

INTERIM REPORT 2003



**SYMPHONY**

**SYMPHONY HOLDINGS LIMITED**

(新豐集團有限公司)

*(Incorporated in Bermuda with limited liability)*

*interim  
report*

# SYMPHONY HOLDINGS LIMITED

## (新豐集團有限公司)\*

(Incorporated in Bermuda with limited liability)

### SUMMARY OF RESULTS

The Directors of Symphony Holdings Limited (the "Company") are pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2003 together with comparative figures for the corresponding period in 2002 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2003

	Notes	Six months ended 30 June	
		2003 (unaudited) HK\$'000	2002 (unaudited and restated) HK\$'000
TURNOVER	2	<b>582,718</b>	470,419
Cost of sales		<b>(448,827)</b>	(356,836)
Gross profit		<b>133,891</b>	113,583
Other operating income		<b>7,270</b>	7,624
Unrealised holding gain (loss) on investment securities		<b>1,927</b>	(1,944)
Selling and distribution costs		<b>(17,347)</b>	(13,168)
Administrative expenses		<b>(33,730)</b>	(39,859)
Other operating expenses		<b>(11,406)</b>	(7,768)
Deficit on revaluation of land and buildings		<b>(4,135)</b>	(4,999)
Deficit on revaluation of investment properties		<b>(11,476)</b>	(14,721)
PROFIT FROM OPERATIONS	3	<b>64,994</b>	38,748
Finance costs		-	(6)
Share of results of a jointly controlled entity		<b>(7)</b>	4,314
PROFIT BEFORE TAXATION		<b>64,987</b>	43,056
Taxation	4	<b>(9,049)</b>	(2,031)

\* For identification purposes only

**CONDENSED CONSOLIDATED INCOME STATEMENT** (continued)

For the six months ended 30 June 2003

		<b>Six months ended 30 June</b>	
		<b>2003</b>	2002
		<b>(unaudited)</b>	(unaudited and restated)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
PROFIT BEFORE MINORITY INTERESTS		<b>55,938</b>	41,025
Minority interests		<b>40</b>	44
		<u>          </u>	<u>          </u>
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<b>55,978</b>	41,069
		<u>          </u>	<u>          </u>
EARNINGS PER SHARE			
– Basic	6	<b>26.9 cents</b>	19.7 cents
		<u>          </u>	<u>          </u>
– Diluted	6	<b>N/A</b>	N/A
		<u>          </u>	<u>          </u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 June 2003

		<b>As at 30 June 2003 (unaudited)</b>	As at 31 December 2002 (audited and restated)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	7	<b>236,716</b>	143,412
Investment properties	7	<b>50,024</b>	61,500
Interest in a jointly controlled entity		<b>43,682</b>	43,682
Investment securities		<b>43,161</b>	21,735
Deposits paid for the acquisition of land and building	8	<b>-</b>	73,934
Deposit paid for the acquisition of a subsidiary	9	<b>20,474</b>	-
Deferred tax assets		<b>672</b>	277
		<b>394,729</b>	344,540
<b>CURRENT ASSETS</b>			
Inventories		<b>96,139</b>	107,585
Trade and other receivables	10	<b>197,741</b>	221,195
Bank balances and cash		<b>194,181</b>	127,013
		<b>488,061</b>	455,793
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	<b>325,030</b>	269,657
Tax payable		<b>18,452</b>	12,465
		<b>343,482</b>	282,122
<b>NET CURRENT ASSETS</b>		<b>144,579</b>	173,671

**CONDENSED CONSOLIDATED BALANCE SHEET** (continued)

At 30 June 2003

		<b>As at 30 June 2003 (unaudited)</b>	As at 31 December 2002 (audited and restated)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>539,308</b>	518,211
MINORITY INTERESTS		<b>5,506</b>	5,546
		<b>533,802</b>	512,665
CAPITAL AND RESERVES			
Share capital	12	<b>208,170</b>	208,170
Reserves		<b>325,632</b>	304,495
		<b>533,802</b>	512,665

