the Company operating in the PRC are eligible for certain tax exemptions and concessions including tax holidays and reduced enterprise income tax rates. Accordingly, PRC enterprise income tax for such subsidiaries has been provided for after taking account of such tax exemptions and concessions.

The amount of taxation charged/(credited) to the condensed consolidated profit and loss account represents:

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Current taxation		
– Taxation outside Hong Kong	**26,100**	14,946
– Under provision in prior years	**519**	461
Deferred taxation	**(2,091)**	(3,080)
	24,528	12,327

Share of associates' taxation for the six months ended 30 June 2005 of HK$47,000 (2004: HK$29,000) are included in the consolidated profit and loss account as share of profit of an associated company.

7. DIVIDEND

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Interim, proposed of HK2.5 cents (2004: HK1.5 cents) per ordinary share	**40,947**	23,368

Note: At a meeting held on 22 September 2005, the Board declared an interim dividend of HK2.5 cents per ordinary share for the year ending 31 December 2005. This proposed dividend is not reflected as a dividend payable in these interim accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2005.

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of HK$106,334,000 (2004: HK$66,030,000). The basic earnings per share is based on the weighted average number of 1,578,250,023 (2004: 1,549,447,329) ordinary shares in issue during the six months ended 30 June 2005.

No diluted earnings per share has been presented as there were no dilutive potential shares in issue during the six months ended 30 June 2005. The diluted earnings per share for the six months ended 30 June 2004 is based on 1,579,324,086 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 29,876,757 ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

9. CAPITAL EXPENDITURE

	Land use rights	Fixed assets
	HK$'000	*HK$'000*
Net book value at 1 January 2005	21,865	194,097
Exchange adjustment	10	103
Additions	–	70,087
Depreciation	(500)	(24,624)
Disposals	–	(1,527)
Net book value at 30 June 2005	21,375	238,136

10. TRADE RECEIVABLES

The ageing analysis of trade receivables by invoice date is as follows:

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
0 – 30 days	**72,372**	54,171
31 – 60 days	**13,739**	6,326
61 – 90 days	**87**	1,175
91 – 120 days	**718**	2,277
121 – 180 days	**787**	2,024
181 – 360 days	**648**	333
Over 360 days	**137**	842
	88,488	67,148

The Group generally allows an average credit period of 30 to 60 days to its trade customers other than major and long established customers with whom specific extended terms will be agreed between the Group and the relevant counter parties.

11. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments which represent foreign exchange forward contracts which are not qualified for hedge accounting under the requirements of HKAS 39 are deemed as held for trading.

As at 30 June 2005, no bank deposit was pledged against committed forward contracts while as at 31 December 2004 bank deposits of HK$3,446,000 were pledged against committed forward contracts.

12. TRADE PAYABLES

The ageing analysis of trade payables by invoice date is as follows:

	30 June 2005 *HK$'000*	31 December 2004 *HK$'000*
0 – 30 days	**131,450**	144,554
31 – 60 days	**63,559**	62,664
61 – 90 days	**25,364**	26,766
91 – 120 days	**13,071**	9,273
121 – 180 days	**3,899**	6,705
181 – 360 days	**3,847**	6,375
Over 360 days	**5,470**	4,200
	246,660	260,537

13. BANK LOANS AND OVERDRAFTS

As at 30 June 2005, the Group's short-term bank loans of approximately HK$77,385,000 (31 December 2004: HK$46,827,000) were secured by the following assets of the Group:

(a) certain land use rights and buildings of net book value of approximately HK$16,963,000 (31 December 2004: nil); and

(b) available-for-sale financial assets of nil (31 December 2004: nil) carrying value; and

(c) a bank deposit of HK$6,000,000 (31 December 2004: nil).

