

## 1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- manufacture and trading of footwear
- property holding
- investment holding

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, modified with respect to the remeasurement of investment properties, investments in securities and certain fixed assets, as explained in the respective accounting policies below.

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### **Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

### **Fixed assets and depreciation**

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.



31 December 2000

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *continued***Fixed assets and depreciation** *continued*

Changes in the values of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% – 5%
Leasehold improvements	9% – 45%
Moulds	18%– 20%
Plant and machinery	9% – 45%
Furniture, fixtures and equipment	9% – 20%
Motor vehicles	16%– 20%

Freehold land is not depreciated.

Land use rights are amortised over the unexpired lease terms.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

No depreciation is provided on land held for development until development is completed and put into use, upon which it will be transferred to leasehold land and buildings.

Construction in progress represents buildings and other fixed assets under construction, and is stated at cost and not depreciated. Cost comprises direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made against cost, to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### **Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

### **Product development costs**

All research costs are charged to the profit and loss account as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identified and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

### **Investments**

Debt securities which are intended to be held to maturity are accounted for as held-to-maturity securities, while other securities are accounted for as investment securities or other investments, as explained below.

The profit or loss on disposal of an investment is credited or charged to the profit and loss account in the period in which the disposal occurs as the difference between the net sales proceeds and the carrying amount of the investment.

Provisions against the carrying values of investments are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.



31 December 2000

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

#### *Investments continued*

##### *Held-to-maturity securities*

Investments in dated debt securities which are intended to be held-to-maturity are stated in the balance sheet at cost, adjusted for the amortisation of premiums or discounts arising on acquisitions, less any provisions for diminutions in values.

The carrying amounts of held-to-maturity securities are reviewed as at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised as an expense in the profit and loss account in the period in which they arise.

##### *Investment securities*

Investments in dated debt securities and equity securities, intended to be held for an identified long term purpose, are stated in the balance sheet at cost less any provisions for impairments in values deemed necessary by the directors, other than those considered to be temporary in nature, on an individual basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

##### *Other investments*

Investments in equity securities which are not intended to be held for an identified long term purpose are stated in the balance sheet at fair values. Fair values are determined on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair values of such investments are credited or charged to the profit and loss account in the period in which they arise.

##### *Others*

Golf club membership is stated at cost less provisions for permanent diminution in values deemed necessary by the directors.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### **Foreign currencies**

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

### **Provident fund**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its eligible employees. The Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.



31 December 2000

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

#### **Provident fund** *continued*

Prior to the Scheme being effective, the Group operated a defined contribution provident fund scheme which certain employees were entitled to join upon fulfilling certain conditions. This scheme operated in a similar way to the Mandatory Provident Fund retirement benefits scheme, except that when an employee left the scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. With effect from 1 December 2000, this scheme was terminated.

#### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

#### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

#### **Cash equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.



**NOTES TO FINANCIAL**  
**STATEMENTS *continued***

31 December 2000

**3. TURNOVER**

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and gross rental income received and receivable from investment properties during the year.

Revenue from the following activities has been included in turnover:

	<b>2000</b> <b><i>HK\$'000</i></b>	1999 <i>HK\$'000</i>
Sale of footwear products	<b>633,550</b>	484,688
Gross rental income from investment properties	<b>1,515</b>	2,344
	<b>635,065</b>	<b>487,032</b>



31 December 2000

**4. PROFIT FROM OPERATING ACTIVITIES**

The Group's profit from operating activities is arrived at after charging:

	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
Cost of inventories sold	337,868	288,534
Depreciation	11,305	13,333
Auditors' remuneration	1,221	953
Operating lease rentals in respect of land and buildings	9,994	9,320
Staff costs (excluding directors' remuneration):		
Provident fund contributions	343	529
Less: Forfeited contributions	(267)	(131)
Net contributions to provident fund	76	398
Wages and salaries	131,488	107,480
	<b>131,564</b>	<b>107,878</b>
Product development expenditure	2,053	1,567
Loss on disposal of fixed assets	69	-
Loss on write-off of fixed assets	4,380	26,953
Less: Amounts provided in prior years	-	(20,480)
Net loss on write-off of fixed assets	4,380	6,473
Provision for doubtful debts	61,442	2,194
Provision for permanent diminution in value of fixed assets	1,875	-
Deficit on revaluation of leasehold land and buildings	8,832	3,765
Deficit on revaluation of investment properties	3,286	4,500
Provision for diminution in values of long term investments	50	1,224
Net holding loss on short term investments	5,736	-
and after crediting:		
Gain on disposal of short term investments	5,600	1,283
Gain on disposal of long term investments	4,375	-
Gain on disposal of investment properties	-	34
Gain on disposal of fixed assets	-	422
Gross rental income from investment properties	1,515	2,344
Less: Outgoings	(67)	(27)
	<b>1,448</b>	<b>2,317</b>





