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INTERIM REPORT 2004

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SYMPHONY HOLDINGS LIMITED

INCORPORATED IN BERMUDA WITH LIMITED LIABILITY

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CORPORATE INFORMATION**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
Mr. Li I Nan[#]
Mr. Cheng Kar Shing*
Mr. Feng Lei Ming*

[#] non-executive director

* independent non-executive director

Company Secretary

Ms. Anna Chow

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Solicitors

Richards Butler
20th Floor, Alexandra House
Chater Road
Central, Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business in Hong Kong

10th Floor, Island Place Tower
510 King's Road, North Point
Hong Kong

Principal Bankers

Canadian Imperial Bank of Commerce
Citibank, N.A.

Calyon

Industrial and Commercial Bank of China
(Asia) Limited

The Bank of East Asia Ltd.

The Hongkong and Shanghai Banking
Corporation Limited

Union Bank of Switzerland

Principal Share Registrars and Transfer Office

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

Hong Kong Branch Share Registrars and Transfer Office

Tengis Limited
Ground Floor, BEA Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

Website

<http://www.symphonyholdings.com>

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 2004 together with comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

	Notes	Six months ended 30 June	
		2004	2003
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
TURNOVER	3	683,546	582,718
Cost of sales		(528,929)	(448,827)
Gross profit		154,617	133,891
Other operating income		13,842	7,270
(Impairment loss) reversal on investment securities		(322)	1,927
Selling and distribution expenses		(23,254)	(17,347)
Administrative expenses		(49,850)	(33,730)
Other operating expenses		(10,806)	(11,406)
Allowance for amount due from a jointly controlled entity		(2,774)	-
Surplus (deficit) on revaluation of land and buildings		961	(4,135)
Surplus (deficit) on revaluation of investment properties		745	(11,476)
PROFIT FROM OPERATIONS	4	83,159	64,994
Share of results of a jointly controlled entity		5,768	(7)
PROFIT BEFORE TAXATION		88,927	64,987
Taxation	5	(11,148)	(9,049)

* For identification purposes only

CONDENSED CONSOLIDATED INCOME STATEMENT (continued)

For the six months ended 30 June 2004

		Six months ended 30 June	
		2004	2003
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
PROFIT BEFORE MINORITY INTERESTS		77,779	55,938
Minority interests		(3,344)	40
NET PROFIT FOR THE PERIOD		74,435	55,978
DIVIDENDS	6	31,074	19,934
EARNINGS PER SHARE	7		
Basic		6.7 cents	6.1 cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

		As at 30 June 2004 HK\$'000 (unaudited)	As at 31 December 2003 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	8	278,270	253,875
Investment properties	8	31,094	65,000
Goodwill	9	2,508	2,647
Interest in a jointly controlled entity	10	-	1,095
Investments in securities		30,716	30,924
		342,588	353,541
Current assets			
Inventories		132,126	155,240
Trade and other receivables	11	299,992	294,755
Loan to a jointly controlled entity	10	39,427	-
Amount due from a jointly controlled entity	10	34,054	-
Bank balances and cash		356,653	364,792
		862,252	814,787
Current liabilities			
Trade and other payables	12	293,773	309,673
Tax payable		25,735	17,296
		319,508	326,969
Net current assets		542,744	487,818

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

At 30 June 2004

		As at 30 June 2004 HK\$'000 (unaudited)	As at 31 December 2003 HK\$'000 (audited)
Total assets less current liabilities		885,332	841,359
Minority interests		22,801	19,312
Non-current liability			
Deferred tax liabilities		2,573	1,944
		859,958	820,103
Capital and reserves			
Share capital	13	277,451	249,170
Reserves		582,507	570,933
		859,958	820,103

