

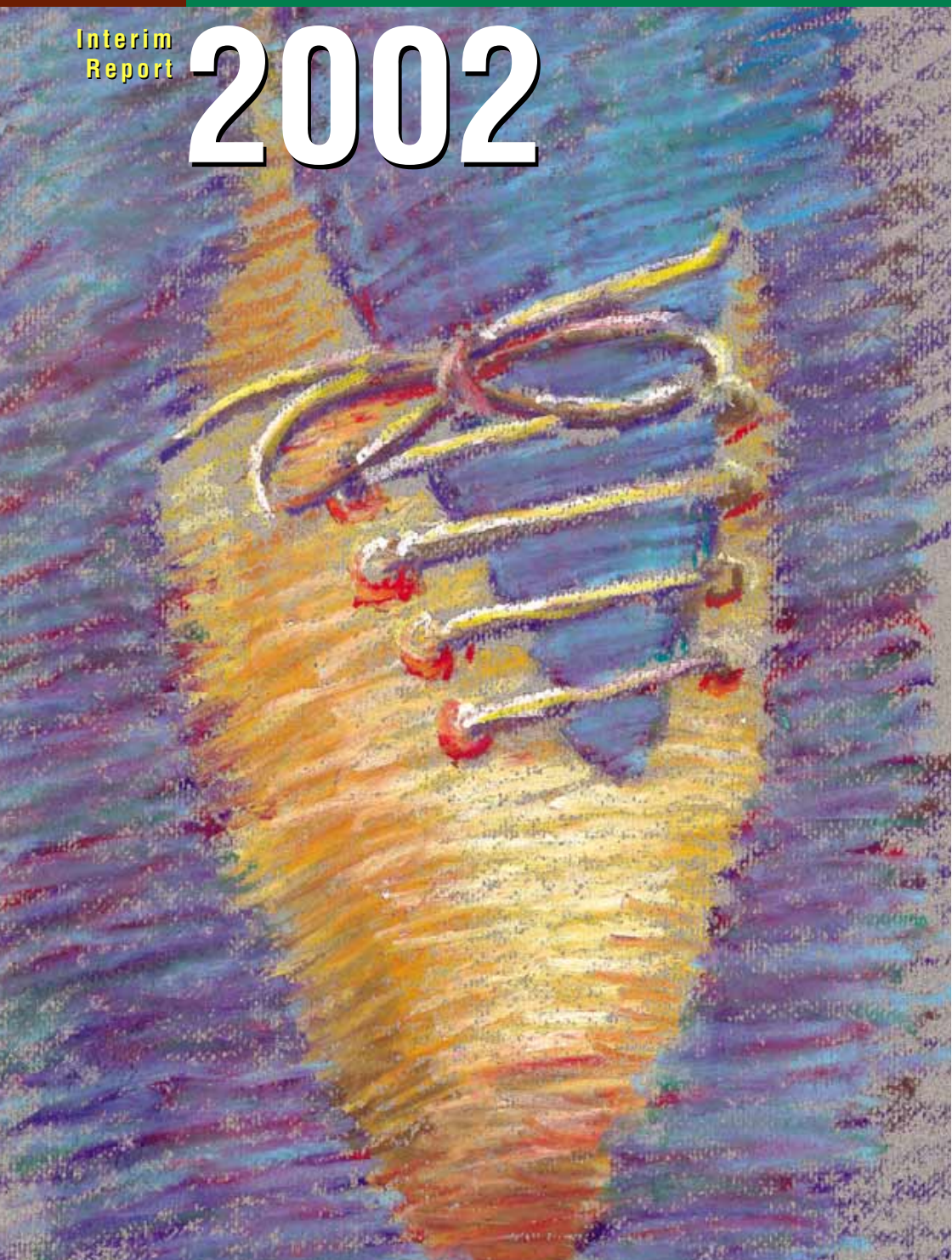


永恩國際集團有限公司

PRIME SUCCESS INTERNATIONAL GROUP LIMITED

Interim
Report

2002





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The board of directors (the “Board”) of Prime Success International Group Limited (the “Company”) is pleased to present the interim report and condensed accounts of the Company and its subsidiaries (together called the “Group”) for the six months ended 30th June 2002. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June 2002, and the consolidated balance sheet as at 30th June 2002 of the Group, all of which are unaudited and condensed, along with selected explanatory notes.