# NOTES TO FINANCIAL STATEMENTS *continued*

31 December 2000

## 4. PROFIT FROM OPERATING ACTIVITIES *continued*

	<b>2000</b> <b>HK\$'000</b>	1999 <i>HK\$'000</i>
Net holding gain on short term investments	–	103
Dividend income from listed investments	<b>91</b>	–
Exchange gains, net	<b>229</b>	3,054
Interest income	<b>22,409</b>	25,643
Interest income from listed investments	<b>15,807</b>	1,921
Settlement discounts with suppliers	<b>7,557</b>	3,180
	<hr/>	<hr/>

## 5. FINANCE COSTS

	<b>2000</b> <b>HK\$'000</b>	1999 <i>HK\$'000</i>
Interest expense on bank loan and overdrafts wholly repayable within five years	<b>467</b>	12
	<hr/>	<hr/>

## 6. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance are as follows:

	<b>2000</b> <b>HK\$'000</b>	1999 <i>HK\$'000</i>
Fees:		
Executive	–	29
Independent non-executive	<b>96</b>	161
	<hr/>	<hr/>
	<b>96</b>	190
	<hr/>	<hr/>
Other emoluments:		
Salaries, allowances and benefits in kind		
Executive	<b>5,971</b>	5,046
Independent non-executive	<b>120</b>	–
	<hr/>	<hr/>
	<b>6,091</b>	5,046
Provident fund contributions		
Executive	<b>169</b>	132
	<hr/>	<hr/>
	<b>6,260</b>	5,178
	<hr/>	<hr/>
	<b>6,356</b>	5,368
	<hr/>	<hr/>



31 December 2000

**6. DIRECTORS' REMUNERATION** *continued*

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
HK\$Nil – HK\$1,000,000	9	8
HK\$1,000,001 – HK\$1,500,000	2	3
	<u>11</u>	<u>11</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No value is included in directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the directors during the year are set out in the section "Directors' rights to acquire shares" in the Report of the Directors on page 19.

**7. FIVE HIGHEST PAID EMPLOYEES**

The five (1999: five) highest paid employees during the year were all (1999: five) directors, details of whose remuneration are set out in note 6 to the financial statements.

**8. TAX**

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Tax on profits assessable elsewhere has been provided at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices thereof.

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Group:		
Hong Kong	568	800
Elsewhere	1,072	1,320
Underprovision in prior years	188	23
	<u>1,828</u>	<u>2,143</u>
Tax charge for the year		



**8. TAX *continued***

A subsidiary operating in the People's Republic of China (the "PRC") was exempt from income tax for two years starting from the first profit making year commencing from the year ended 31 December 1995 and thereafter, was entitled to 50% relief from income tax for the next three years.

The other two subsidiaries, which commenced operation in the PRC during 2000 and incurred operating losses during the year, are exempt from income tax for two years starting from the first profit making year.

**9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$41,524,000 (1999: HK\$19,269,000).

**10. DIVIDENDS**

	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Interim – Nil (1999: HK\$0.01) per ordinary share	–	41,533
Proposed final – HK\$0.005 (1999: Nil) per ordinary share	<b>25,659</b>	–
Underprovision in prior year	–	10
	<b>25,659</b>	<b>41,543</b>

**11. EARNINGS PER SHARE**

The calculations of the basic and diluted earnings per share for the year are based on the following data:

	<b>2000</b> <i>HK\$</i>	1999 <i>HK\$</i>
<b>Earnings</b>		
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculations	<b>36,425,000</b>	<b>48,309,000</b>