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Share capital	Share premium	Revaluation reserve	Translation reserve	Accumulated profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2003	208,170	28,057	-	5,887	270,551	512,665
Exchange realignment not recognised in the income statement	-	-	-	548	-	548
Net profit for the period	-	-	-	-	55,978	55,978
Dividend paid	-	-	-	-	(35,389)	(35,389)
	<u>208,170</u>	<u>28,057</u>	<u>-</u>	<u>6,435</u>	<u>291,140</u>	<u>533,802</u>
At 30 June 2003	208,170	28,057	-	6,435	291,140	533,802
Surplus arising on revaluation of land and building	-	-	12,225	-	-	12,225
Deferred tax liability in respect of revaluation of land and buildings	-	-	(3,044)	-	-	(3,044)
Exchange realignment	-	-	-	(1,311)	-	(1,311)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,311)</u>	<u>-</u>	<u>(1,311)</u>
Net profit not recognised in the income statement	-	-	9,181	(1,311)	-	7,870
Net profit for the period	-	-	-	-	200,785	200,785
Dividend paid	-	-	-	-	(19,934)	(19,934)
Shares issued at premium	41,000	56,580	-	-	-	97,580
	<u>41,000</u>	<u>56,580</u>	<u>9,181</u>	<u>(1,311)</u>	<u>180,851</u>	<u>286,301</u>
At 31 December 2003	249,170	84,637	9,181	5,124	471,991	820,103

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(continued)

For the six months ended 30 June 2004

	Share capital	Share premium	Revaluation reserve	Translation reserve	Accumulated profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Issue of shares on bonus issue	25,223	(25,223)	-	-	-	-
Exercise of share options	3,058	22,630	-	-	-	25,688
Exchange realignment not recognised in the income statement	-	-	-	267	-	267
Net profit for the period	-	-	-	-	74,435	74,435
Dividend paid	-	-	-	-	(60,535)	(60,535)
	<u>277,451</u>	<u>82,044</u>	<u>9,181</u>	<u>5,391</u>	<u>485,891</u>	<u>859,958</u>
At 30 June 2004	<u>277,451</u>	<u>82,044</u>	<u>9,181</u>	<u>5,391</u>	<u>485,891</u>	<u>859,958</u>
Attributed to:						
- The Company and subsidiaries	277,451	82,044	9,181	5,391	485,891	859,958
- Jointly controlled entity	-	-	-	-	-	-
	<u>277,451</u>	<u>82,044</u>	<u>9,181</u>	<u>5,391</u>	<u>485,891</u>	<u>859,958</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash from operating activities	104,375	161,239
Net cash used in investing activities	(100,305)	(59,230)
Net cash used in financing activities	(12,045)	(35,389)
Net (decrease) increase in cash and cash equivalents	(7,975)	66,620
Cash and cash equivalents at 1 January	364,792	127,013
Effect of foreign exchange rate change	(164)	548
Cash and cash equivalents at 30 June representing bank balances and cash	<u>356,653</u>	<u>194,181</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

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

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 2003 ("the 2003 Financial Statements").

3. SEGMENT INFORMATION

Business segments

No business segment analysis is presented as less than 10% of the Group's turnover and contribution to results are contributed by activities other than the manufacture and marketing of footwear products.

4. PROFIT FROM OPERATIONS**Six months ended 30 June**

	2004	2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Cost of inventories recognised as expense	372,034	315,735
Depreciation and amortisation	21,017	13,544
Allowance for bad and doubtful debts	9,295	3,850
Loss on disposal of property, plant and equipment	-	9
Interest income from:		
Bank deposits	(1,564)	(362)
Investments in securities	(714)	(577)
Trade debtors	(4,537)	(2,365)
A jointly controlled entity	(478)	-
Dividend income from listed investment securities	(44)	(38)

5. TAXATION**Six months ended 30 June**

	2004	2003
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	2,901	4,410
Other jurisdictions	7,617	5,034
	10,518	9,444
Deferred tax:		
Current period	630	(390)
Attributable to a change in tax rate	-	(5)
	630	(395)
Taxation attributable to the Company and its subsidiaries	11,148	9,049

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30 June 2003: 17.5%) of the estimated assessable profit for the six months ended 30 June 2004.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

6. DIVIDENDS

During the six months ended 30 June 2004, a final dividend of HK\$0.06 per ordinary share was paid to the shareholders as the final dividend for the year ended 31 December 2003.

During the period ended 30 June 2003, a final dividend of HK\$0.0175 per ordinary share and a special dividend of HK\$0.025 per ordinary share were paid to shareholders. The dividend per share had been adjusted for the effect of the share subdivision as set out in note 22(b) to the 2003 Financial Statements.

