

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2001

1. ACCOUNTING POLICIES

The unaudited condensed interim financial statements are reported in accordance with Hong Kong Statement of Standard Accounting Practice 25, "Interim Financial Reporting", except that the comparative condensed consolidated cash flow statement for the six months ended 30 June 2000 has not been presented as permitted by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The accounting policies adopted in the preparation of these unaudited condensed interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 December 2000. Figures for the year ended 31 December 2000 are extracted from the Group's annual financial statements for that year.

2. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the net invoiced value of goods sold, after allowance for the returns and trade discounts, and gross rental income received and receivable from investment properties during the period. An analysis of the Group's turnover by principal activities and geographical area of operations for the six months ended 30 June 2001 is as follows:

	Turnover		Contribution to profit before tax	
	Six months ended 30 June 2001 (unaudited) <i>HK\$'000</i>	Six months ended 30 June 2000 (unaudited) <i>HK\$'000</i>	Six months ended 30 June 2001 (unaudited) <i>HK\$'000</i>	Six months ended 30 June 2000 (unaudited) <i>HK\$'000</i>
By activity				
Footwear manufacturing and trading	411,478	306,508	88,387	57,126
Property investment	468	847	468	847
	<u>411,946</u>	<u>307,355</u>	88,855	57,973
Other revenue			30,539	30,569
Distribution costs			(12,237)	(2,883)
Administrative expenses			(42,575)	(30,476)
Other operating expenses			(28,243)	(23,860)
Finance costs			(1,961)	(6)
Profit before tax			<u>34,378</u>	<u>31,317</u>

2. TURNOVER AND SEGMENTAL INFORMATION *(continued)*

	Turnover		Contribution to profit before tax	
	Six months ended 30 June		Six months ended 30 June	
	2001	2000	2001	2000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
By geographical area				
North America				
United States of America	299,433	199,395	64,319	37,162
Others	17,069	17,163	3,666	3,199
	<hr/>	<hr/>	<hr/>	<hr/>
	316,502	216,558	67,985	40,361
Europe	49,346	58,148	10,600	10,837
Asia	19,960	17,536	4,655	3,958
Australia	8,612	6,601	1,850	1,230
Others	17,526	8,512	3,765	1,587
	<hr/>	<hr/>	<hr/>	<hr/>
	411,946	307,355	88,855	57,973
			<hr/>	<hr/>
Other revenue			30,539	30,569
Distribution costs			(12,237)	(2,883)
Administrative expenses			(42,575)	(30,476)
Other operating expenses			(28,243)	(23,860)
Finance costs			(1,961)	(6)
			<hr/>	<hr/>
Profit before tax			<u>34,378</u>	<u>31,317</u>

3. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2001	2000
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	228,335	163,967
Depreciation	7,441	5,431
Provision for bad and doubtful debts	2,741	3,800
Loss on disposal of fixed assets, net	1,183	3,082
Provision for diminution in value of leasehold real estate	21,986	15,000
Provision for permanent diminution in value of fixed assets	–	1,037
Interest income from listed investments	(8,112)	(3,649)
Net holding gain on short term investments	(855)	–
Gain on disposal of short term investments	(3,626)	(4,626)
Gain on disposal of long term investments	(2,848)	(2,010)
Dividend income from listed investments	(772)	(91)

4. FINANCE COSTS

	Six months ended 30 June	
	2001	2000
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense on bank loan and overdrafts wholly repayable within five years	1,961	6

5. TAX

	Six months ended 30 June	
	2001	2000
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for the period:		
Hong Kong	150	100
Elsewhere	1,164	846
	<hr/>	<hr/>
Tax charge for the period	1,314	946
	<hr/>	<hr/>

Hong Kong profit tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. Tax on profits assessable elsewhere has been provided at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices thereof.

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's unaudited net profit from ordinary activities attributable to shareholders for the period of HK\$33,175,000 (2000: HK\$30,840,000) and the weighted average number of 5,131,749,907 (2000: 4,712,176,510) ordinary shares in issue during the period.

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

The calculation of the diluted earnings per share for six months ended 30 June 2000 was based on the unaudited net profit from ordinary activities attributable to shareholders for that period of HK\$30,840,000 on the assumption that the weighted average number of 4,712,176,510 ordinary shares in issue during the period and the weighted average number of 46,070,527 ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

7. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend in respect of the period ended 30 June 2001 (2000: Nil).