STATEMENTS *continued*

31 December 2000

11. EARNINGS PER SHARE *continued*

	2000 <i>Number</i>	1999 <i>Number</i>
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	<b>4,923,109,584</b>	4,148,445,930
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all share options outstanding during the year	<b>33,657,205</b>	10,761,854
Weighted average number of ordinary shares used in diluted earnings per share calculation	<b>4,956,766,789</b>	4,159,207,784

12. FIXED ASSETS

Group	Land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Land held for development <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:									
At beginning of year	51,000	1,263	25,234	10,486	13,441	37,945	8,570	3,620	151,559
Additions	9,759	10,846	-	115	9,767	40,879	1,427	1,938	74,731
Disposals	-	-	-	-	-	-	(128)	(335)	(463)
Written off	-	-	-	-	(6,538)	-	-	-	(6,538)
Deficit on revaluation	(9,850)	-	-	-	-	-	-	-	(9,850)
Provision for impairment	-	(1,263)	-	(680)	-	-	-	-	(1,943)
<b>At 31 December 2000</b>	<b>50,909</b>	<b>10,846</b>	<b>25,234</b>	<b>9,921</b>	<b>16,670</b>	<b>78,824</b>	<b>9,869</b>	<b>5,223</b>	<b>207,496</b>
At cost	9,759	10,846	-	9,921	16,670	78,824	9,869	5,223	141,112
At 2000 valuation	41,150	-	25,234	-	-	-	-	-	66,384
	50,909	10,846	25,234	9,921	16,670	78,824	9,869	5,223	207,496
Accumulated depreciation:									
At beginning of year	-	-	-	4,718	1,984	23,992	5,849	1,476	38,019
Provided during the year	1,018	-	-	1,411	2,736	4,516	962	662	11,305
Disposals	-	-	-	-	-	-	(62)	(190)	(252)
Written off	-	-	-	-	(2,158)	-	-	-	(2,158)
Written back on revaluation	(1,018)	-	-	-	-	-	-	-	(1,018)
Provision for impairment	-	-	-	(68)	-	-	-	-	(68)
<b>At 31 December 2000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,061</b>	<b>2,562</b>	<b>28,508</b>	<b>6,749</b>	<b>1,948</b>	<b>45,828</b>
Net book value:									
<b>At 31 December 2000</b>	<b>50,909</b>	<b>10,846</b>	<b>25,234</b>	<b>3,860</b>	<b>14,108</b>	<b>50,316</b>	<b>3,120</b>	<b>3,275</b>	<b>161,668</b>
At 31 December 1999	51,000	1,263	25,234	5,768	11,457	13,953	2,721	2,144	113,540



# NOTES TO FINANCIAL STATEMENTS *continued*

31 December 2000

## 12. FIXED ASSETS *continued*

The Group's land and buildings included above are held under the following lease terms:

	Hong Kong <i>HK\$'000</i>	Elsewhere <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:			
Freehold	–	9,759	9,759
At valuation:			
Medium term leases	41,150	–	41,150
	41,150	9,759	50,909

The leasehold land and buildings of the Group were revalued on 31 December 2000 by Prudential Surveyors International Limited, independent professional valuers, on an open market value, existing use basis.

Land held for development represents the Group's 68% interest in land with an area of approximately 353,333 square metres for a term of 50 years from 12 December 1997 in Zhong Shan, PRC, for the construction of factory buildings and facilities thereon. At 31 December 2000, the land held for development was revalued by K.T. Liu Surveyors Limited, independent professional valuers, on an open market value based on its existing use.

Had the Group's leasehold land and buildings and land held for development been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK\$63,808,000 and HK\$15,750,000, respectively.

Certain leasehold land and buildings and investment properties (note 13) held by the Group, with an aggregate net book value of approximately HK\$139,200,000 as at 31 December 2000, were pledged to secure banking facilities of approximately HK\$141,400,000 granted to the Group, which had been utilised to the extent of HK\$51,497,000 at the balance sheet date (note 24).

## 13. INVESTMENT PROPERTIES

		Group
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
At beginning of year	42,000	46,500
Additions	62,736	–
Revaluation deficit	(3,286)	(4,500)
	101,450	42,000
At balance sheet date		



31 December 2000

**13. INVESTMENT PROPERTIES *continued***

The investment properties held by the Group as at 31 December 2000 were pledged to secure banking facilities granted to the Group (notes 12 and 24).

The investment properties are situated in Hong Kong and are held under medium term leases.