The board of directors of the Company (the "Board") have determined that an interim dividend of HK\$0.028 (2003: HK\$0.02) per ordinary share should be paid to shareholders of the Company whose names appear in the register of members on 8 October 2004.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the following data:

	Six months ended 30 June	
	2004	2003
Net profit for the period and earnings for the purposes of basic and diluted earnings per share	<u>HK\$74,435,000</u>	<u>HK\$55,978,000</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>1,105,365,028</u>	<u>915,947,982</u>

For the purpose of calculating basic earnings per share, the weighted average number of ordinary shares for the six months ended 30 June 2003 had been adjusted to reflect the share subdivision as set out in note 22(b) to the 2003 Financial Statements and the bonus issue as set out in note 13.

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for the six months ended 30 June 2004.

No diluted earnings per share had been presented as there were no potential ordinary shares outstanding for the six months ended 30 June 2003.

8. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a cost of HK\$17,646,000.

In previous years, moulds were depreciated over their estimated useful life of 18% to 20% per annum. Upon a reassessment of the estimated useful lives of moulds, the Group commenced to write off the cost of moulds over 12 months effective from 1 January 2004. The change in depreciation rate has resulted in a decrease in the profit for the period ended 30 June 2004 by HK\$8,453,000.

In addition, investment properties with a carrying amount of HK\$34,651,000 have been transferred to land and buildings.

The Group's land and buildings and investment properties were revalued by the directors at 30 June 2004. The resulting revaluation surpluses of HK\$961,000 and HK\$745,000 respectively have been credited to the income statement.

9. GOODWILL

During the six months ended 30 June 2004, amortisation of goodwill amounted to HK\$139,000 (six months ended 30 June 2003: nil).

10. INTEREST IN A JOINTLY CONTROLLED ENTITY/LOAN TO A JOINTLY CONTROLLED ENTITY/AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Share of net assets	—	1,095
Loan to a jointly controlled entity	38,949	—
Interest receivable	478	—
	39,427	—
Amount due from a jointly controlled entity	36,828	—
Less: Allowance	(2,774)	—
	34,054	—

10. INTEREST IN A JOINTLY CONTROLLED ENTITY/LOAN TO A JOINTLY CONTROLLED ENTITY/AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY (continued)

On 2 January 2004 and 8 June 2004, the Group acquired 50% equity interest in Smart Shine Industries Limited ("Smart Shine") and the remaining 50% equity interest in Union Overseas Holdings Limited ("UOHL") at cash considerations of US\$1 and HK\$390 respectively. After the acquisition of UOHL, UOHL becomes a wholly-owned subsidiary of the Company.

Loan to a jointly controlled entity is unsecured, repayable on demand and bears interest at a rate of 6.4363% per annum from 12 May 2004 to 30 June 2004 and LIBOR plus 2% per annum from 1 July 2004 to 11 May 2005. The amount due from a jointly controlled entity is unsecured, interest free and repayable on demand.

11. TRADE AND OTHER RECEIVABLES

The Group allows a credit period ranging from 60 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$269,513,000 (31 December 2003: HK\$268,454,000) and an aged analysis is as follows:

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
0 to 30 days	139,842	153,933
31 to 60 days	56,925	33,937
61 to 90 days	29,866	36,620
Over 90 days	66,280	58,069
	292,913	282,559
Less: Allowance for bad and doubtful debts	(23,400)	(14,105)
	269,513	268,454

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$167,745,000 (31 December 2003: HK\$179,233,000) and an aged analysis is as follows:

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
0 to 30 days	75,099	85,553
31 to 60 days	52,193	59,370
61 to 90 days	15,825	11,300
Over 90 days	24,628	23,010
	167,745	179,233

13. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares at HK\$0.25 each		
Authorised:		
At 31 December 2003 and June 30 2004	<u>8,000,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
At 1 January 2004	996,679,984	249,170
Exercise of share options	12,232,000	3,058
Issue of shares on bonus issue	<u>100,891,198</u>	<u>25,223</u>
	<u>1,109,803,182</u>	<u>277,451</u>

Pursuant to a circular dated 20 April 2004, the directors of the Company proposed to make the issue of new ordinary shares of HK\$0.25 each in the capital of the Company (the "Share(s)") to the registered holders of the Shares whose names appear on the register of members of the Company at the close of business on 12 May 2004 on the basis of one new Share, credited as fully paid, for every ten Shares then held (the "Bonus Shares"). The Bonus Shares credited as fully paid rank pari passu in all respects with the existing issued shares except that they did not rank for the Bonus Issue. It was proposed that the directors of the Company be authorised to capitalize the sum of HK\$25,223,000, being part of the amount standing to the credit of the share premium account of the Company and apply such sum in paying up in full the Bonus Shares. The total number of shares in issue was then increased to 1,109,803,182.