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 June 2003

	<b>Share capital</b>	<b>Share premium account</b>	<b>Exchange fluctuation reserve</b>	<b>Retained profits</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2002					
– as originally stated	208,170	28,057	4,827	195,563	436,617
– prior period adjustment	–	–	–	765	765
	<u>208,170</u>	<u>28,057</u>	<u>4,827</u>	<u>196,328</u>	<u>437,382</u>
– as restated (see note 1)	208,170	28,057	4,827	196,328	437,382
Exchange realignment	–	–	874	–	874
Net profit for the period	–	–	–	41,069	41,069
	<u>–</u>	<u>–</u>	<u>–</u>	<u>41,069</u>	<u>41,069</u>
At 30 June 2002	208,170	28,057	5,701	237,397	479,325
Exchange realignment	–	–	186	–	186
Net profit for the period	–	–	–	45,644	45,644
Dividend paid	–	–	–	(12,490)	(12,490)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(12,490)</u>	<u>(12,490)</u>
At 31 December 2002	208,170	28,057	5,887	270,551	512,665
Exchange realignment	–	–	548	–	548
Net profit for the period	–	–	–	55,978	55,978
Dividend paid	–	–	–	(35,389)	(35,389)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(35,389)</u>	<u>(35,389)</u>
At 30 June 2003	<u>208,170</u>	<u>28,057</u>	<u>6,435</u>	<u>291,140</u>	<u>533,802</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended 30 June 2003

	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>(unaudited)</b>	(unaudited)
	<b>HK\$'000</b>	HK\$'000
NET CASH FROM OPERATING ACTIVITIES	<b>161,239</b>	87,792
NET CASH (USED IN) FROM INVESTING ACTIVITIES	<b>(59,230)</b>	404
NET CASH USED IN FINANCING ACTIVITIES	<b>(35,389)</b>	—
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>66,620</b>	88,196
CASH AND CASH EQUIVALENTS AT 1 JANUARY, representing bank balances and cash	<b>127,013</b>	100,670
EFFECT OF FOREIGN EXCHANGE RATE CHANGE	<b>548</b>	359
CASH AND CASH EQUIVALENTS AT 30 JUNE, representing bank balances and cash	<b>194,181</b>	189,225

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

For the six months ended 30 June 2003

**1. ACCOUNTING POLICIES**

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

The condensed interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 "SSAP 25" "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002, except as described below.

In the current period, the Group has adopted, for the first time, SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, the Group did not recognise any deferred tax and the unrecognised deferred tax was calculated using the income statement liability method. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Opening accumulated profits at 1 January 2002 have been increased by HK\$765,000, which is the cumulative effect of the change in policy on the results for periods prior to 2002. The effect of the change is a reduced charge to income taxes in the current period of HK\$395,000 (for the six months period ended 30 June 2002: HK\$193,000).

**2. SEGMENT INFORMATION**

**Business Segments**

	Footwear products		Property investment		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Turnover	<u>582,277</u>	<u>469,664</u>	<u>441</u>	<u>755</u>	<u>582,718</u>	<u>470,419</u>
Segment results	<u>93,397</u>	<u>87,793</u>	<u>(11,659)</u>	<u>(14,661)</u>	<u>81,738</u>	<u>73,132</u>
Unallocated corporate expenses					<u>(16,744)</u>	<u>(34,384)</u>
Profit from operations					<u>64,994</u>	<u>38,748</u>
Finance costs					-	(6)
Share of results of a jointly controlled entity					<u>(7)</u>	<u>4,314</u>
Profit before taxation					<u>64,987</u>	<u>43,056</u>

**3. PROFIT FROM OPERATIONS**

	Six months ended 30 June	
	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
	Profit from operations has been arrived after charging (crediting):	
Cost of inventories sold	<u>315,735</u>	243,439
Depreciation	<u>13,544</u>	10,745
Provision for bad and doubtful debts	<u>3,850</u>	1,430
Loss on disposal of property, plant and equipment	<u>9</u>	7
Interest income from listed investment securities	<u>(577)</u>	(779)
Gain on disposal of investment securities	<u>-</u>	(247)
Dividend income from listed investment securities	<u>(38)</u>	(17)

**4. TAXATION**

	<b>Six months ended 30 June</b>	
	<b>2003</b>	2002
	<b>(unaudited)</b>	(unaudited and restated)
	<b>HK\$'000</b>	HK\$'000
Current tax:		
Hong Kong	<b>4,410</b>	667
Other jurisdictions	<b>5,034</b>	1,557
	<b>9,444</b>	2,224
Deferred tax:		
Current period	<b>(390)</b>	(193)
Attributable to increase in tax rate	<b>(5)</b>	-
	<b>(395)</b>	(193)
Taxation attributable to the Company and its subsidiaries	<b>9,049</b>	2,031