The Group's investment properties were revalued on 31 December 2000 by Prudential Surveyors International Limited, independent professional valuers, on an open market value, existing use basis.

Particulars of the investment properties at the balance sheet date are as follows:

<b>Location</b>	<b>Approximate gross floor area</b>	<b>Existing use</b>	<b>Attributable interest of the Group</b>
Unit Nos. 2, 3, 4 and 5; part of Unit Nos. 1 and 6 on Third Floor of Island Place Tower, Island Place No. 510 King's Road, Hong Kong. (256/62,411 shares of and in Inland Lot No. 8849; held under Conditions of Exchange No. 12353)	10,045 sq.ft.	Commercial	100%
Unit Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, and 10 on Tenth Floor of Island Place Tower Island Place, No. 510 King's Road Hong Kong. (512/62,411 shares of and in Inland Lot No. 8849; held under Conditions of Exchange No. 12353)	20,090 sq.ft.	Commercial	100%



NOTES TO FINANCIAL  
STATEMENTS *continued*

31 December 2000

14. INVESTMENTS

(a) Long term investments

	<b>2000</b> <i>HK\$'000</i>	<b>Group</b> 1999 <i>HK\$'000</i>
<i>Investment securities</i>		
Overseas listed dated debt securities, at cost#	<b>177,897</b>	37,273
Less: Provisions for diminution in values	–	(160)
	<b>177,897</b>	<u>37,113</u>
 Listed equity securities, at cost#		
– Hong Kong	<b>20</b>	–
– Overseas	<b>1,888</b>	–
	<b>1,908</b>	<u>–</u>
 Overseas unlisted equity securities, at cost	<b>760</b>	760
Less: Provisions for diminution in values	<b>(684)</b>	(684)
	<b>76</b>	<u>76</u>
 <i>Others</i>		
Golf club membership in the PRC, at cost	<b>880</b>	880
Less: Provisions for diminution in values	<b>(430)</b>	(380)
	<b>450</b>	<u>500</u>
 Total long term investments	<b>180,331</b>	<u>37,689</u>

# The aggregate market value of the overseas listed dated debt securities and listed equity securities totalled approximately HK\$182,509,000 (1999: HK\$37,450,000) and HK\$1,074,000, respectively, at 31 December 2000.



31 December 2000

**14. INVESTMENTS** *continued*

(b) **Short term investments**

	<b>2000</b> <i>HK\$'000</i>	<b>Group</b> 1999 <i>HK\$'000</i>
<i>Held-to-maturity securities</i>		
Overseas listed dated debt securities, at amortised cost	–	3,707
<i>Other investments</i>		
Listed equity securities, at fair value		
– Hong Kong	27,695	3,597
– Overseas	–	1,888
	<u>27,695</u>	<u>5,485</u>
Total short term investments	<u>27,695</u>	<u>9,192</u>

The market value of debt securities which were intended to be held-to-maturity totalled HK\$3,622,000 at 31 December 1999.

**15. PREPAID RENTAL**

This represented prepaid rental for the leasehold building in the PRC for a term of two years.





# NOTES TO FINANCIAL STATEMENTS *continued*

31 December 2000

## 16. INTERESTS IN SUBSIDIARIES

	Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Unlisted shares, at cost	141,213	141,213
Provisions for diminutions in values	(140,225)	(140,225)
	988	988

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company**		Principal activities
			2000	1999	
Liang Shing Industries Limited	Hong Kong	Ordinary HK\$72,000 Non-voting deferred* HK\$1,428,000	100%	100%	Provision of management services
Liang Shing Industries (HK) Limited	Hong Kong	Ordinary HK\$10,000	100%	100%	Footwear marketing and trading
Keenson Asia Limited	Hong Kong	Ordinary HK\$10,000	100%	100%	Property investment
Takson Asia Limited	Hong Kong	Ordinary HK\$10,000	100%	100%	Footwear purchasing
Guangzhou Panyu Xingtai Footwear Industry & Commerce Co., Ltd.	PRC	RMB66,306,835	92.78%	92.78%	Footwear manufacturing
Chi Yuen Developments Limited	British Virgin Islands/PRC	Ordinary US\$1	100%	100%	Footwear manufacturing
Canray Int'l Limited	British Virgin Islands/PRC	Ordinary US\$1	100%	100%	Footwear trading