BUSINESS OVERVIEW

The slowdown of the world economy in the previous 12 months has been a very tough time for the Group as a whole and a number of the challenges faced by the Group have been unprecedented. The “911” Incidence that brought down the World Trade Centre last September has seriously impacted the Group’s performance for the second half of last year and the first half of this year. For the six months ended 30th June 2002, the Group recorded a decline of 3.9% in turnover as compared to the corresponding period in 2001, from approximately HK\$596.1 million to approximately HK\$573.0 million; and a decline of 52.3% in operating profit, from approximately HK\$24.1 million to approximately HK\$11.5 million. To date the effect of the “911” Incidence is still lingering, although the growth of the People’s Republic of China (the “PRC”) market has neutralized the overall impact. Looking on the positive side, the Group managed to generate an operating profit and net profit of approximately HK\$11.5 million and HK\$1.3 million respectively in this tough time.

The U.S. Market

As the United States of America (the “U.S.”) economy continues to be affected by the “911” Incidence, the turnover in the U.S. market decreased by approximately 19.4%, from approximately HK\$393.7 million for the six months ended 30th June 2001 to approximately HK\$317.4 million for the six months ended 30th June 2002. The segment result decreased by approximately 53.8% from approximately HK\$15.8 million for the six months ended 30th June 2001 to approximately HK\$7.3 million for the six months ended 30th June 2002.

Recognizing the impact of the “911” Incidence, the Group rectified the situation by carefully and strategically implementing measures to reduce price in order to stimulate higher turnover. This strategy is not only able to keep the factory production lines and the workforce utilized in the short-term, but also maintain the Group’s resources in tact in the long-term to support the Group’s objective to continue expansion of the PRC market.

The PRC Market

The Group experienced remarkable growth in the PRC market as domestic turnover has gone up 26.7% from approximately HK\$179.3 million for the six months ended 30th June 2001 to approximately HK\$227.2 million for the six months ended 30th June 2002. The significant achievement in the PRC market is attributed primarily to the Group’s extensive marketing



campaign; the continuous expansion of the Group's distribution network that allows better penetration to the PRC market; and the Group's persistent effort to ensure that "Daphne" already a "Named Brand" continues to be the best selling ladies footwear in the PRC market. The Group currently has more than 1,000 "Daphne" selling points and generated more than one million pairs of ladies footwear for the six months ended 30th June 2002.

However, the Group's expansion in the PRC market comes with a cost. Due to the expansion cost, the PRC segment result decreased by approximately 62.4%, from approximately HK\$10.1 million for the six months ended 30th June 2001 to approximately HK\$3.8 million for the six months ended 30th June 2002. The directors of the Company view this setback as temporary and necessary to prepare the Group for the future, and to maintain the market share in the PRC market for competing more effectively as the PRC is now a member of the WTO.

PROSPECTS

The PRC is still the Group's fastest growing market in the world, and the Group will continue to expand the "Daphne" selling points and focus more on the retail side of the business. The Group expects to increase the number of the "Daphne" selling points by more than 10% and to boost the sales volume of ladies footwear. With over ten years of penetration in the PRC market, the Group will continue to enjoy the well established sales and distribution network to advance over its competitors.

In addition to the Group's existing retail business with "Daphne", the Group has joint ventured with several popular entertainers to enter into an agreement in August 2002 to obtain a sole retail shop right from Adidas (Suzhou) Limited (the "Adidas") for one of its collections "Original" in the whole of the PRC for a period of six years starting from 2003. The Group has 51% equity interest in the above joint venture and the part of the invested capital for the Group on this investment is estimated to be RMB20.4 million. The Group will continue to look into investing more on the sportswear business to take advantage of the coming 2008 Beijing Olympic.