Hong Kong Profits Tax is calculated at the rate of 17.5% (2002: 16%) of the estimated assessable profit for the period. The Profits Tax rate has been increased with effect from the 2003 year of assessment. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

**5. DIVIDEND**

During the six months ended 30 June 2003, a final dividend of HK\$0.07 per ordinary share and a special dividend of HK\$0.1 per ordinary share were paid to shareholders as the final and special dividends for the year ended 31 December 2002.

The board of directors of the Company (the "Board") have determined that an interim dividend of HK\$0.08 (2002: HK\$0.06) per ordinary share should be paid to shareholders of the Company whose names appear in the Company's register of members on 18 September 2003.

**6. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the Group's unaudited net profit attributable to shareholders of HK\$55,978,000 (2002: HK\$41,069,000) and the number of 208,169,996 (2002: 208,169,996) ordinary shares in issue during the period.

**7. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2003, the Group acquired the land and buildings as referred to note 8 at a cost of HK\$102,370,000. The Group's investment properties and land and buildings were revalued by the directors at 30 June 2003. The resulting revaluation deficits of HK\$11,476,000 and HK\$4,135,000 respectively have been charged to the income statement.

**8. DEPOSITS PAID FOR THE ACQUISITION OF LAND AND BUILDINGS**

At 31 December 2002, the amounts represented deposits paid for the purchase of four lots of land situated in Zhongshan, the People's Republic of China (the "PRC") (the "Land") and the buildings thereon (the "Buildings") for a total consideration of HK\$102,370,000.

During the six months ended 30 June 2003, the Group obtained all the relevant title certificates in respect of the Land and Buildings. The deposits were used to settle the consideration in acquisition of the properties.

**9. DEPOSIT PAID FOR THE ACQUISITION OF A SUBSIDIARY**

The deposit represents the full consideration paid by the Group in connection with the acquisition of 80% interest in a private limited company incorporated in the British Virgin Islands. At 30 June 2003, the Group had no unpaid commitment.

**10. TRADE AND OTHER RECEIVABLES**

The Group generally grants an average credit period of 60 to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	<b>30 June 2003 (unaudited) HK\$'000</b>	31 December 2002 (audited) HK\$'000
0 to 30 days	<b>120,865</b>	129,203
31 days to 60 days	<b>37,988</b>	49,934
61 days to 90 days	<b>7,307</b>	25,157
Over 90 days	<b>14,917</b>	4,520
	<b>181,077</b>	208,814
Other receivables	<b>16,664</b>	12,381
	<b>197,741</b>	221,195

**11. TRADE AND OTHER PAYABLES**

The following is an aged analysis of trade payables at the balance sheet date:

	<b>30 June 2003 (unaudited) HK\$'000</b>	31 December 2002 (audited) HK\$'000
0 to 30 days	<b>77,707</b>	59,970
31 days to 60 days	<b>43,755</b>	56,231
61 days to 90 days	<b>12,419</b>	9,671
Over 90 days	<b>25,051</b>	21,122
	<b>158,932</b>	146,994
Other payables	<b>166,098</b>	122,663
	<b>325,030</b>	269,657

**12. SHARE CAPITAL**

	<b>30 June 2003 (unaudited) HK\$'000</b>	31 December 2002 (audited) HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$1.00 each	<b>2,000,000</b>	2,000,000
Issued and fully paid:		
208,169,996 ordinary shares of HK\$1.00 each	<b>208,170</b>	208,170

There was no movement in the share capital of the Company for the six months ended 30 June 2003 and the year ended 31 December 2002.

**13. CONTINGENT LIABILITIES**

At 30 June 2003, the Company had outstanding corporate guarantees amounting to HK\$40,000,000 (31 December 2002: HK\$40,000,000) issued in favour of a bank to secure general banking facilities made available to the Company and certain of its subsidiaries.

#### 14. OPERATING LEASE COMMITMENTS

##### (a) The Group as lessee

Minimum lease payments paid under operating leases for premises during the period was approximately HK\$4,797,000 (2002: HK\$4,506,000).

At balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2003 (unaudited) HK\$'000</b>	31 December 2002 (audited) HK\$'000
Within one year	<b>1,955</b>	5,831
In the second to fifth years inclusive	<b>4,718</b>	3,470
After five years	<b>1,061</b>	1,459
	<b><u>7,734</u></b>	<u>10,760</u>

Operating lease payments represent rental payable by the Group for certain of its premises. Leases are negotiated and fixed for terms ranging from two to ten years.

##### (b) The Group as lessor

Property rental income earned during the period was approximately HK\$464,000. (2002: HK\$755,000). The investment properties are expected to generate rental yields of 1% (2002: 1%) on an ongoing basis and the Group has committed tenants for the next year.

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

	<b>30 June 2003 (unaudited) HK\$'000</b>	31 December 2002 (audited) HK\$'000
Within one year	<b>1,339</b>	828
In the second to fifth years inclusive	<b>1,997</b>	558
	<b><u>3,336</u></b>	<u>1,386</u>

**15. CAPITAL COMMITMENTS**

	<b>30 June 2003 (unaudited) HK\$'000</b>	31 December 2002 (audited) HK\$'000
Capital commitments contracted for but not provided in the financial statements in respect of:		
Acquisition of the Land and Buildings (see note 8)	-	28,436
Capital contributions to a subsidiary in the PRC	-	93,600
Acquisition of property, plant and equipment	-	613
	<u>-</u>	<u>122,649</u>

**16. POST BALANCE SHEET EVENTS**

Subsequent to 30 June 2003, the Group had the following significant post balance sheet events:

- (a) On 27 May 2003, the Company entered into a subscription agreement with Ko Shing Limited (the "Subscriber") and Mr. Chang Tsung Yuan ("Mr. Chang") (the "Subscription Agreement"). Pursuant to the Subscription Agreement, the Company agreed to issue and the Subscriber agreed to subscribe for 41,000,000 shares of HK\$1.00 each in the share capital of the Company (the "Subscription Shares") at a price of HK\$2.38 per Subscription Share in cash, and Mr. Chang undertook to the Company to ensure the performance by the Subscriber of its obligations under the Subscription Agreement (the "Subscription").

The sole owner of the Subscriber is Mr. Chang, who is a director of various subsidiaries of the Company and is therefore a connected person as defined under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Subscription Agreement constituted a connected transaction of the Company. A special general meeting of the Company was held on 2 July 2003 where the shareholders of the Company passed resolutions, inter alia, approving the Subscription which was completed on 7 July 2003.

- (b) Pursuant to an announcement dated 5 August 2003 (the "Announcement"), the Board proposed that each of the existing issued and unissued share of HK\$1.00 each in the share capital of the Company be subdivided (the "Share Subdivision") into four shares of HK\$0.25 each (the "Subdivided Share"). The Share Subdivision is subject to, inter alia, shareholders' approval at a special general meeting to be held on 3 September 2003. At the date of the Announcement, the authorised share capital of the Company was HK\$2,000,000,000 which was divided into 2,000,000,000 shares, of which 249,169,996 shares were in issue. Immediately following the implementation of the Share Subdivision and on the basis that 249,169,996 shares are in issue, 996,679,984 Subdivided Shares will be in issue.

## **16. POST BALANCE SHEET EVENTS** (continued)

- (c) Pursuant to the Announcement, on 30 July 2003, the board of directors of Union Overseas Holdings Limited ("UOHL"), a 50% owned jointly controlled entity of the Company, approved and adopted a merger proposal (the "Proposal") from an independent third party to acquire its entire interest in Converse Inc. ("Converse"). Consummation of the Proposal is subject to receipt of certain third party consents and regulatory approvals in the United States of America. Terms of the Proposal are subject to confidentiality restrictions between the parties to the Proposal. UOHL is prohibited from disclosing any information, including but not limited to, the terms of the consideration, the terms of the conditions and the representation and warranty in connection with the Proposal provided by Converse and the independent third party. The exact amount of consideration to be received by UOHL under the Proposal is yet to be finalised and the Proposal may or may not materialise. On the assumption that the Proposal materialised, the net gain from the Proposal attributable to the Group is estimated to be HK\$134 million to HK\$136 million. Such gain, if materialised, would be recorded as share of profit of a jointly controlled entity in the consolidated accounts of the Group for the year ending 31 December 2003. Following the completion of the Proposal, the Group will continue to engage in its principal business in the manufacture and trading of footwear and property and investment holding.