STATEMENTS *continued*

31 December 2000

16. INTERESTS IN SUBSIDIARIES *continued*

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company**		Principal activities
			2000	1999	
Cosmo Group Holdings Limited	British Virgin Islands	Ordinary US\$10,000	100%	100%	Investment holding
Lucky Port Trading Limited	Hong Kong	Ordinary US\$2	100%	–	Footwear marketing and trading
Zenith Billion Trading Limited	Hong Kong	Ordinary HK\$2	100%	–	Footwear trading
Cashmaster Profits Limited	British Virgin Islands/PRC	Ordinary US\$1	100%	–	Footwear trading
Sunrise Footwear Limited	Macau	MOP1,000,000	100%	80%	Footwear manufacturing
Holey Trading Limited	Hong Kong	Ordinary HK\$2	100%	100%	Footwear trading
Power Plus Limited	British Virgin Islands	Ordinary US\$1	100%	100%	Investment holding
Continuance Enterprises Limited	British Virgin Islands	Ordinary US\$1	100%	100%	Investment holding
New Year Prosperity Corporation	British Virgin Islands	Ordinary US\$1	100%	100%	Investment holding

\* The holders of the non-voting deferred shares are not entitled to vote, are not entitled to any dividend and are, on winding up, only entitled out of the surplus assets of the company, to a return of the capital after a total sum of HK\$100,000,000,000 has been distributed to the holders of the ordinary shares of the company.

\*\* Except for Cosmo Group Holdings Limited, all of the above subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.



# NOTES TO FINANCIAL STATEMENTS *continued*

31 December 2000

## 17. DUE FROM SUBSIDIARIES

The balances are unsecured, interest-free and have no fixed terms of repayment.

## 18. INVENTORIES

	<b>2000</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>1999</b>
		<b>HK\$'000</b>
Raw materials	<b>30,688</b>	21,802
Work in progress	<b>24,630</b>	14,781
Finished goods	<b>36,322</b>	26,013
	<b>91,640</b>	<b>62,596</b>

## 19. TRADE RECEIVABLES

The Group generally grants a credit term of 60 to 90 days to its customers. The ageing analysis of trade receivables as at 31 December was as follows:

	<b>Group</b>		<b>1999</b>	
	<b>2000</b>		<b>1999</b>	
	<b>HK\$'000</b>	<b>Percentage</b>	<b>HK\$'000</b>	<b>Percentage</b>
Current to 30 days	<b>71,587</b>	<b>49%</b>	58,349	56%
31 days to 60 days	<b>4,721</b>	<b>3%</b>	12,160	11%
61 days to 90 days	<b>198</b>	<b>–</b>	18,894	18%
Over 90 days	<b>70,116</b>	<b>48%</b>	15,513	15%
	<b>146,622</b>	<b>100%</b>	104,916	100%
Less: Provision for doubtful debts	<b>(68,141)</b>		(6,699)	
	<b>78,481</b>		<b>98,217</b>	

The above analysis ages trade receivables based on the date of goods despatched.



31 December 2000

**20. OTHER RECEIVABLES**

	Group		Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Prepayments	871	13,758	579	573
Deposits and other debtors	21,139	5,160	997	584
	<u>22,010</u>	<u>18,918</u>	<u>1,576</u>	<u>1,157</u>

**21. CASH AND CASH EQUIVALENTS**

	Group		Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Cash and bank balances	58,829	52,513	1,361	440
Time deposits	233,419	301,891	214,128	270,638
	<u>292,248</u>	<u>354,404</u>	<u>215,489</u>	<u>271,078</u>

**22. TRADE PAYABLES**

The ageing analysis of trade payables as at 31 December was as follows:

	Group		1999	
	2000 <i>HK\$'000</i>	<i>Percentage</i>	<i>HK\$'000</i>	<i>Percentage</i>
Current to 30 days	53,221	51%	32,895	36%
31 days to 60 days	31,499	30%	32,011	35%
61 days to 90 days	4,739	4%	4,850	5%
Over 90 days	15,694	15%	22,138	24%
	<u>105,153</u>	<u>100%</u>	<u>91,894</u>	<u>100%</u>

The above analysis ages trade payables based on date of receipt of the goods and services purchased.