14. OPERATING LEASE COMMITMENTS**The Group as lessee**

Minimum leases payments paid under operating leases for land and buildings during the period was HK\$7,616,000 (six months ended 30 June 2003: HK\$4,797,00).

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Within one year	14,309	14,707
In the second to fifth year inclusive	47,848	51,104
After five years	9,458	12,864
	<u>71,615</u>	<u>78,675</u>

Operating lease payments represent rentals payable by the Group for certain of its land and buildings. Leases are negotiated and rentals are fixed for terms ranging from two to eight years.

The Group as lessor

Property rental income earned during the period was approximately HK\$738,000 (six months ended 30 June 2003: HK\$464,000). Certain of the Group's properties are held for rental purposes and are expected to generate rental yields of 7% (six months ended 30 June 2003: 4%) on an ongoing basis. The properties held for rental purposes have committed tenants for the next one to two years.

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

	30 June 2004 <i>HK\$'000</i>	31 December 2003 <i>HK\$'000</i>
Within one year	1,111	1,424
In the second to fifth year inclusive	591	1,065
	<u>1,702</u>	<u>2,489</u>

15. CONTINGENT LIABILITIES

At 30 June 2004, the Company had outstanding corporate guarantees amounting to HK\$79,000,000 (31 December 2003: HK\$40,000,000) issued in favour of certain banks to secure general banking facilities made available to the Company and certain of its subsidiaries.

16. ACQUISITION AND DISPOSAL OF SUBSIDIARIES**Acquisition**

On 8 June 2004, the Group acquired additional 50% equity interest in UOHL at a consideration of HK\$390 as set out in note 10. This transaction has been accounted for using the acquisition method of accounting.

The effect of the acquisition is summarised as follows:

	<i>HK\$'000</i>
Net assets acquired and cash consideration	—
Net cash inflow arising on acquisition:	
Bank balances and cash acquired	<u>87</u>

UOHL did not make any significant contribution to the results and cash flows of the Group during the interim period.

Disposal

On 9 June 2004, the Group entered into a sale agreement to dispose of 100% equity interest in a subsidiary, Muspole International Limited ("Muspole") which was an investment holding company, to Smart Shine. The disposal was completed on 9 June 2004, on which date control of Muspole was passed to Smart Shine.

The net assets of Muspole at the date of disposal were as follows:

	<i>HK\$'000</i>
Net assets disposed of and total consideration	<u>36,828</u>
Satisfied by:	
Amount due from a jointly controlled entity	<u>36,828</u>
Net cash outflow arising on disposal:	
Bank balances and cash	<u>(57,470)</u>

Muspole did not make any significant contribution to the results and cash flows of the Group during the interim period.

17. RELATED PARTY TRANSACTIONS

In addition to the disposal of interest in Muspole to Smart Shine as disclosed in note 16, during the period ended 30 June 2004, the Group received interest income amounting to HK\$478,000 (six months ended 30 June 2003: Nil) from Smart Shine, a jointly controlled entity of the Group. The transaction was carried out on terms similar to those applicable to transactions with unrelated parties.

18. POST BALANCE SHEET EVENTS

On 12 July 2004, a wholly owned subsidiary of the Company, Wise Investment Group Limited, entered into a sales and purchase agreement with Minotaur Overseas Limited to acquire the entire interest in Misto Worldwide Limited at a consideration of HK\$52,972,000 (subject to adjustment). The transaction was completed on 23 July 2004.

