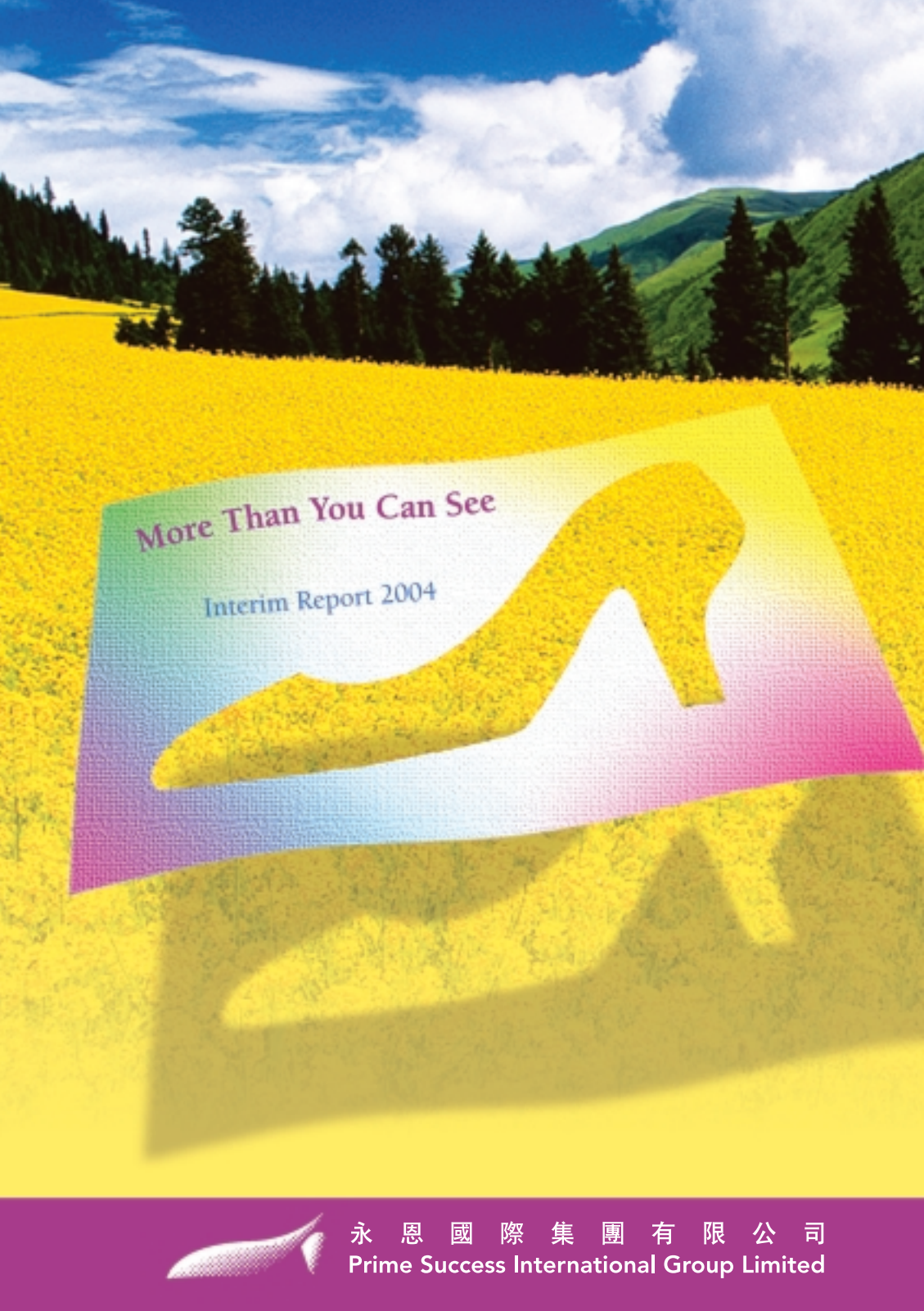




More Than You Can See

Interim Report 2004



永 恩 國 際 集 團 有 限 公 司
Prime Success International Group Limited



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The board of directors (the “Board”) of Prime Success International Group Limited (the “Company”) is pleased to present the unaudited interim results and condensed accounts of the Company and its subsidiaries (collectively known as the “Group”) for the six months ended 30 June 2004, together with comparative figures for the corresponding period in 2003.