The Group expects the U.S. market to recover slowly, so the Group will continue to expand the markets outside the U.S. and the PRC in order to minimize the overall impact. The growth in the turnover for the markets outside the U.S. and the PRC has increased 22.9%, from approximately HK\$23.1 million for the six months ended 30th June 2001 to approximately HK\$28.4 million for the six months ended 30th June 2002.

THE FINANCIAL REVIEW

Debtors' ageing analysis

As at 30th June 2002, the Group's total trade debtors balance was approximately HK\$179.5 million, representing approximately 31.3% of the total turnover for this period. Although the debtor to turnover ratio increased 11.8% compared to the corresponding period last year, our customers still maintain a healthy repayment record with agreed terms.



Liquidity and capital structure

During the period, there was no change in share capital. The Group financed its operations mainly with internal resources and general banking facilities.

As at 30th June 2002, the Group's total borrowings amounted to approximately HK\$160.9 million, all were short-term in nature. This was an improvement over last year's figure by 7.2% and was the result of the Group's progressive approach to reduce interest burden. These borrowings were structured mainly for funding the operation. The currencies of the borrowings was made up of approximately 6.0% in Hong Kong dollars, 22.6% in U.S. dollars, 31.1% in Renminbi and 40.3% in New Taiwan dollars. Most of the borrowings are structured at fixed interest rates.

Charges on Group assets

Certain leasehold land and buildings of the Group having a carrying amount of approximately HK\$61.0 million as at 30th June 2002 were pledged to banks in the PRC to secure general banking facilities granted to the Group. Certain investment securities were also pledged to a bank outside the PRC to secure general banking facilities granted to the Group.

Gearing ratio

The gearing ratio improved from 53.2% at 31st December 2001 to 49.3% at 30th June 2002. Computation was based on the total borrowings divided by shareholders' funds as at 30th June 2002.

Future capital investments

To take advantage of the extensive distribution network of the Group in the PRC, the Group has entered into an agreement with Adidas in August 2002, for a sole retail shop right of Adidas' "Original" collection in the PRC. The Group has also lined up with several popular entertainers to set up a joint venture for operation of this business. The invested capital made by the Group in this investment is estimated to be RMB20.4 millions and the Group will hold 51% equity interest in the joint venture company. The investment shall be financed by internal resources of the Group.

Material acquisitions and disposals

There are no material acquisitions and disposals of subsidiaries and associated companies during the six months ended 30th June 2002.



Exchange rate exposure

Whilst the sales of the Group are mainly denominated in U.S. dollars and Renminbi, the purchases of raw materials are made mainly in Hong Kong dollars, U.S. dollars and New Taiwan dollars. Bank borrowings are also denominated in Hong Kong dollars, U.S. dollars, New Taiwan dollars and Renminbi and interests are mainly charged on a fixed interest rate basis. As the exchange rates of New Taiwan dollars and Renminbi against the Hong Kong dollars are relatively stable during the period, the directors of the Company consider the Group's exposure to exchange fluctuations is minimal.

Contingent liabilities

As at 30th June 2002, the Group had no significant contingent liabilities.

EMPLOYEES

As at 30th June 2002, the Group had over 10,000 staff. In addition to basic salaries, employees are rewarded with performance-related bonuses. All staff in the PRC are provided with free meals and lodging. The Group believes that human resources are very important, thus always provides appropriate internal training and encourages promotions from within.

DIRECTORS' INTERESTS IN SECURITIES

At 30th June 2002, the interests of the directors of the Company and their associates in the securities of the Company and of its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

Name of director	Nature of interest	Number of ordinary shares of the Company held
Chang Wen I	Corporate (<i>Note</i>)	449,669,995

Note: These securities are registered in the name of and beneficially owned by Lucky Earn International Ltd., a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr Chang Wen I.



In addition to the above, as at 30th June 2002, the following directors beneficially owned the non-voting deferred shares in the subsidiaries of the Company:

Name of subsidiary	Name of director	Number of
		non-voting deferred shares of HK\$1 each held
Gentlefit Trading Limited	Chang Wen I	6,425,051
	Chen Hsien Min	3,013,917
Modern City Development Limited	Chang Wen I	3,400
	Chen Hsien Min	3,300

The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distributions on winding up.