INTERIM DIVIDEND

The Board declared an interim dividend of HK\$0.028 per share. This represents a 40% increase over the dividend per share for the corresponding period in 2003 (after adjusting for the subdivision of shares in 2003) (2003: HK\$0.02) for the six months ended 30 June 2004 to members whose names appear on the register of members of the Company as at the close of business on 8 October 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 5 October 2004 to 8 October 2004 (both days inclusive), during which period no share transfers 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 share registrar of the Company in Hong Kong, Tengis Limited at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by no later than 4:30 p.m. on 4 October 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

I am pleased to report that for the 6 months ended 30 June 2004, our Group enjoyed a 17.3% increase in sales. Gross profit margin remained steady and operating profits increased 27.9%, whilst profits after tax and minority interests increased 33%. The Dongguan factory, which was acquired in July 2003, contributed to the increase in sales and profits. In addition, we were able to record a modest increase in property value during the first half of 2004, compared to a provision for diminution in property value during the first half of 2003.

Outlook

Our strategy of growth by acquisition clearly has paid off. In addition to acquiring the Dongguan factory in mid-2003, we acquired another factory in Fuzhou in July 2004, which is expected to make substantial contribution to our growth in the second half of 2004. With our capacity expansion through acquisition, there now exists significant opportunities to achieve greater efficiency and costs savings through rationalization of operations.

We believe that our group is well positioned to benefit from two macroeconomic drivers. First, China is rapidly becoming the world's leading manufacturing center, and we believe that the manufacturing sector will continue to enjoy sustained growth. Second, China is the world's fastest growing major economy. Consumption demand will increase at a fast pace, with consumers developing a preference for higher priced athletic shoes and for major global brands. Being an experienced manufacturer in China with good working relationships with a number of global brands, we are well positioned to supply that market.

The acquisition of the Fuzhou factory is our first step in diversifying geographically outside Guangdong Province. Such geographic diversification will achieve significant labor cost savings. As the China market for athletic shoes grows, we aim to locate factories at strategic locations around the country so as to provide better logistic support to retailers.

Segment information

Sales to North America have increased by 11% and constituted approximately 59% (2003: 63%) of the Group's total turnover; Europe accounted for 27% (2003: 23%) 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 2004, the Group had cash and bank balance of HK\$356.7 million (31 December 2003: HK\$364.7 million). The Group was offered banking facilities amounting to HK\$79 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 2004 has not changed materially from that of the last financial year. Employee cost (excluding directors' emoluments) amounted to approximately HK\$116.7 million (2003: HK\$106.5 million). In addition to competitive remuneration packages, discretionary bonuses are awarded to eligible staff based on the Group's performance and individual merits.

Appointment/resignation of directors

At the annual general meeting of the Company held on 12 May 2004 ("AGM"), Mr. Sze Sun Sun, Tony and Mr. Ku Edward Y. retired as directors of the Company and offered themselves for re-election.

As from 12 May 2004 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

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.

Acquisition of Misto Worldwide Limited

On 12 July 2004, the Group acquired Misto Worldwide Limited ("MWL"), MWL is an investment holding company holding interests in four wholly-owned operating subsidiaries namely Grand Golden Enterprises Limited, Gold Loyal Enterprises Inc., Grand Galatica Limited and Fuqing Grand Galatica Footwear Co. Ltd. They are engaged in the business of trading, marketing and manufacturing of footwear in the People's Republic of China.

DIRECTORS' DISCLOSURE OF INTERESTS

As at the 30 June 2004, the interests of the directors and chief executive 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 SFO) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "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 executive 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 Listing Rules were as follows:

Long Position in Shares

Name of Director	Notes	Nature of interests	Number of Shares	% of the issued share capital
Chan Ting Chuen	1	Corporate	704,903,240	63.52
Chan Ting Chuen		Personal	6,600,000	0.59
Sze Sun Sun, Tony	1	Corporate	704,903,240	63.52
Sze Sun Sun, Tony		Personal	3,300,000	0.30
Li Kwok Lung, Alfred Ronald		Personal	11,659,945	1.05

Notes :

1. Well Success Investment Limited ("Well Success") is directly interested in 559,703,240 shares of the Company and deemed to be interested in 145,200,000 shares of the Company held by Ko Shing Limited ("Ko Shing") which is its wholly owned subsidiary.

First Dynamic International Limited ("First Dynamic") holds more than one-third of the issued share capital of Well Success. Royal Pacific Limited ("Royal Pacific") and Alexon International Limited ("Alexon International") each holds more than one-third of the issued share capital of First Dynamic.