INTERIM DIVIDEND

The Board has resolved on 23 September 2004 to declare an interim dividend of HK1.5 cents (2003: HK1.0 cent) per ordinary share for the year ending 31 December 2004. The interim dividend will be payable on or before 25 October 2004 to shareholders whose names appear on the register of members of the Company at 4:00 p.m. on 11 October 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 October 2004 to 14 October 2004 (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 11 October 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

As the people in China become more affluent, Chinese consumers are increasingly prone to trendy products, generating great potential demand for mid-to-high-end casual footwear products. The phenomenon presented the Group with an advantageous business environment for extending its market coverage and developing new footwear products. In the first half of 2004, the Group capitalised on the huge opportunities arising in the PRC market, continued to develop its business proactively, and hence successfully raised its turnover and profit.

OEM Business

OEM business, one of the Group’s traditional core businesses, managed to record a steady turnover of HK\$373.6 million in the period under review (2003: HK\$380.2 million), constituting 44.5% of the Group’s total turnover (2003: 56.4%). Leveraging on a series of stringent cost control measures and adopting the strategy of focusing on the production of high margin products, the Group’s OEM segmental operating profit increased by 1.49 times to HK\$19.7 million (2003: HK\$7.9 million). The US continued to be the Group’s largest overseas export market.



“Daphne” – Own-brand Ladies’ Footwear Business

The Group’s own ladies’ footwear brand, “Daphne”, is a leading footwear brand in the PRC and reported a record high of 59% increase in turnover to HK\$466.0 million (2003: HK\$293.7 million) during the review period. Its operating profit also surged 1.99 times from HK\$20.2 million in the same period last year to HK\$60.4 million. As the operation of “Daphne” gets more mature, it has built up a sizable customer base. To further expand the sales and distribution network of “Daphne”, in the past six months, the Group had added more than 250 new selling points of “Daphne” in various cities, bringing the total number of “Daphne” selling points to over 2,000, including 600 specialty shops and 262 “Daphne” counters. With more “Daphne” selling points set up, the Group’s revenue base was further broadened.

“Shoebox” – New Own-brand Business

In view of the ever-rising demand for footwear products in the PRC market, the Group launched a new brand “Shoebox”, targeting both genders and various age groups. This was to further expand its customer portfolio and penetrate into the mass market. An agent was appointed by the Group to open “Shoebox” mega stores in major cities.

Five “Shoebox” mega stores in Zhengzhou, Yangzhou, Suzhou, Shanghai and Wuhan respectively were opened around May to June this year. The floor area of each store is between 400 square metres and 600 square metres. Leveraging its diversified product range plus reasonable pricing, the Group believes that “Shoebox” will gain in popularity in the market, and gradually bring in sales revenue for the Group.

Adidas – Exclusive Retail Shop Right Business

In less than two years through its appointed agent, the Group had opened 29 exclusive specialty shops and counters for “Adidas” “Original Collection” in major cities in the PRC including Shanghai, Beijing and Guangzhou. These specialty stores generated a total agency fee of approximately HK\$0.9 million, bringing in satisfactory revenue for the Group.

Development of infrastructure

Furthermore, the Group’s production facilities in Fujian and Jiangsu commenced operations in the review period to cope with the increased new orders. In the meantime, the logistic centre in Shanghai with an investment of approximately HK\$12.7 million had also commenced operation. Equipped with advanced computer system, this logistic centre can effectively handle the warehousing, transportation and freight of products, helping to further reduce costs and allowing the Group to enjoy economies of scale. The constructions of other logistic centres, located in major cities like Beijing, Shenyang and Fujian are expected to be completed by the end of 2005. In order to achieve an extensive nation-wide sales and distribution network which allows it to serve consumers across the territory, the Group recently decided to construct 2 logistic centres in Guangdong and Chengdu in addition.