Save as disclosed above and certain nominee shares in subsidiaries held by certain directors of the Company in trust for the Group, as at 30th June 2002, none of the directors or chief executives, nor any of their associates, had any interests in any securities of the Company or any of its associated corporations as defined by the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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 of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or chief executives, nor any of their spouses or children under the age of eighteen, had any rights to subscribe for the securities of the Company, or had exercised any such rights during the period.

SHARE OPTIONS

In accordance with the Company's share option scheme (the "Scheme"), which was adopted on 9th October 1995 for a period of ten years, the Board may grant options to eligible employees, including director(s) of the Company and its subsidiaries, to subscribe for ordinary shares in the Company, in accordance with the terms of the Scheme. There was no change in the terms of the Scheme during the period.

As at 1st January 2002, a total of 80,000,000 share options granted to employees in September 1999 remained outstanding. These share options entitle the holders thereof to subscribe for shares of HK\$0.10 each in the Company at a subscription price of HK\$0.20 per share (subject to adjustment) during the exercisable period from 29th March 2000 to 28th March 2002. No share option was exercised during the period and all the outstanding share options lapsed on 28th March 2002. No new share option was granted during the six months ended 30th June 2002.



SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 30th June 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of shareholder	Number of ordinary shares of the Company held
Top Glory Assets Limited	217,692,895

Note: As at 30th June 2002, Mr Chen Yi Hsun and Ms Chen Yi Chen, the son and daughter of Mr Chen Hsien Min, the managing director of the Company, have beneficial interests in 50% each in Top Glory Assets Limited.

Saved as disclosed above, the Company was not notified of any other interests representing 10% or more of the issued share capital of the Company as at 30th June 2002.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30th June 2002, the Company did not redeem any of its listed securities and neither the Company nor any of its subsidiaries have purchased or sold any of the Company's listed securities.

INTERIM DIVIDEND

The Board has resolved on 18th September 2002 to declare an interim dividend of HK0.80 cent (2001: Nil) per ordinary share for the year ending 31st December 2002. The interim dividend will be payable on 28th October 2002 to shareholders whose names appear on the register of members of the Company at 4:00 p.m. on Tuesday, 15th October 2002.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 16th October 2002 to Friday, 18th October 2002, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for entitlement of the interim dividend declared, the shareholders should lodge all completed transfer forms accompanied by the relevant share certificates with the Company's registrar, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on Tuesday, 15th October 2002.



COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30th June 2002.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting policies adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30th June 2002 with the directors of the Company.

ACKNOWLEDGEMENT

I would like to take this opportunity to express our sincere appreciation of the support from our customers, suppliers and shareholders. I would also like to thank our colleagues for their valuable contribution to the Group and dedicated services throughout the period.



Condensed Consolidated Profit and Loss Account

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

		Unaudited	
		Six months ended	
		30th June	
		2002	2001
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	573,027	596,105
Other revenues		1,683	3,992
Changes in inventories of finished goods and work in progress		3,648	(81,044)
Raw materials and consumables used		(330,606)	(279,783)
Staff costs		(112,429)	(106,329)
Depreciation and amortisation expenses		(6,861)	(6,145)
Other operating expenses		(116,969)	(102,683)
Operating profit		11,493	24,113
Finance costs		(4,499)	(8,824)
Share of results of an associated company		34	88
Profit before taxation		7,028	15,377
Taxation	3	(4,037)	(1,944)
Profit after taxation		2,991	13,433
Minority interests		(1,684)	(898)
Profit attributable to shareholders		1,307	12,535
Dividend	4	11,987	—
Earnings per share – basic	5	HK0.09 cent	HK0.84 cent