8. TRADE RECEIVABLES

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

	30 June 2001 (unaudited) <i>HK\$'000</i>	31 December 2000 (audited) <i>HK\$'000</i>
Current to 30 days	53,818	71,587
31 days to 60 days	8,433	4,721
61 days to 90 days	200	198
Over 90 days	<u>75,656</u>	<u>70,116</u>
	138,107	146,622
<i>Less: Provision for doubtful debts</i>	<u>(70,882)</u>	<u>(68,141)</u>
	<u><u>67,225</u></u>	<u><u>78,481</u></u>

9. TRADE PAYABLES

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

	30 June 2001 (unaudited) <i>HK\$'000</i>	31 December 2000 (audited) <i>HK\$'000</i>
Current to 30 days	47,509	53,221
31 days to 60 days	19,688	31,499
61 days to 90 days	4,047	4,739
Over 90 days	<u>15,369</u>	<u>15,694</u>
	<u><u>86,613</u></u>	<u><u>105,153</u></u>

10. BANK LOAN AND OVERDRAFTS

	30 June 2001 (unaudited) <i>HK\$'000</i>	31 December 2000 (audited) <i>HK\$'000</i>
Bank overdrafts, secured	707	709
Bank loan, secured	—	50,700
	<u>707</u>	<u>51,409</u>

Bank loan and overdrafts are repayable as follows:

Within one year or on demand	707	10,849
In the second year	—	10,140
In the third to fifth years, inclusive	—	30,420
	<u>707</u>	<u>51,409</u>

The Group's bank loan and overdrafts are secured by mortgages over the Group's investment properties and land and buildings which have an aggregate carrying value as at 30 June 2001 of approximately HK\$112,350,000 (31 December 2000: approximately HK\$139,200,000).

11. SHARE CAPITAL

	30 June 2001 (unaudited) HK\$'000	31 December 2000 (audited) HK\$'000
Shares		
<i>Authorised:</i>		
20,000,000,000 ordinary shares of HK\$0.10 each	<u>2,000,000</u>	<u>2,000,000</u>
<i>Issued and fully paid:</i>		
5,131,749,907 ordinary shares of HK\$0.10 each	<u>513,175</u>	<u>513,175</u>

There was no movement in the share capital of the Company for the six months ended 30 June 2001.

Share options

On 9 February 1995, the Company adopted a share option scheme under which the Directors may, at their discretion, invite any directors or employees of the Group to take up options to subscribe for shares of the Company at any time during the ten years from the date of approval. The maximum number of shares on which options may be granted may not exceed 10% of the issued ordinary share capital of the Company. The options are exercisable at any time for a period of two years commencing on the expiry of six months after the date of grant and expiring on the last day of the said two years period. The exercise price of options is adjustable in accordance with the provisions of the share option scheme.

Details of movements in the number of shares under options during the period were as follows:

Exercise price per share	At 1 January 2001	Lapsed during the period	At 30 June 2001
HK\$0.10	250,816,207	(3,000,000)	247,816,207

12. RESERVES

Group	Share premium account <i>HK\$'000</i>	Fixed assets revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001 (audited)	28,057	5,745	4,359	137,150	175,311
Exchange realignment	–	–	780	–	780
Deficits on revaluation of fixed assets	–	(5,565)	–	–	(5,565)
Net profit for the period	–	–	–	33,175	33,175
At 30 June 2001 (unaudited)	<u>28,057</u>	<u>180</u>	<u>5,139</u>	<u>170,325</u>	<u>203,701</u>

13. COMMITMENTS

	30 June 2001 (unaudited) <i>HK\$'000</i>	31 December 2000 (audited) <i>HK\$'000</i>
(a) Capital commitments contracted for in respect of:		
Capital contributions to subsidiaries in the PRC	58,001	58,001
Leasehold improvements	<u>2,162</u>	<u>5,152</u>
	<u>60,163</u>	<u>63,153</u>
(b) Annual commitments payable under non-cancellable operating leases for land and buildings expiring in the second to fifth years, inclusive	<u>792</u>	<u>1,025</u>
	<u>792</u>	<u>1,025</u>
Annual commitments payable under management agreement in respect of the PRC factory premises expiring within one year	<u>–</u>	<u>424</u>
	<u>–</u>	<u>424</u>
	<u>792</u>	<u>1,449</u>

14. SUBSEQUENT EVENTS

On 13 August 2001, Muspole International Limited, a wholly owned subsidiary of the Company, entered into an agreement for the disposal of 50% equity interest (with 50% of the outstanding shareholder's loan) in Union Overseas Holdings Limited, a wholly owned subsidiary of the Company, to an independent third party for a total consideration of approximately US\$7,028,346 (approximately HK\$54,821,095). The Group did not record any significant gain or loss as a result of the disposal under the agreement. Union Overseas Holdings Limited ceased to be treated as a subsidiary of the Company upon completion of the agreement. Details of the transaction were set out in the Company's announcement dated 13 August 2001.

On 31 August 2001, a sale and purchase contract for disposal of a substantial part of Tsuen Wan warehouse with net book value of approximately HK\$920,000 has been signed for a total consideration of HK\$780,000, giving rise to an estimated loss on disposal of approximately HK\$140,000.