## **INTERIM DIVIDEND**

The Board declared an interim dividend of HK\$0.08 per existing share of HK\$1.00 in the share capital of the Company (the "Share") (2002: HK\$0.06) or, if resolutions are passed by the Company's shareholders at the special general meeting to be held on 3 September 2003 approving the Share Subdivision (as mentioned in note 16(b) above), the interim dividend will be adjusted to HK\$0.02 per Subdivided Share for the six months ended 30 June 2003 to members whose names appear on the register of members of the Company as at the close of business on 18 September 2003.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from 15 September 2003 to 18 September 2003 (both days inclusive), during which period no share transfer shall be effected. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tengis Limited at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 11 September 2003.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of operations

I am pleased to report that for the 6 months ended 30 June 2003, our Group enjoyed a 23.8% increase in sales. Global retail markets continue to grow, confirming underlying economic strength and recovery. Of the increased orders received by us, casual shoes grew fastest, and provided higher profit margins. This is in line with current trends in the US for casual and antiqued shoes.

Stringent control over operating expenses helped kept it at the same level while sales increased, and we were able to achieve a 67.7% increase in operating profits. Net profits after tax grew by 36.3% while earnings per share grew 36.5%. Accordingly, the Board has declared an interim dividend of HK\$0.08 per Share or HK\$0.02 per Subdivided Share.

Our growth is within management expectations. There are several major trends in the global manufacturing market that Symphony stands to benefit in the long term. The increasing importance of logistics as a competitive advantage has seen the concentration of manufacturing into a smaller number of major manufacturing centres, of which the Pearl River Delta in China is one. Escalation of conflict, much of it religious based, saw the re-allocation of manufacturing orders and reliance away from certain countries into our region. All of this is further boosted by China's newly acquired membership into the World Trade Organisation. The Pearl River Delta, with long experience and international trade and export practices, is the manufacturing centre of choice for many businesses around the world.

Our management team firmly believes in the value of a modern, healthy work and living environment for our workforce, as this is directly reflected in increased productivity and quality, factors which are vital to our continual growth. Our factories and dormitories are built, equipped and maintained to very high standards. Safety and hygiene are among our top priorities. During the SARS outbreak in southern China, we implemented early and comprehensive measures for prevention and detection. Workers were provided with the latest information on the epidemic, as well as free surgical masks even when supplies were short. Mandatory body temperature checks were enforced. As a backup measure, our Group also formulated contingency plans for production. We are pleased that there had not been any incidence of the disease among our workforce. In recent months, there has been growing concern in North America about "sweatshops" in Asia. We are proud that we are a shining example of the high standards that is achievable with the commitment of proper resources and management priority.

## **Outlook**

Continuing industry consolidation and increased outsourcing of casual brands will benefit the Group as orders are aggregated and awarded only to the best and proven manufacturers. Our marketing team is in touch with the market and is quick to identify moving trends. We will continue to expand our customer base and select new high quality customers with whom we will work together, as is our policy, to understand and fulfill their needs to meet market demand.

As our existing production capacity is fully utilised, the addition of 8 production lines in Dongguan gives the Group growth potential and flexibility. The Board is certain that the addition will prove to be a great asset to the Group, and is considering further expansion of our production capacity to meet anticipated growth in demand in the run up to the 2008 Olympics and the 2010 World Expo.

The Board is excited about opportunities for the China market and is continuing to explore possibilities but will remain prudent in all its business decisions.

## **Segment information**

Sales to North America have increased by 7% and constituted approximately 63% (2002: 72%) of the Group's total turnover; Europe accounted for 23% (2002: 17%) of sales, and the remaining 14% sales were shared between Asia, Africa, Australia, Latin America and the Middle East.

There has been a shift in consumer tastes and lifestyles, particularly in the US where casual shoes and retro style have become very popular. The Group has been receiving more orders for casual styles and foresee that this trend will continue for the second half of the year. Orders for the coming months look promising.