14. SHARE CAPITAL

	30 June 2005 *HK$'000*	31 December 2004 *HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.1 each	**1,000,000**	1,000,000

	30 June 2005		31 December 2004	
	Number of ordinary shares of		Number of ordinary shares of	
	HK$0.10 each	***HK$'000***	*HK$0.10 each*	*HK$'000*
Issued and fully paid:				
At the beginning of the period/year	**1,567,892,384**	**156,789**	1,528,892,384	152,889
Shares issued under share option scheme	**70,000,000**	**7,000**	39,000,000	3,900
At the end of the period/year	**1,637,892,384**	**163,789**	1,567,892,384	156,789

During the six months ended 30 June 2005, share options were exercised to subscribe for 70,000,000 ordinary shares in the Company at an exercise price of HK$0.311 per share under the share option scheme. The excess of the issue price over the par value of the shares issued was credited to share premium account. Details of the movements in respect of the share options of the Company during the six months ended 30 June 2005 are set out under the section headed "Share options" on page 37.

15. CAPITAL COMMITMENTS

The Group's capital commitments for purchase of land use rights and fixed assets are as follows:

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Authorised but not contracted for	**94,275**	97,709
Contracted but not provided for	**42,166**	33,085
	136,441	130,794

16. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2005, the Group has entered into the following transactions with related parties:

(a) Purchases of goods

Purchases of shoe materials and footwear products from investee companies, Sun Home Leather Corporation Limited ("Sun Home"), Jingxing Shoe Industrial Company Limited and Daen Shoe Material Company Limited amounting in total to HK$17,224,000 (Six months ended 30 June 2004: HK$9,815,000) in the normal course of the Groups' business. The terms of transactions were determined and agreed between the Group and the counter parties. The Company's executive director and ex-executive director, Messrs Chen Hsien Min and Chang Wen I respectively, are directors of Sun Home.

(b) Amounts due to related parties

Included in the Group's trade payables as at 30 June 2005 were amounts due to an associated company and investee companies as mentioned in (a) above of approximately HK$18,000 (31 December 2004: HK$89,000) and HK$11,312,000 (31 December 2004: HK$8,166,000), respectively, which were repayable according to trade terms agreed between both parties.

(c) Key management personnel compensation

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Salaries and bonuses	**3,106**	5,292
Retirement benefits	**18**	13
Share option benefits	**–**	11,310
	3,124	16,615

17. COMPARATIVES

As explained in note 2, due to the adoption of the New HKFRSs during the current period, the accounting treatment and presentation of certain items in the accounts have been revised to comply with the new requirements. Accordingly, certain comparatives have been restated to conform with the current period's presentation.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's shares

The Company has not redeemed any of its shares during the six months ended 30 June 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

Directors' and chief executive's interests in shares, underlying shares and debentures

As at 30 June 2005, the interests of the directors and chief executive in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Ordinary shares of HK$0.10 each of the Company

Name of director		Nature of interest	Number of shares held	Percentage
Chen Ying-Chieh	Long position	Personal/Corporate	157,738,920 *(Note)*	9.63
Chen Hsien Min	Long position	Personal	14,500,000	0.89

Note: Mr Chen Ying-Chieh has beneficial interest in 149,838,920 shares in the Company through Pushkin Holding Limited, a company incorporated in the British Virgin Islands, in which Mr. Chen Ying-Chieh holds one-third of the equity interests.

In addition to the above, Mr Chen Hsien Min, the Managing Director of the Company, also holds non-voting deferred shares and nominee shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiaries have more than one member.

Save as disclosed above, as at 30 June 2005, none of the directors or chief executive, nor any of their associates (including their spouses and children under 18 years of age), had any interests in or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations as defined by the SFO.

Save as disclosed under the section headed "Share options", at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share options

Details of the share options outstanding as at 30 June 2005 which were granted under the share option scheme adopted by the Company on 23 May 2003 were as follows:

	Number of options						
	At 1 January 2005	**Granted during the period**	**Exercisable during the period**	**At 30 June 2005**	**Exercised price** *HK$*	**Grant date**	**Exercise period**
Other participants							
Employees	70,000,000	–	70,000,000 *(Note)*	–	0.311	5 January 2004	5 January 2004 to 4 January 2006

Note: The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK$1.718.