Financial Review

Turnover and performance

The Group recorded a highly satisfactory interim results for the six months ended 30 June 2004, with turnover growing by 25% as compared to the same period last year (2003: HK\$673.9 million) to reach HK\$839.6 million. Profit attributable to shareholders was recorded at HK\$66.0 million (2003: HK\$20.7 million), approximately 3.2 folds of the same period last year. Gross profit margin increased to 36% from last corresponding period's 26%, while the net profit margin was raised to 8% from 3%. These outstanding results were mainly attributable to the Group's proactive expansion of its sales and distribution business in response to the huge demand for footwear products in the PRC, as well as the implementation of stringent cost control. The Group successfully enhanced its profitability.

During the review period, basic earnings per share of the Group was HK4.26 cents, representing approximately 3.1 folds of that for the same period last year. The board of directors recommended the payment of an interim dividend of HK1.5 cents per share for the year ending 31 December 2004.

Liquidity and financial resources

As at 30 June 2004, the Group had cash and cash equivalents of HK\$144 million (31 December 2003: HK\$147 million) and unutilised banking facilities of HK\$42 million (31 December 2003: HK\$53 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, slightly improved from 1.64 as at 31 December 2003 to 1.66 as at 30 June 2004.

All of the bank borrowings as at 30 June 2004 were short-term in nature, repayable within one year and were denominated in New Taiwanese dollars, United States dollars, Renminbi and Hong Kong dollars. Interest charged on all bank borrowings was based on fixed rates.

The gearing ratio of the Group, being the total borrowings divided by shareholders' funds, has decreased from 27.4% as at 31 December 2003 to 23.8% as at 30 June 2004 which indicated the Group has improved its financial efficiency to meet commitments and working capital requirements.

Pledge of assets

As at 30 June 2004, the Group's short-term bank borrowings of HK\$61 million (31 December 2003: HK\$50 million) were secured by certain leasehold land and buildings of net book value of HK\$7 million (31 December 2003: HK\$10 million) and investment securities with nil carrying value (31 December 2003: nil).



Exchange rate exposure

The Group's monetary assets, liabilities and transactions are mainly denominated in Hong Kong dollars, Renminbi, United States dollars and New Taiwanese dollars. Forward exchange contracts are employed by the Group to hedge against major non-US dollar currency exposures.

As at 30 June 2004, the Group had commitments amounting to HK\$652 million (31 December 2003: HK\$230 million) in respect of forward exchange contracts entered into with banks.

Contingent liabilities

As at 30 June 2004, the Group had no significant contingent liabilities.

Significant capital investments

In 2003, the Group has set up a wholly-owned foreign subsidiary in Anhui Province with a total registered capital of HK\$31.2 million. Up to the period under review, HK\$14.7 million has been injected while the remaining amount will be fully invested by the end of 2006. To cope with the increasing sales demand, the Group also set up a manufacturing plant in Fujian and a processing plant in Jiangsu during the first half of 2004 to increase the production capacity with registered capitals of HK\$23.4 million and HK\$2.8 million respectively. As at 30 June 2004, HK\$4.9 million and HK\$2.8 million respectively have been injected in respect of these two subsidiaries.

Further to the establishment plan of four logistic centres in the PRC in 2003, the Group has incurred HK\$14.8 million out of the total estimated investment of HK\$56.5 million up to the period under review. The Group plans to establish two additional logistic centres in Guangdong and Chengdu in 2005 with a total estimated capital expenditure of HK\$44.0 million. In addition, the Group plans to renovate certain sales and distribution offices in the PRC at a total estimated expenditure of HK\$42.4 million.

During the period under review, the Group commenced the implementation of an Enterprise Resources Planning solution to improve the operational and financial reporting efficiency of the own-brand business. Total cost is estimated to be HK\$26.7 million. It is anticipated that the first phase of the project, representing integration of the point-of-sale system of certain selling points and the back office in Shanghai, will go live by the end of 2004 and the whole project is scheduled to be completed by the end of 2005.

The Group expects all the above investments will be financed by internal resources and short-term bank borrowings.



Human Resources

As at 30 June 2004, the Group had over 15,000 employees in Hong Kong, Taiwan and the PRC. The expenditure for staff during the six months ended 30 June 2004 was HK\$125 million (Six months ended 30 June 2003: HK\$112 million). The Group recognises the importance of human resources for its success and as a result, it ensures that employee remuneration is maintained at competitive levels with performance-based bonuses, retirement pension contribution and share options.