## **Liquidity and capital resources**

As at 30 June 2003, the Group had cash and bank balance of HK\$194.2 million (31 December 2002: HK\$127.0 million). The Group was offered banking facilities amounting to HK\$39 million, none of which had been utilised, indicating a nil gearing ratio on the basis of total borrowings over shareholders' fund.

There are currently no charges on group assets and the Group does not have any significant exposure to foreign currency fluctuation.

**Staff**

The total number of employees as at 30 June 2003 has not changed materially from that of the last financial year. Employee cost (excluding directors' emoluments) amounted to approximately HK\$106.5 million (2002: HK\$94.6 million). In addition to competitive remuneration packages, discretionary bonuses are awarded to eligible staff based on the Group's performance and individual merits. No share option has been granted under the new share option scheme adopted on 22 October 2001.

Our staff's well-being is one of the Group's top priorities. The Group will continually improve and ensure that our staff is provided with a safe and pleasant working and living environment. The Group will continue to honour its commitment on international environment and human rights standards.

**Appointment/Resignation of Directors**

At the annual general meeting of the Company held on 5 May 2003 ("AGM"), Mr. Fung Cheong Yee, Alfred and Mr. Chow Ching Kit retired as directors of the Company and did not offer themselves for re-election.

On 12 May 2003, Dr. Chow King Sing, Gerald and Mr. Lam Lap Wai resigned as independent non-executive director and non-executive director, respectively, and Mr. Feng Lei Ming was appointed as an independent non-executive director on the same day.

As from 12 May 2003 and up to the date of this report, the directors of the Company are:

*Executive Directors*

Mr. Li Kwok Lung, Alfred Ronald (*Chairman*)

Mr. Sze Sun Sun, Tony (*Deputy Chairman*)

Mr. Chan Ting Chuen (*Managing Director*)

Mr. Ku Edward Y.

Mr. Chan Lu Min

*Non-executive Director*

Mr. Li I Nan

*Independent Non-executive  
Directors*

Mr. Cheng Kar Shing

Mr. Feng Lei Ming

### **Auditors**

The term of office of Messrs. Ernst & Young expired at the close of the AGM. The shareholders of the Company passed a resolution at the AGM to appoint Messrs. Deloitte Touche Tohmatsu as the Company's auditors to hold office until the conclusion of the Company's next annual general meeting.

### **Acquisition of subsidiary and increased capacity by 8 production lines**

The Group expanded its total capacity by the addition of 8 production lines in Dongguan, PRC by the acquisition of a subsidiary on 1 July 2003.

### **Disposal of interests in Converse, Inc. by Union Overseas Holdings Limited**

On 30 July 2003, the Board was informed by Union Overseas Holdings Limited ("UOHL"), a 50% owned jointly controlled entity of the Company, that its board of directors and shareholders have approved and adopted a merger proposal ("Proposal") received from an independent third party to acquire its entire interest in Converse, Inc. ("Converse"). Consummation of the Proposal is subject to receipt of certain third party consents and regulatory approvals in the USA, but if the Proposal materialises, the net gain from the disposal attributable to the Group for the year ending 31 December 2003 is estimated to be between HK\$134 million to HK\$136 million.

Pursuant to a sourcing rights agreement ("SRA") entered into between UOHL and Converse at the time when UOHL acquired interests in Converse in 2001, Converse is required to source certain footwear product requirements from the Group. If the Proposal materialises and consequently there is a change of controlling shareholders of Converse, the SRA will terminate. However, based on the well-established working relationship between the Group and Converse in the past years and the orders already received from Converse for the coming months, the Board is confident that the termination of the SRA and the disposal of interests in Converse will not have a significant impact on the Group's business and operation. The Board does not envisage Converse's outsourcing requirements from the Group will change in the foreseeable future.