**NOTES TO FINANCIAL**  
**STATEMENTS *continued***

31 December 2000

**23. OTHER PAYABLES AND ACCRUALS**

	Group		Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Accruals	35,417	23,853	1,210	697
Other liabilities	50,799	47,863	602	28
Proposed final dividend	25,659	–	25,659	–
	<u>111,875</u>	<u>71,716</u>	<u>27,471</u>	<u>725</u>

**24. BANK LOAN AND OVERDRAFTS**

	Group		Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Bank overdrafts:				
Secured	709	602	–	–
Bank loan:				
Secured	50,700	–	50,700	–
	<u>51,409</u>	<u>602</u>	<u>50,700</u>	<u>–</u>
Bank overdrafts repayable within one year or on demand	709	602	–	–
Bank loan repayable:				
Within one year or on demand	10,140	–	10,140	–
In the second year	10,140	–	10,140	–
In the third to fifth years, inclusive	30,420	–	30,420	–
	<u>51,409</u>	602	<u>50,700</u>	–
Portion classified as current liabilities	<u>(10,849)</u>	<u>(602)</u>	<u>(10,140)</u>	<u>–</u>
Long term portion	<u>40,560</u>	–	<u>40,560</u>	–

Certain of the Group's bank loan and overdrafts are secured by:

- (i) mortgages over the Group's investment properties situated in Hong Kong, which have an aggregate carrying value at the balance sheet date of approximately HK\$101,450,000 (1999: HK\$42,000,000); and
- (ii) mortgages over certain of the Group's land and buildings which have an aggregate net book value at the balance sheet date of approximately HK\$37,750,000 (1999: HK\$47,600,000).



31 December 2000

**25. DEFERRED TAX**

The principal components of the Group's deferred tax liability not provided for are as follows:

	<b>2000</b> <i>HK\$'000</i>	<b>Group</b> 1999 <i>HK\$'000</i>
Accelerated capital allowances	2,120	4,160
Tax losses available for future relief	(1,020)	650
	<u>1,100</u>	<u>4,810</u>

No provision for deferred tax has been made in respect of accelerated capital allowances as the directors consider that a liability is not expected to crystallise in the foreseeable future.

The benefit of any future tax relief arising from tax losses previously incurred by the Company and certain subsidiaries, has not been included as an asset in the balance sheet because the directors consider it prudent not to recognise the benefit until it is assured beyond reasonable doubt.

The revaluations of the Group's properties do not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

The Company had no significant unprovided deferred tax at the balance sheet date.

**26. SHARE CAPITAL**

	<b>2000</b> <i>HK\$'000</i>	<b>Company</b> 1999 <i>HK\$'000</i>
<b>Shares</b>		
Authorised:		
20,000,000,000 (1999: 10,000,000,000) ordinary shares of HK\$0.10 each	<u>2,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
5,131,749,907 (1999: 4,195,101,254) ordinary shares of HK\$0.10 each	<u>513,175</u>	<u>419,510</u>

During the year, the following movements in share capital were recorded:

- (a) pursuant to an ordinary resolution passed on 27 June 2000, the authorised share capital of the Company was increased from HK\$1,000,000,000 to HK\$2,000,000,000 by the creation of 10,000,000,000 ordinary shares of HK\$0.10 each, ranking pari passu in all respects with the existing share capital of the Company;



**26. SHARE CAPITAL *continued***

**Shares *continued***

- (b) on 16 March 2000, First Place Limited ("First Place") and Mercantile Diamond Corporation ("MDC") agreed to place, through an independent agent, 170,080,000 and 361,420,000 shares, respectively, in the share capital of the Company to independent investors (which may include certain employees of the Group) at a price of HK\$0.133 per share, respectively. On 31 March 2000, the Company issued 264,960,000 and 563,040,000 new ordinary shares of HK\$0.10 each to First Place and MDC at a subscription price of HK\$0.133 per share pursuant to the top-up subscription agreements dated 16 March 2000. Both First Place and MDC are substantial shareholders of the Company. Chan Ting Chuen, Sze Sun Sun, Tony, Wong Mo Wah, Gordon and Li Kwok Lung, Alfred Ronald, directors of the Company, had beneficial interests in First Place. Sze Sun Sun, Tony, Wong Mo Wah, Gordon and Chu Hon Pong, directors of the Company, had beneficial interests in MDC. The net proceeds from the subscription of approximately HK\$109,017,000 have been used by the Group for general working capital purposes. Full details of the placing and subscription are set out in the Company's press announcement dated 16 March 2000.
- (c) During the year, 108,648,653 share options were exercised to subscribe for 108,648,653 new ordinary shares of HK\$0.10 each of the Company at the exercise prices of HK\$0.10 and HK\$0.117 per share. Further details are set out in the section headed "Share options" in this note.