Substantial shareholders' interests

Save as disclosed under the sections headed "Directors' and chief executive's interests in shares, underlying shares and debentures" and "Share options", as at 30 June 2005 the following persons had interests and short positions in the shares of the Company which fall to be disclosed to the Company pursuant to Section 336 of the SFO:

Long positions in the shares of the Company

Name	**Capacity**	**Number of shares held**	**Percentage**
Lucky Earn International Limited	Beneficial owner	449,669,995 *(Note 1)*	27.45
Top Glory Assets Limited	Beneficial owner	217,692,895 *(Note 2)*	13.29
Chen Yi-Chen	Interest of controlled corporations	217,692,895 *(Note 2)*	13.29
Chen Yi-Hsun	Interest of controlled corporations	217,692,895 *(Note 2)*	13.29
Pushkin Holding Limited	Beneficial owner	149,838,920 *(Note 3)*	9.15
Chen Ying-Tien	Interest of controlled corporations	149,838,920 *(Note 3)*	9.15
Chen Ying Che	Interest of controlled corporations	149,838,920 *(Note 3)*	9.15

Notes:

1. *Mr Chang Chih-Kai, an Executive Director of the Company, his brother and his two sisters have beneficial interests of 26%, 26% and 24% respectively in Lucky Earn International Limited, a company incorporated in the British Virgin Islands.*

2. *Ms Chen Yi-Chen ("Ms Chen") and Mr Chen Yi-Hsun ("Mr. Chen") have beneficial interests of 50% each in Top Glory Assets Limited, a company incorporated in the British Virgin Islands. By virtue of the SFO, they are deemed to be interested in the 217,692,895 shares of the Company held by Top Glory Assets Limited. Ms Chen and Mr Chen are the children of Mr Chen Hsien Min, the Managing Director of the Company.*

3. *Mr Chen Ying-Chieh, the Chairman of the Company, and his two brothers, Mr Chen Ying Tien and Mr Chen Ying Che, each has one-third of the beneficial interests of Pushkin Holding Limited. By virtue of the SFO, they are deemed to be interested in the 149,838,920 shares of the Company held by Pushkin Holding Limited.*

Corporate Governance

The Company has complied with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") except for the deviations in respect of the service term under code provisions A.4.1 and A.4.2 of the Code.

Under the code provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election. Under the period of review, all independent non-executive Directors of the Company were not appointed for a specific term but they are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provisions of the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

Under code provision A.4.2, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The rotation of Director(s) at the annual general meeting of the Company held 25 May 2005 was in accordance with the Articles of Association of the Company which stipulate that (i) one-third of the Directors for the time being, or if the number is not a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office; and (ii) the Director holding office of Chairman and Managing Director shall not be subject to retirement by rotation. This constitutes a deviation from the code provision. To fully comply with the code provision, the Board is reviewing the Articles of Association of the Company and relevant amendments will be proposed to the shareholders of the Company for approval.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct for transactions in securities by its Directors. Following specific enquiry by the Company, all Directors confirmed that they had complied with the required standards as set out in the Model Code during the six months ended 30 June 2005.

Audit Committee

The Audit Committee, whose members comprise the three independent non-executive Directors of the Company, is chaired by Mr. Hsiao Hsi-Ming. The Committee assists the Board in providing an independent and objective review of the effectiveness of the financial reporting process, internal control and risk management system of the Group. It primarily aims to increase the Board's accountability, transparency and objectivity.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls, risk management and financial reporting matters including a review of the unaudited condensed consolidated accounts of the Group for the six months ended 30 June 2005.

Remuneration committee

A Remuneration Committee has been established by the Company on 22 April 2005 in accordance with the requirements of the Code. The Remuneration Committee comprises the three independent non-executive directors and Mr. Chen Hsien Min, the Managing Director of the Company. Mr Kuo Jung-Cheng is the chairman of the Remuneration Committee. The duties of the Committee are to make recommendations to the Board on the Group's policy and structure for the remuneration of directors and senior management, including granting of share options to employees under the Company's share option scheme.

Nomination committee

A Nomination Committee has been established by the Company on 22 April 2005 in accordance with the requirements of the Code. The Nomination Committee comprises the three independent non-executive directors and Mr. Chen Ying-Chieh, the Chairman of the Company. Mr Huang Shun-Tsai is the chairman of the Nomination Committee. The duties of the Committee are to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.

On behalf of the Board
Chen Ying-Chieh
Chairman

Hong Kong, 22 September 2005