**DIRECTORS'/CHIEF EXECUTIVE'S INTERESTS IN SECURITIES****Directors' interests and short positions in the securities of the Company and its associated corporations**

As at 30 June 2003, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

*Long Position in Shares*

<b>Name of Director</b>	<i>Notes</i>	<b>Nature of interests</b>	<b>Number of Shares</b>	<b>% of the issued share capital</b>
Chan Ting Chuen	1	Corporate	127,205,282	61.11%
Sze Sun Sun, Tony	1	Corporate	127,205,282	61.11%
Li Kwok Lung, Alfred Ronald		Personal	2,400,000	1.15%

*Short Position in Shares*

<b>Name of Director</b>	<i>Notes</i>	<b>Nature of interests</b>	<b>Number of Shares</b>	<b>% of the issued share capital</b>
Chan Ting Chuen	2	Corporate	41,000,000	19.70%
Sze Sun Sun, Tony	2	Corporate	41,000,000	19.70%

## **DIRECTORS'/CHIEF EXECUTIVE'S INTERESTS IN SECURITIES**

(continued)

### **Directors' interests and short positions in the securities of the Company and its associated corporations** (continued)

Notes:

1. As at 30 June 2003, Well Success Investment Limited ("Well Success") owned 127,205,282 Shares. First Dynamic International Limited ("First Dynamic") held more than one-third of the issued share capital of Well Success. Royal Pacific Limited ("Royal Pacific") and Alexon International Limited ("Alexon International") each held more than one-third of the issued share capital of First Dynamic.

As at 30 June 2003, Chan Ting Chuen was interested in the entire issued share capital of Royal Pacific. Chan Ting Chuen was deemed to be interested in 127,205,282 Shares held by Well Success by virtue of his interests in Royal Pacific.

As at 30 June 2003, Sze Sun Sun, Tony was interested in the entire issued share capital of Alexon International and was deemed to be interested in 127,205,282 Shares held by Well Success by virtue of his interests in Alexon International.

2. Pursuant to the Subscription Agreement (see note 16(a) to the financial statements), the Company is required to deliver 41,000,000 Shares to the Subscriber.

As at 30 June 2003, Chan Ting Chuen was interested in the entire issued share capital of Royal Pacific. Chan Ting Chuen was deemed to be interested in the short position of the Company in the 41,000,000 Shares under the Subscription Agreement by virtue of his interests in Royal Pacific.

As at 30 June 2003, Sze Sun Sun, Tony was interested in the entire issued share capital of Alexon International and was deemed to be interested in the short position of the Company in the 41,000,000 Shares under the Subscription Agreement by virtue of his interests in Alexon International.

Save as disclosed above, as at 30 June 2003, to the knowledge of the Company, none of the Directors, the chief executives of the Company had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executives are taken or deemed to have under the provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

**SUBSTANTIAL SHAREHOLDERS****Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders**

So far as is known to any Director or chief executive of the Company, as at 30 June 2003, the persons or companies (not being a Director or chief executive of the Company) who have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

*Long Position in Shares*

Name	Notes	Number of Shares of the Company held		
		Direct interests	Deemed interests	% of holding
Well Success	1	127,205,282	–	61.11%
First Dynamic	1	–	127,205,282	61.11%
Alexon International	1	–	127,205,282	61.11%
Royal Pacific	1	–	127,205,282	61.11%
Frensham Investments Limited	2	–	127,205,282	61.11%
Pou Yuen Industrial (Holdings) Limited	2	–	127,205,282	61.11%
Yue Yuen Industrial Limited	2	–	127,205,282	61.11%
Pou Hing Industrial Company Limited	2	–	127,205,282	61.11%
Yue Yuen Industrial (Holdings) Limited	2	–	127,205,282	61.11%
Wealthplus Holdings Limited	2	–	127,205,282	61.11%
Pou Chen Corporation	2	–	127,205,282	61.11%
Lau Yuk Wah	3	–	127,205,282	61.11%
Ng Shuk Fong	3	–	127,205,282	61.11%
Chang Tsung Yuan	4	–	41,000,000	19.70%
Chou Mei Yueh	4	–	41,000,000	19.70%
Ko Shing Limited	4	41,000,000	–	19.70%

**SUBSTANTIAL SHAREHOLDERS** (continued)**Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders**  
(continued)*Short Position in Shares*

Name	Notes	Number of Shares of the Company held		
		Direct interests	Deemed interests	% of holding
Alexon International	5	–	41,000,000	19.70%
Royal Pacific	5	–	41,000,000	19.70%
First Dynamic	5	–	41,000,000	19.70%
Pou Chen Corporation	5	–	41,000,000	19.70%
Yue Yuen Industrial (Holdings) Limited	5	–	41,000,000	19.70%
Well Success	5	–	41,000,000	19.70%
Lau Yuk Wah	6	–	41,000,000	19.70%
Ng Shuk Fong	6	–	41,000,000	19.70%

*Notes:*

- As at 30 June 2003, Well Success owned 127,205,282 Shares, First Dynamic held more than one-third of the issued share capital of Well Success. Royal Pacific and Alexon International each held more than one-third of the issued share capital of First Dynamic.