**Share options**

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

As a result of the placement and subscription of the Company's shares on 31 March 2000, the subscription price of the outstanding share options has remain unchanged at HK\$0.10 per share but the total number of outstanding share options has been adjusted from 117,694,195 to 140,337,424.



STATEMENTS *continued*

31 December 2000

26. SHARE CAPITAL *continued***Share options** *continued*

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

Exercise price per share	At 1 January 2000	Adjusted during the year*	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2000
HK\$0.10	194,413,648	22,643,229	128,000,000	(76,719,453)	(17,521,217)	250,816,207
HK\$0.117	31,929,200	-	-	(31,929,200)	-	-

\* Adjusted due to the placement and subscription of shares of the Company on 31 March 2000.

The aggregate consideration paid by each grantee for each lot of share options granted is HK\$10.

At the balance sheet date, the Company had outstanding share options to subscribe for 250,816,207 shares at an exercise price of HK\$0.10 per share. Exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 250,816,207 additional ordinary shares and would generate cash proceeds, before the related issue expenses, of approximately HK\$25,082,000.

An aggregate of 3,000,000 share options at the exercise price of HK\$0.10 lapsed in February 2001 due to the resignation of an employee of the Group.





**NOTES TO FINANCIAL**  
**STATEMENTS *continued***

31 December 2000

**27. RESERVES**

**Group**

	<b>Share premium account</b>	<b>Contributed surplus</b>	<b>Fixed assets revaluation reserve</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>	<i>HK\$'000</i>
At 1 January 1999	–	429	22,268	3,612	119,189	145,498
Arising on exercise of share options	191	–	–	–	–	191
Deficits on revaluation of fixed assets	–	–	(16,523)	–	–	(16,523)
Exchange realignment	–	–	–	118	–	118
Profit for the year	–	–	–	–	48,309	48,309
Dividends – note 10*	–	(429)	–	–	(41,114)	(41,543)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1999 and beginning of year	191	–	5,745	3,730	126,384	136,050
Arising on private placement and exercise of share options	27,866	–	–	–	–	27,866
Exchange realignment	–	–	–	629	–	629
Profit for the year	–	–	–	–	36,425	36,425
Dividends – note 10	–	–	–	–	(25,659)	(25,659)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2000</b>	<b>28,057</b>	<b>–</b>	<b>5,745</b>	<b>4,359</b>	<b>137,150</b>	<b>175,311</b>

\* The dividends were paid out of the contributed surplus by the Company.



STATEMENTS *continued*

31 December 2000

27. RESERVES *continued*

Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 1999	–	105,094	13,931	119,025
Arising on exercise of share options	191	–	–	191
Profit for the year	–	–	19,269	19,269
Dividends – note 10	–	(41,533)	(10)	(41,543)
	<u>191</u>	<u>63,561</u>	<u>33,190</u>	<u>96,942</u>
At 31 December 1999 and beginning of year	191	63,561	33,190	96,942
Arising on private placement and exercise of share options	27,866	–	–	27,866
Profit for the year	–	–	41,524	41,524
Dividends – note 10	–	–	(25,659)	(25,659)
	<u>27,866</u>	<u>–</u>	<u>16,865</u>	<u>12,207</u>
<b>At 31 December 2000</b>	<b><u>28,057</u></b>	<b><u>63,561</u></b>	<b><u>49,055</u></b>	<b><u>140,673</u></b>

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation on 9 February 1995 over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its members out of the contributed surplus under certain circumstances.

On 16 November 1998, a special resolution was passed at a special general meeting of the Company to eliminate the share premium account by setting off the accumulated losses of the Company and transferring the remaining balance to the contributed surplus account.