Condensed Consolidated Balance Sheet

AS AT 30TH JUNE 2002

		Unaudited 30th June 2002 HK\$'000	Audited 31st December 2001 HK\$'000
	Note		
Non-current assets			
Property, plant and equipment	6	118,087	120,976
Interest in an associated company		2,319	2,258
Investment securities		24,437	24,437
Negative goodwill		(1,750)	(1,850)
		<u>143,093</u>	<u>145,821</u>
Current assets			
Inventories		172,748	183,539
Trade and other receivables	7	291,800	234,490
Pledged bank deposit		–	7,800
Bank balances and cash		119,094	141,506
		<u>583,642</u>	<u>567,335</u>
Current liabilities			
Amount due to an associated company		657	807
Amount due to a related company		1,035	958
Trade and other payables	8	216,457	192,222
Taxation payable		5,520	2,691
Short-term bank borrowings, secured	11	99,751	91,159
Short-term bank borrowings, unsecured		61,174	82,282
		<u>384,594</u>	<u>370,119</u>
Net current assets		<u>199,048</u>	<u>197,216</u>
Total assets less current liabilities		<u><u>342,141</u></u>	<u><u>343,037</u></u>
Financed by:			
Share capital	9	149,839	149,839
Reserves		176,761	176,165
Shareholders' funds		<u>326,600</u>	<u>326,004</u>
Minority interests		<u>15,541</u>	<u>17,033</u>
		<u><u>342,141</u></u>	<u><u>343,037</u></u>



Condensed Consolidated Cash Flow Statement

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

	Unaudited	
	Six months ended	
	30th June	
		As restated
	2002	2001
	HK\$'000	HK\$'000
Net cash (used in)/from operating activities	(4,292)	11,728
Net cash used in investing activities	(5,305)	(3,108)
Net cash used in financing activities	(12,102)	(21,835)
Decrease in cash and cash equivalents	(21,699)	(13,215)
Cash and cash equivalents at the beginning of the period	141,497	228,333
Effect of foreign exchange rate changes	(704)	(11,504)
Cash and cash equivalents at the end of the period	<u>119,094</u>	<u>203,614</u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	<u>119,094</u>	<u>203,614</u>



Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

	Unaudited										
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Property revaluation reserve HK\$'000	Exchange difference HK\$'000	Goodwill HK\$'000	Merger reserve HK\$'000	General reserve fund HK\$'000	Enterprise expansion fund HK\$'000	Retained profits HK\$'000	Total HK\$'000
			(Note 10a)				(Note 10b)	(Note 10c)	(Note 10c)		
At 1st January 2002	149,839	2,315	2,882	1,184	(7,576)	(36,782)	322	3,888	4,440	205,492	326,004
Exchange differences	-	-	-	-	(747)	-	-	-	-	-	(747)
Transfer	-	-	-	-	-	-	-	701	256	(957)	-
Share of an associated company's reserve movements	-	-	-	-	36	-	-	1	1	(2)	36
Profit for the period	-	-	-	-	-	-	-	-	-	1,307	1,307
At 30th June 2002	149,839	2,315	2,882	1,184	(8,287)	(36,782)	322	4,590	4,697	205,840	326,600
At 1st January 2001	149,839	2,315	2,882	1,184	(20,945)	(36,782)	322	3,383	3,935	306,281	412,414
Exchange differences	-	-	-	-	(913)	-	-	-	-	-	(913)
Transfer	-	-	-	-	-	-	-	399	399	(798)	-
Share of an associated company's reserve movements	-	-	-	-	(31)	-	-	3	3	(6)	(31)
Profit for the period	-	-	-	-	-	-	-	-	-	12,535	12,535
At 30th June 2001	149,839	2,315	2,882	1,184	(21,889)	(36,782)	322	3,785	4,337	318,012	424,005



Notes to the Condensed Accounts

1 Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These interim condensed accounts should be read in conjunction with the 2001 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2001 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002.