Chan Ting Chuen is interested in the entire issued share capital of Royal Pacific. Chan Ting Chuen is deemed to be interested in 704,903,240 shares held by Well Success by virtue of his interests in Royal Pacific.

Sze Sun Sun, Tony is interested in the entire issued share capital of Alexon International and is deemed to be interested in 704,903,240 shares held by Well Success by virtue of his interests in Alexon International.

Short Position in Shares

Save as disclosed above, as at the 30 June 2004, to the knowledge of the Company, none of the directors, or chief executive of the Company had or was deemed to have any short position 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 (the "SFO")) (a) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (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 executive 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

So far as is known to any director or the chief executive of the Company, as at the 30 June 2004, the persons or companies (not being a director or chief executive of the Company) who had interests or short positions in the shares and 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 or who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long position in shares

Name	Notes	Capacity	Number of shares of the Company held		
			Direct interests	Deemed interests	% of holding
Well Success	1	Beneficial owner	559,703,240	145,200,000	63.52%
Ko Shing Limited ("Ko Shing")	1	Beneficial owner	145,200,000	–	13.08%
First Dynamic	1	Held by controlled corporation	–	704,903,240	63.52%
Alexon International	1	Held by controlled corporation	–	704,903,240	63.52%
Royal Pacific	1	Held by controlled corporation	–	704,903,240	63.52%
Frensham Investments Limited ("Frensham")	2	Held by controlled corporation	–	704,903,240	63.52%
Pou Yuen Industrial (Holdings) Limited ("Pou Yuen (Holdings)")	2	Held by controlled corporation	–	704,903,240	63.52%
Yue Yuen Industrial Limited ("Yue Yuen Industrial")	2	Held by controlled corporation	–	704,903,240	63.52%
Pou Hing Industrial Company Limited ("Pou Hing Company")	2	Held by controlled corporation	–	704,903,240	63.52%

Name	Notes	Capacity	Number of shares of the Company held		
			Direct interests	Deemed interests	% of holding
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	2	Held by controlled corporation	–	704,903,240	63.52%
Wealthplus Holdings Limited ("Wealthplus")	2	Held by controlled corporation	–	704,903,240	63.52%
Pou Chen Corporation ("Pou Chen")	2	Held by controlled corporation	–	704,903,240	63.52%
Madam Lau Yuk Wah	3	Held by controlled corporation	–	714,803,240	64.41%
Madam Ng Shuk Fong	3	Held by controlled corporation	–	711,503,240	64.11%
Chang Tsung Yuan	4	Person acting in concert	–	145,200,000	13.08%
Chou Mei Yueh	4	Person acting in concert	–	145,200,000	13.08%

Notes :

1. The bonus issue on the basis of one bonus share for every ten existing shares held was approved by the shareholders of the Company at the Annual General Meeting on 12 May 2004 ("Bonus Issue"). Based on 508,821,128 shares directly held by Well Success and 132,000,000 shares directly held by Ko Shing before the Bonus Issue, 50,882,112 and 13,200,000 bonus shares were issued to Well Success and Ko Shing respectively. Well Success is now directly interested in 559,703,240 shares of the Company and deemed to be interested in 145,200,000 shares of the Company held by Ko Shing which is its wholly-owned subsidiary.

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, Well Success, First Dynamic, Royal Pacific and Alexon International are deemed to be interested in 704,903,240 shares of the Company.

2. Frensham held more than one-third of the issued share capital of Well Success. Frensham is a wholly-owned subsidiary of Pou Yuen (Holdings) which in turn is a wholly-owned subsidiary of Yue Yuen Industrial. Yue Yuen Industrial is a wholly-owned subsidiary of Pou Hing Company which in turn was a wholly-owned subsidiary of Yue Yuen. Wealthplus, a wholly-owned subsidiary of 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 are deemed to be interested in 704,903,240 shares of the Company.

3. Madam Lau Yuk Wah ("Madam Lau") is the wife of Mr. Sze Sun Sun, Tony ("Mr. Sze"), a director of the Company. Mr. Sze is interested in the entire issued share capital of Alexon International, which is deemed to be interested in 704,903,240 shares of the Company (see Note 1). Mr. Sze was granted 9,000,000 share options of the Company on 9 January 2004. 3,000,000 options were exercised on 25 February 2004, pursuant to the Bonus Issue, 300,000 bonus shares were issued to Mr. Sze. Outstanding share options were adjusted by a factor of 0.9091, hence Mr. Sze's 6,000,000 outstanding options after adjustment amount to 6,599,934. Mr. Sze is deemed to be interested in a total of 714,803,174 shares of the Company. Madam Lau is deemed to be interested in 714,803,174 shares of the Company.