**28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

**(a) Reconciliation of profit from operating activities to net cash inflow from operating activities**

	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
Profit from operating activities	<b>38,179</b>	49,834
Interest income	<b>(22,409)</b>	(25,643)
Interest income from listed investments	<b>(15,807)</b>	(1,921)
Dividend income from listed investments	<b>(91)</b>	–
Depreciation	<b>11,305</b>	13,333
Loss/(gain) on disposal of fixed assets	<b>69</b>	(422)
Deficit on revaluation of investment properties	<b>3,286</b>	4,500
Provision for permanent diminution in value of fixed assets	<b>1,875</b>	–
Provision for diminution in values of long term investments	<b>50</b>	1,224
Deficit on revaluation of leasehold land and buildings	<b>8,832</b>	3,765
Gain on disposal of investment properties	<b>–</b>	(34)
Gain on disposal of short term investments	<b>(5,600)</b>	(1,283)
Gain on disposal of long term investments	<b>(4,375)</b>	–
Net holding loss/(gain) on short term investments	<b>5,736</b>	(103)
Loss on write-off of fixed assets	<b>4,380</b>	26,953
Amortisation of short term investments	<b>–</b>	(85)
Increase in inventories	<b>(29,044)</b>	(24,445)
Decrease/(increase) in trade receivables	<b>19,736</b>	(14,227)
Increase in deposits and other receivables	<b>(10,726)</b>	(11,598)
Increase in trade payables	<b>13,259</b>	23,413
Increase in other payables and accruals	<b>14,062</b>	6,692
Exchange adjustments on consolidation of foreign subsidiaries	<b>629</b>	118
	<hr/>	<hr/>
Net cash inflow from operating activities	<b>33,346</b>	50,071
	<hr/>	<hr/>



28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *continued*

(b) Analysis of changes in financing during the years

	Share capital and share premium account <i>HK\$'000</i>	Bank loan <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 1 January 1999	414,234	–	22,781
Cash inflow from financing, net	5,467	–	–
Share of loss for the year	–	–	(630)
Share of fixed assets revaluation reserve for the year	–	–	(7,776)
	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 1999 and beginning of year	419,701	–	14,375
Cash inflow from financing, net	121,531	50,700	–
Share of loss for the year	–	–	(541)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 December 2000</b>	<b><u>541,232</u></b>	<b><u>50,700</u></b>	<b><u>13,834</u></b>

29. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Guarantees given to banks in connection with facilities granted to the Company and its subsidiaries	–	–	40,000	90,375
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

30. COMMITMENTS

	Group	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
(a) Capital commitments contracted for in respect of:		
Capital contributions to subsidiaries in the PRC	58,001	22,036
Leasehold improvements	5,152	–
	<u>          </u>	<u>          </u>
	<b><u>63,153</u></b>	<b><u>22,036</u></b>



# NOTES TO FINANCIAL STATEMENTS *continued*

31 December 2000

## 30. COMMITMENTS *continued*

	<b>2000</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>1999</b>
		<b>HK\$'000</b>
(b) Annual commitments payable in the following year under non-cancellable operating leases for land and buildings expiring:		
In the second to fifth years, inclusive	<b>1,025</b>	1,265
After five years	–	1,640
	<b>1,025</b>	2,905
Annual commitments payable in the following year under management agreement in respect of the PRC factory premises expiring:		
Within one year	<b>424</b>	–
In the second to fifth years, inclusive	–	785
	<b>424</b>	785
	<b>1,449</b>	3,690

The Company did not have any commitments at the balance sheet date (1999: Nil).

## 31. RELATED PARTY TRANSACTIONS

Save as disclosed in note 26 to the financial statements, in respect of the placement and subscription of the Company's shares involving First Place and MDC in March 2000, there were no other material related party transactions during the year.

## 32. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, on 5 April 2001, Union Overseas Holdings Limited ("UOHL"), a wholly-owned subsidiary of the Company, entered into a conditional agreement to subscribe for certain proportion of common stock, preferred stock and notes of Footwear Acquisition Inc. ("Footwear Acquisition"), a Delaware corporation, for a total consideration of US\$20,000,000 (or approximately HK\$156,000,000). UOHL will hold a minority interest in Footwear Acquisition, a company established and capitalised for the sole purpose of acquiring certain assets of Converse Inc., a Delaware corporation. Details of the transaction will be set out in the Company's press announcement at a later date.

## 33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 11 April 2001.