Accordingly, First Dynamic, Royal Pacific and Alexon International were deemed to be interested in the 127,205,282 Shares held by Well Success.

These interests have also been disclosed as corporate interests of Chan Ting Chuen and Sze Sun Sun, Tony in the Directors' interests above.

- As at 30 June 2003, Frensham Investments Limited ("Frensham") held more than one-third of the issued share capital of Well Success. Frensham was a wholly-owned subsidiary of Pou Yuen Industrial (Holdings) Limited ("Pou Yuen (Holdings)") which in turn was a wholly-owned subsidiary of Yue Yuen Industrial Limited ("Yue Yuen Industrial"). Yue Yuen Industrial was a wholly-owned subsidiary of Pou Hing Industrial Company Limited ("Pou Hing Company") which in turn was a wholly-owned subsidiary of Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"). Wealthplus Holdings Limited ("Wealthplus"), a wholly-owned subsidiary of Pou Chen Corporation ("Pou Chen"), held over 35% interests in Yue Yuen.

Accordingly, Frensham, Pou Yuen (Holdings), Yue Yuen Industrial, Pou Hing Company, Yue Yuen, Wealthplus and Pou Chen were deemed to be interested in the 127,205,282 Shares held by Well Success.

**SUBSTANTIAL SHAREHOLDERS** (continued)**Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders** (continued)

3. Lau Yuk Wah is the wife of Sze Sun Sun, Tony and was deemed to be interested in the 127,205,282 Shares of Sze Sun Sun, Tony.

Ng Shuk Fong is the wife of Chan Ting Chuen and was deemed to be interested in the 127,205,282 Shares of Chan Ting Chuen.

4. As at 30 June 2003, Ko Shing Limited had an interest in 41,000,000 Subscription Shares under the Subscription Agreement.

As at 30 June 2003, Chang Tsung Yuan was interested in the entire issued share capital of Ko Shing Limited and was deemed to be interested in the 41,000,000 Subscription Shares under the Subscription Agreement by virtue of his interests in Ko Shing Limited.

Chou Mei Yueh is the wife of Chang Tsung Yuan and was deemed to be interested in the 41,000,000 Subscription Shares under the Subscription Agreement.

5. Pursuant to the Subscription Agreement, the Company was required to deliver 41,000,000 Shares to the Subscriber.

Well Success holds more than one-third of the issued share capital of the Company and was deemed to be interested in the short position of the Company in the 41,000,000 Shares under the Subscription Agreement.

As at 30 June 2003, each of First Dynamic, Alexon International, Royal Pacific, Pou Chen Corporation and Yue Yuen were deemed to be interested in the short position of Well Success in the 41,000,000 Shares under the Subscription Agreement.

6. Lau Yuk Wah is the wife of Sze Sun Sun, Tony and was deemed to be interested in the short position of Sze Sun Sun, Tony in the 41,000,000 Shares under the Subscription Agreement.

Ng Shuk Fong is the wife of Chan Ting Chuen and was deemed to be interested in the short position of Chan Ting Chuen in the 41,000,000 Shares under the Subscription Agreement.

Save as disclosed above, as at 30 June 2003, the Directors are not aware of any other person who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### **COMPLIANCE WITH CODE OF BEST PRACTICE**

None of the directors are aware of any information that would reasonably indicate that the Company had not been for any part of the accounting period for the six months ended 30 June 2003 in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

### **AUDIT COMMITTEE**

The Audit Committee currently comprises of two independent non-executive directors and one non-executive director of the Company as members. The function of the Audit Committee is to assist the Board in fulfilling its duties by reviewing and supervising the Company's financial reporting process and internal controls. The Audit Committee has reviewed the unaudited interim results for the six months ended 30 June 2003.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

### **APPRECIATION**

The Board would like to thank our customers, suppliers and shareholders for their support and confidence in the Group.

On behalf of the Board  
**Li Kwok Lung, Alfred Ronald**  
*Chairman*

Hong Kong, 1 September 2003