SSAP 1 (revised):	Presentation of financial statements
SSAP 15 (revised):	Cash flow statements
SSAP 25 (revised):	Interim financial reporting
SSAP 34:	Employee benefits

The changes to the Group’s accounting policies and the effect of adopting these new or revised SSAPs are set out below:

- (a) Upon adoption of SSAP 1 (revised), SSAP 15 (revised) and SSAP 25 (revised), certain presentation changes have been made in the interim condensed accounts. Certain comparative figures have been reclassified or restated to conform with current year’s presentation.
- (b) SSAP 34: Employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity or paternity are not recognized until the time of leave.

In prior periods, no provision was made for employee entitlements to annual leaves. This is a change in accounting policy; however, the adoption of SSAP 34 has no material effect on the accounts and the provision for employee entitlements to annual leaves has not been restated in prior periods.



2 Segment information

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

Business segments

No business segment analysis is prepared as substantially all of the Group's turnover and contribution to results were derived from the manufacturing and distribution of footwear products during the period.

Geographical segments

An analysis of the Group's revenues and results for the period by geographical segment is as follows:

	6 months ended 30th June 2002				6 months ended 30th June 2001			
	U.S. HK\$'000	PRC HK\$'000	Others HK\$'000	Total HK\$'000	U.S. HK\$'000	PRC HK\$'000	Others HK\$'000	Total HK\$'000
Turnover	<u>317,437</u>	<u>227,212</u>	<u>28,378</u>	<u>573,027</u>	<u>393,667</u>	<u>179,337</u>	<u>23,101</u>	<u>596,105</u>
Segment results	<u>7,309</u>	<u>3,781</u>	<u>746</u>	<u>11,836</u>	<u>15,802</u>	<u>10,080</u>	<u>927</u>	<u>26,809</u>
Interest income				116				532
Unallocated expenses *				(459)				(3,228)
Operating profit				<u>11,493</u>				<u>24,113</u>

Sales are based on the country in which the customer is located. There are no sales between the segments.

* Unallocated expenses comprise corporate expenses of the Group.

3 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 in other jurisdictions has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the relevant jurisdictions in which the Group operates.



Certain subsidiaries of the Group operating in the PRC are eligible for certain tax exemptions and concessions. Accordingly, the PRC income tax has been provided taking account of these tax exemptions and concessions.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	6 months ended	
	30th June	
	2002	2001
	HK\$'000	HK\$'000
Taxation in other jurisdictions	4,028	1,933
Share of taxation attributable to an associated company	9	11
	<u>4,037</u>	<u>1,944</u>

4 Dividend

	6 months ended	
	30th June	
	2002	2001
	HK\$'000	HK\$'000
Interim, proposed, of HK0.80 cent (2001: Nil) per ordinary share (<i>Note</i>)	<u>11,987</u>	<u>—</u>

Note: At a meeting held on 18th September 2002, the directors declared an interim dividend of HK 0.80 cent per ordinary share for the year ending 31st December 2002. This proposed dividend is not reflected as a dividend payable in these condensed consolidated accounts, but will be reflected as an appropriation of retained profits for the year ending 31st December 2002.

5 Earnings per share

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of HK\$1,307,000 (2001: HK\$12,535,000) and the weighted average number of 1,498,392,384 (2001: 1,498,392,384) ordinary shares in issue during the period.

There was no dilution effect on the basic earnings per share for the period ended 30th June 2002 as all share options granted by the Company to the employees lapsed on 28th March 2002. As the respective prices of the share options were greater than the average market prices of the Company's share for the six months ended 30th June 2002, there was no dilution effect on the basic earnings per share.

**6 Capital expenditure**

**Property,
plant and
equipment**
HK\$'000

Six months ended 30th June 2002

Opening net book value	120,976
Exchange adjustment	(1,330)
Additions	5,421
Depreciation	(6,980)
Closing net book value	<u><u>118,087</u></u>

7 Trade and other receivables

Included in trade and other receivables are trade receivables, net of provision, of HK\$179,541,000 (31st December 2001: HK\$166,692,000) and their ageing analysis is as follows:

	30th June 2002 HK\$'000	31st December 2001 HK\$'000
Current	121,372	111,432
Overdue 0 – 30 days	22,505	25,505
Overdue 31 – 60 days	8,222	9,869
Overdue 61 – 90 days	8,717	1,999
Overdue 91 – 120 days	5,755	1,887
Overdue 121 – 180 days	4,798	6,473
Overdue 181 – 360 days	7,492	4,386
Overdue more than 360 days	680	5,141
	<u><u>179,541</u></u>	<u><u>166,692</u></u>

The Group generally allows an average credit period of 30 days to its trade customers other than major and long established customers with whom specific terms are agreed by both parties.