Prospects

Looking forward to the rest of the year, the Group will strive to maintain strong business growth. With the continual growth of the PRC economy and the ever-increasing consumption power of its people, the management is confident in achieving significant growth for its sales and distribution business in the future. The Group currently has over HK\$200 million worth of orders on hand.

To facilitate the development of its core sales and distribution business, the Group will endeavour to diversify its products, map out strategies to grow its markets and strive to grow its business in line with consumers' demands and market trend. The Group will continue to open "Daphne" selling points in major cities, the second and third-tier cities in China, so as to effect market diversification and further penetration of the brand in the market. The Group aims to increase the number of "Daphne" specialty stores and "Daphne" counters to 700 and 300 respectively within 2004.

Launched in the first half of 2004, "Shoebox" has been receiving positive market response. The Group will implement a series of strategies in the next six months, including the launch of a new brand "Daphne Young" to further enrich its product portfolio and reinforce its brand promotion effects. "Daphne Young" is another ladies' footwear brand established by the Group, with young ladies as the target customers. "Daphne Young" selling points will be introduced in 2005.

As for "Shoebox", 12 mega stores are under operation at present. New selling points are being planned by the Group with a target of opening a total of 30 stores in Zhejiang, Jiangsu, Sichuan, Guangdong, Guangxi, Shandong and Hunan in 2004. The moves will serve to build up an extensive distribution network for the Group and lift up the popularity of the brand.

Furthermore, benefiting from the positive outlook of the consumption market in the PRC and recent mega sports events such as the earlier 2004 Athens Olympics and the 2008 Beijing Olympics, the demand for prestigious branded athletic and casual footwear and apparel in the PRC has continued to rise. All these present immense potential for future development of the Group's Adidas business. The Group's agent plans to open 16 additional Adidas specialty stores and counters in the second half of the year, bringing the total number to 45 by the end of 2004.



As one of the leading footwear groups with the most popular ladies' footwear brand in the PRC, the Group will strive for better returns for investors and business partners in the future. Looking ahead, the management is optimistic about the long-term development of the Group's sales and distribution business, and expects to maintain promising results in the years to come.

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 2004. 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 2004, 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 were as follows:

Ordinary shares of HK\$0.10 each of the Company

Name of director			Number of shares held	Percentage
Chang Wen I	Long position	Personal	14,500,000	0.93
Chen Hsien Min	Long position	Personal	14,500,000	0.93
Chen Ying-Chieh	Long position	Personal/Corporate	164,338,920 (<i>Note</i>)	10.55

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 Chang Wen I, the Chairman of the Company, and Mr Chen Hsien Min, the Managing Director of the Company, also hold 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 2004, 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

On 29 May 2003, the Company terminated its share option scheme adopted on 9 October 1995 (the “Old Share Option Scheme”) and adopted a new share option scheme (the “New Share Option Scheme”). No share options may be granted under the Old Share Option Scheme since then and there are no share options granted under the Old Share Option Scheme remained outstanding throughout the six months ended 30 June 2004.

Details of the share options outstanding as at 30 June 2004 which were granted under the New Share Option Scheme are as follows:

	Number of options				Exercise price HK\$	Grant date	Exercisable period
	At 1 January 2004	Granted during the period	Exercised during the period	At 30 June 2004			
Directors of the Company							
Chang Wen I	14,500,000	–	14,500,000 (Note 1)	–	0.20	28 July 2003	28 July 2003 to 27 July 2009
Chen Ying-Chieh	14,500,000	–	14,500,000 (Note 1)	–	0.20	28 July 2003	28 July 2003 to 27 July 2009
Other participants							
Employees	–	80,000,000 (Note 2)	–	80,000,000	0.311	5 January 2004	5 January 2004 to 4 January 2006

Notes:

1. The options were exercised on 23 February 2004. At the date immediately before the options were exercised, the weighted average closing market price per share was HK\$0.59.
2. At the date before the options were granted, the market price per share was HK\$0.315.
3. The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of the options granted to participants as referred to in (i) to (v) of Rule 17.07 during the period under review. The directors consider it inappropriate to value the share options as a number of critical factors for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to shareholders. The directors therefore consider the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be appropriate.