Madam Ng Shuk Fong ("Madam Ng") is the wife of Mr. Chan Ting Chuen ("Mr. Chan"), a director of the Company. Mr. Chan is interested in the entire issued share capital of Royal Pacific which is deemed to be interested in 704,903,240 shares of the Company (see Note 1). Mr. Chan was granted 6,000,000 options of the Company on 9 January 2004. 2,000,000 options were exercised on 17 February 2004 and 4,000,000 were exercised on 7 April 2004. Pursuant to the Bonus Issue, 600,000 bonus shares were issued to Mr. Chan who is deemed to be interested in a total of 711,503,240 shares of the Company. Madam Ng is deemed to be interested in 711,503,240 shares of the Company.

4. Ko Shing had a direct interest in 145,200,000 shares of the Company (see Note 1). Mr. Chang Tsung Yuan ("Mr. Chang") is deemed to be interested in 145,200,000 shares of the Company pursuant to a subscription agreement dated 27 May 2003 to acquire interests in the Company. Madam Chou Mei Yueh is the wife of Mr. Chang and is deemed to be interested in 145,200,000 shares of the Company.

Short position in shares

Other than as disclosed above, none of the director or the chief executive of the Company has been notified of any other relevant interests or short positions in the issued share capital of the Company or its underlying shares which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company and the amount of each such person's interest in such securities together with particulars of any options in respect of such capital.

SHARE OPTION SCHEME

Details of the directors' interest in the Scheme are set out under the section Directors' Disclosure of Interests under the heading "Long Position in Shares".

Outstanding Share Options

Pursuant to an ordinary resolution passed at a special general meeting of the Company on 22 October 2001, a new share option scheme (the "2001 Scheme") was adopted by the Company. The 2001 Scheme replaced the share option scheme adopted on 9 February 1995 (as amended on 9 December 1997) (the "1997 Scheme"). After the adoption of the 2001 Scheme, no further options can be granted under the 1997 Scheme. No share option of the 1997 Scheme was outstanding as at 31 December 2003. There was no option granted under the 2001 Scheme since its adoption.

The Company operates the 2001 Scheme for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. All directors, full-time employees and any other persons who, in the sole discretion of the board of directors, have contributed or will contribute to the Group are eligible to participate in the 2001 Scheme.

Shares which may be issued upon exercise of all options to be granted under the 2001 Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption.

The Company may renew this 10% limit with shareholders' approval provided that each such renewal may not exceed 10% of the shares in the Company in issue as at the date of the shareholder's approval.

The total number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2001 Scheme or any other share option scheme adopted by the Company must not exceed 30% of the shares in issue from time to time.

Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon the exercise of the options granted to each participant (including both exercised and unexercised options) under the 2001 Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 14 days from the date on which the letter containing the offer is delivered to that participant and the amount payable on acceptance of an option is HK\$1.00.

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be established by the board of directors at the time the option is offered to the participants.

No option may be granted under the 2001 Scheme after the date of the tenth anniversary of the adoption of the 2001 Scheme.

At 31st December, 2003, no share option of the 1997 Scheme and 2001 Scheme was outstanding. During the year ended 31st December, 2003, there was no option granted under the 1997 Scheme and the 2001 Scheme.

On 12 May 2004, the exercise price of the outstanding options and the number of shares subject to the outstanding options were adjusted from HK\$2.10 each to HK\$1.91 each and 68,928,000 shares to 75,820,042.

As at 30 June 2004, options to subscribe for an aggregate of 75,820,042 shares of the Company granted pursuant to the Scheme were outstanding.

Details are as follows :

Number of share options	Number of offeree	Subscription price per share (HK\$)	Option period
75,820,042	43	1.91	7 February 2004 to 6 February 2006

Generally, the options may be exercised in different tranches within the option period.

CORPORATE GOVERNANCE

Compliance with Code of Best Practice

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period for the six months ended 30 June 2004 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 2004.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company 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, 24 September 2004