8 Trade and other payables

Included in trade and other payables are trade payables of HK\$141,966,000 (31st December 2001: HK\$128,206,000) and their ageing analysis is as follows:

	30th June 2002 HK\$'000	31st December 2001 HK\$'000
Current	76,372	62,974
Overdue 0 – 30 days	43,656	37,933
Overdue 31 – 60 days	14,787	7,441
Overdue 61 – 90 days	3,185	5,324
Overdue 91 – 120 days	594	610
Overdue 121 – 180 days	24	9,023
Overdue 181 – 360 days	776	1,007
Overdue more than 360 days	2,572	3,894
	<u>141,966</u>	<u>128,206</u>

9 Share capital

	30th June 2002 HK\$'000	31st December 2001 HK\$'000
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.10 each	<u>1,000,000</u>	<u>1,000,000</u>
<i>Issued and fully paid:</i>		
1,498,392,384 ordinary shares of HK\$0.10 each	<u>149,839</u>	<u>149,839</u>



10 Reserves

(a) *Capital redemption reserve*

The capital redemption reserve represents the nominal amount of shares repurchased by the Group in 1999.

(b) *Merger reserve*

The merger reserve represents the difference between the aggregate nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued by the Company as consideration for the acquisition pursuant to the corporate reorganisation in 1995.

(c) *General reserve fund and enterprise expansion fund*

The general reserve fund and the enterprise expansion fund are statutory reserves required to be set up pursuant to the PRC laws for the Group's subsidiaries and an associated company established in the PRC. The general reserve fund can only be used to make up losses incurred, increase registered capital or used for the collective welfare of employees. The enterprise expansion fund can only be used to increase registered capital.

11 Banking facilities

As at 30th June 2002, the Group's short-term bank borrowings of approximately HK\$99,751,000 were secured by the following assets of the Group:

- (a) certain leasehold land and buildings of net book value of approximately HK\$61,045,000; and
- (b) unlisted investment securities of 1,950,000 shares in Sun Home Leather Corporation Limited with nil carrying value.



12 Commitments

(a) Capital commitments for property, plant and equipment

	30th June 2002 HK\$'000	31st December 2001 HK\$'000
Approved but not contracted	1,953	–
Contracted but not provided for	2,074	1,817
	<u>4,027</u>	<u>1,817</u>

(b) Commitments under operating leases

At 30th June 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30th June 2002		31st December 2001	
	Land and buildings HK\$'000	Plant and machinery HK\$'000	Land and buildings HK\$'000	Plant and machinery HK\$'000
Not later than one year	58,544	–	53,047	32
Later than one year and not later than five years	59,286	–	62,029	–
Later than five years	2,344	–	12,682	–
	<u>120,174</u>	<u>–</u>	<u>127,758</u>	<u>32</u>

**13 Related party transactions**

		6 months ended 30th June	
		2002	2001
	<i>Note</i>	HK\$'000	HK\$'000
Purchases from an associated company	(a)	3,406	2,335
Purchases from a related company	(b)	1,601	1,663
		<u>5,007</u>	<u>3,998</u>

Note:

- (a) *The Group purchased goods from an associated company, Dayong Shoe Material Co., Ltd. Hanjiang Putian City, were carried out in accordance with terms determined and agreed by both parties.*
- (b) *The Group purchased shoe materials from Sun Home Leather Corporation Limited, in which Messrs. Chang Wen I and Chen Hsien Min are directors, were carried out in accordance with terms determined and agreed between both parties.*

On behalf of the Board
CHANG WEN I
Chairman

Hong Kong, 18th September 2002