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”, 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:

Name of shareholder		Interests held	Number of shares held	Percentage
Lucky Earn International Limited	Long position	Corporate	449,669,995 (<i>Note 1</i>)	28.86
Top Glory Assets Limited	Long position	Corporate	217,692,895 (<i>Note 2</i>)	13.97
Pushkin Holding Limited	Long position	Corporate	149,838,920 (<i>Note 3</i>)	9.62

Notes:

1. *Mr Chang Wen I, the Chairman of the Company, and his four children have beneficial interests in 4% and 24% each in Lucky Earn International Limited, a company incorporated in the British Virgin Islands, respectively.*
2. *Two children of Mr Chen Hsien Min, the Managing Director of the Company, have beneficial interests in 50% each in Top Glory Assets Limited, a company incorporated in the British Virgin Islands, respectively.*
3. *Mr Chen Ying-Chieh, a director of the Company, and his two brothers each has one-third of the beneficial interests of Pushkin Holding Limited.*

Compliance with the Code of Best Practice of the Listing Rules

Throughout the six months ended 30 June 2004, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange except that the 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 the annual general meeting of the Company in accordance with the provisions of the Company’s Articles of Association.

Appointment of Independent Non-executive Director

Mr. Hsiao Hsi-Ming (“Mr. Hsiao”) was appointed as independent non-executive director and chairman of audit committee of the Company with effect from 10 September 2004. Mr. Hsiao, aged 64, is a partner at Dinkum & Co., CPAs in Taiwan. He is also a member of Taiwan Provincial CPA Association in Taiwan and has about 40 years of experience in auditing, accounting and management.

Audit committee

The Audit Committee comprises three independent non-executive directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated accounts of the Group for the six months ended 30 June 2004.



Condensed Consolidated Profit and Loss Account
FOR THE SIX MONTHS ENDED 30 JUNE 2004

		Unaudited	
		Six months ended	
		30 June	
		<i>(As restated)</i>	
		2004	2003
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	839,572	673,900
Cost of sales		(533,827)	(496,140)
Gross profit		305,745	177,760
Other revenues		3,693	2,643
Selling and distribution expenses		(166,158)	(92,940)
General and administrative expenses		(61,218)	(56,796)
Operating profit		82,062	30,667
Finance costs		(1,537)	(3,133)
Share of result of an associated company		107	123
Profit before taxation		80,632	27,657
Taxation	3	(12,356)	(3,685)
Profit after taxation		68,276	23,972
Minority interests		(2,246)	(3,277)
Profit attributable to shareholders		66,030	20,695
Dividends	4	23,368	14,984
Earnings per share	5		
– basic		HK4.26 cents	HK1.38 cents
– diluted		HK4.18 cents	N/A



Condensed Consolidated Balance Sheet

AS AT 30 JUNE 2004

		Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
	Note		
Non-current assets			
Fixed assets	6	164,768	143,568
Interest in an associated company		2,103	2,163
Investment securities		37,437	37,437
Deferred tax assets		16,374	13,322
		<u>220,682</u>	<u>196,490</u>
Current assets			
Inventories		331,253	305,056
Trade receivables	7	114,785	83,651
Other receivables, deposits and prepayments		71,695	61,618
Trading investments		2,330	15,890
Pledged bank deposits		11,695	7,242
Bank balances and cash		143,867	146,680
		<u>675,625</u>	<u>620,137</u>
Current liabilities			
Trade payables	8	224,952	201,103
Other payables and accrued charges		52,321	55,359
Amount due to an associated company		94	457
Amounts due to investee companies		8,855	3,089
Taxation payable		14,106	7,079
Bank loans and overdrafts	9	107,091	110,313
		<u>407,419</u>	<u>377,400</u>
Net current assets		<u>268,206</u>	<u>242,737</u>
Total assets less current liabilities		<u>488,888</u>	<u>439,227</u>
Financed by:			
Share capital	11	155,789	152,889
Reserves		294,621	250,021
Shareholders' funds		<u>450,410</u>	<u>402,910</u>
Minority interests		37,755	35,566
Deferred tax liabilities		723	751
		<u>488,888</u>	<u>439,227</u>



Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Unaudited									
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Property revaluation reserve HK\$'000	Exchange differences HK\$'000	Goodwill HK\$'000	Merger reserve HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2004	152,889	4,725	2,882	794	(9,626)	(36,782)	322	10,649	277,057	402,910
Exchange differences	-	-	-	-	(962)	-	-	-	-	(962)
Shares issued under share option scheme	2,900	2,900	-	-	-	-	-	-	-	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
2003 final dividend paid	-	-	-	-	-	-	-	-	(23,368)	(23,368)
At 30 June 2004	155,789	7,625	2,882	794	(10,588)	(36,782)	322	11,836	318,532	450,410
At 1 January 2003	149,839	2,315	2,882	794	(9,594)	(36,782)	322	9,060	228,981	347,817
Exchange differences	-	-	-	-	914	-	-	-	-	914
Transfer	-	-	-	-	-	-	-	1,583	(1,583)	-
Share of an associated company's reserve movements	-	-	-	-	-	-	-	8	(8)	-
Profit for the period	-	-	-	-	-	-	-	-	20,695	20,695
2002 final dividend paid	-	-	-	-	-	-	-	-	(17,981)	(17,981)
At 30 June 2003	149,839	2,315	2,882	794	(8,680)	(36,782)	322	10,651	230,104	351,445



Condensed Consolidated Cash Flow Statement
FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Unaudited	
	Six months ended	
	30 June	
	2004	2003
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	<u>56,781</u>	<u>(7,775)</u>
Net cash used in investing activities	<u>(31,778)</u>	<u>(7,427)</u>
Net cash used in financing activities	<u>(28,482)</u>	<u>(14,528)</u>
Decrease in cash and cash equivalents	(3,479)	(29,730)
Cash and cash equivalents at 1 January	146,627	129,917
Effect of foreign exchange rate changes	<u>620</u>	<u>949</u>
Cash and cash equivalents at 30 June	<u>143,768</u>	<u>101,136</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	143,867	101,136
Bank overdrafts	<u>(99)</u>	<u>—</u>
	<u>143,768</u>	<u>101,136</u>



Notes to the Condensed Accounts

1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts have been prepared in accordance with Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

These condensed consolidated interim accounts should be read in conjunction with the 2003 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 2003.

2. 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, original-equipment manufacturing (“OEM”) products and own-brand products. An analysis of the Group’s turnover and operating results for the six months ended 30 June 2004 by business segment is as follows:

	2004			2003		
	Own-brand products HK\$'000	OEM products HK\$'000	Group HK\$'000	Own-brand products HK\$'000	OEM products HK\$'000	Group HK\$'000
Turnover	<u>465,966</u>	<u>373,606</u>	<u>839,572</u>	<u>293,717</u>	<u>380,183</u>	<u>673,900</u>
Segment results	<u>60,428</u>	<u>19,690</u>	<u>80,118</u>	<u>20,193</u>	<u>7,921</u>	<u>28,114</u>
Income derived from an unlisted investment			1,500			1,500
Unallocated revenues			1,410			1,741
Unallocated expenses			(966)			(688)
Operating profit			<u>82,062</u>			<u>30,667</u>



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 2004 by geographical segment is as follows:

	Six months ended	
	30 June	
	2004	2003
	HK\$'000	HK\$'000
PRC	465,966	293,717
US	361,666	368,497
Others	11,940	11,686
	839,572	673,900

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 on profits arising outside Hong Kong has been calculated on the estimated assessable profit for the six months ended 30 June 2004 at the rates of taxation prevailing in the countries 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 after taking account of these tax exemptions and concessions.



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

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Current taxation		
– Taxation outside Hong Kong	14,946	5,450
– Under provision in prior years	461	–
Deferred taxation	(3,080)	(1,798)
Share of taxation attributable to an associated company	29	33
	12,356	3,685

4. Dividends

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Interim, proposed of HK1.5 cents (2003: HK1.0 cent) per ordinary share	23,368	14,984

Note: At a meeting held on 23 September 2004, the directors declared an interim dividend of HK\$1.5 cents per ordinary share for the year ending 31 December 2004. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2004.

5. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$66,030,000 (2003: HK\$20,695,000). The basic earnings per share is based on the weighted average number of 1,549,447,329 (2003: 1,498,392,384) ordinary shares in issue during the six months ended 30 June 2004.



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 options had been exercised.

No diluted earnings per share is presented for the six months ended 30 June 2003 as the Company did not have any potential dilutive ordinary shares as at 30 June 2003.

6. Fixed assets

	Six months ended 30 June 2004 HK\$'000
Opening net book value	143,568
Exchange adjustment	21
Additions	32,665
Depreciation	(11,030)
Disposals	(456)
Closing net book value	164,768

7. Trade receivables

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

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
0 – 30 days	69,821	55,213
31 – 60 days	37,845	14,715
61 – 90 days	6,348	9,689
91 – 120 days	457	3,511
121 – 180 days	147	152
181 – 360 days	148	343
Over 360 days	19	28
	114,785	83,651

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.



8. Trade payables

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

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
0 – 30 days	114,248	106,653
31 – 60 days	57,640	53,013
61 – 90 days	33,289	23,847
91 – 120 days	8,766	8,482
121 – 180 days	4,125	4,467
181 – 360 days	4,967	2,517
Over 360 days	1,917	2,124
	224,952	201,103

9. Bank loans and overdrafts

As at 30 June 2004, the Group's short-term bank loans of approximately HK\$60,824,000 (31 December 2003: HK\$49,602,000) were secured by the following assets of the Group:

- (a) certain leasehold land and buildings of net book value of approximately HK\$6,725,000 (31 December 2003: HK\$10,038,000); and
- (b) listed investment securities of nil (31 December 2003: nil) carrying value.

10. Forward exchange contracts

As at 30 June 2004, the Group had outstanding forward contracts to purchase Renminbi and New Taiwanese dollars and sell United States dollars amounting to HK\$652,080,000 (31 December 2003: HK\$230,100,000).

As at 30 June 2004, bank deposits of HK\$11,695,000 (31 December 2003: HK\$7,242,000) were pledged against the above forward contracts.



11. Share capital

	30 June 2004	31 December 2003
	HK\$'000	HK\$'000
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.1 each	1,000,000	1,000,000

	Six months ended 30 June 2004		Year ended 31 December 2003	
	Number of ordinary shares of HK\$0.10 each	HK\$'000	Number of ordinary shares of HK\$0.10 each	HK\$'000
<i>Issued and fully paid:</i>				
At the beginning of the period/year	1,528,892,384	152,889	1,498,392,384	149,839
Share issued under share option scheme	29,000,000	2,900	30,500,000	3,050
At the end of the period/year	1,557,892,384	155,789	1,528,892,384	152,889

On 23 February 2004, share options were exercised to subscribe for 29,000,000 ordinary shares in the Company at a total consideration of HK\$5,800,000 of which HK\$2,900,000 was credited to share capital and the balance of HK\$2,900,000 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 2004 are set out under the section headed "Share options" on page 8.

12. Capital commitments for purchase of fixed assets

	30 June 2004	31 December 2003
	HK\$'000	HK\$'000
Authorised but not contracted for	122,608	26,762
Contracted but not provided for	5,418	7,018
	128,026	33,780



13. Related party transactions

Significant related party transactions which were carried out in the normal course of the Group's business are as follows:

		Six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000
Purchases from an associated company	(a)	282	685
Purchases from investee companies	(b)	<u>9,224</u>	<u>2,751</u>

Notes:

- (a) Purchases of goods from an associated company, Dayong Shoe Material Co., Ltd. Hanjiang Putian City, were carried out in accordance with terms as determined and agreed between both parties.
- (b) Purchases of shoe materials and footwear products from investee companies, Sun Home Leather Corporation Limited ("Sun Home") and Jingxing Shoe Industrial Co. Ltd., were carried out in accordance with terms as determined and agreed between both parties. The Company's directors, Messrs Chang Wen I and Chen Hsien Min are directors of Sun Home.

14. Comparative figures

Certain comparative figures of the condensed consolidated profit and loss account have been reclassified to conform with the current period's presentation.

On behalf of the Board
CHANG WEN I
Chairman

Hong Kong, 23 September 2004